

TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Coats Group plc
TCFD Report 2022



Introduction

The report has been prepared with reference to TCFD All Sector Guidance and Supplemental Guidance for Non-Financial Groups.

The Board has noted recommendations in relation to the mandatory disclosures of climate-related financial risk arising from FCA Listing Rule 9.8.6R(8). In complying with the requirements of the new Listing Rule on climate-related disclosures, we consider our disclosure to be consistent with all of the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations and Recommended Disclosures as detailed in “Recommendations of the Task Force on Climate-related Financial Disclosures”, 2017, with use of additional guidance from “Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures”, 2021. This report covers all divisions over which Coats has operational control but does not include acquisitions made during the course of FY2022.

In this report references are made to content in our Annual Report and Accounts (ARA) and our Sustainability Report (SR). To make it easier to locate these references they are always shown in the following formats: (ARA page X) and (SR page X).

This report has been produced in landscape format to optimise the reading experience online.

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➤ Further information about Coats Group Plc, our approach to sustainability and our performance can be found online at www.coats.com, including key policies available for download.



ABOUT THIS REPORT

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Introduction continued

In 2019, we began to analyse climate-related risks and opportunities for the Group, and published a full TCFD disclosure in the 2021 Annual Report. The 2022 report covers our governance of climate change and demonstrates how Coats incorporates climate-related risks and opportunities into the Group’s risk management, strategic planning and decision-making processes, aligned to our net-zero ambition, which is described on page 15 of this report. This year we have built on our review of physical risks with detailed bottom-up analysis. We have also reviewed the base scenarios in order to ratify whether there have been any changes in the source data over the last two years. Further work on this will continue during 2023 and beyond, as we continue to enhance our analyses. During 2023 we will also incorporate businesses acquired during 2022 into the scope of our report. They are not in-scope for this report. Our second full set of TCFD recommended disclosures, covering the four pillars is shown in the adjacent table.

“
Playing our part in
mitigating climate change
is core to our strategy.”

Rajiv Sharma
Group CEO

Recommendation	Recommended disclosures	Reference
1) Governance Disclose the organisation’s governance around climate-related risks and opportunities	a) Describe the Board’s oversight of climate-related risks and opportunities	Page 3
	b) Describe management’s role in assessing and managing climate-related risks and opportunities	Page 3
2) Risk management Disclose how the organisation identifies, assesses, and manages climate-related risks	a) Describe the organisation’s processes for identifying and assessing climate-related risks	Page 4
	b) Describe the organisation’s processes for managing climate-related risks	Page 4
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management	Page 4
3) Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning where such information is material	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Pages 5-8
	b) Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy and financial planning	Pages 9-14
	c) Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Pages 9-14
4) Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Page 15
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Page 15
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Page 15



Governance

1 GOVERNANCE

The Board of Directors oversees and is ultimately accountable for the sustainability strategy, as well as review and delivery of climate-related risks and opportunities of the Group. Material decisions on climate-related strategy, metrics and targets and expenditure, both of a capital and operating nature, are reviewed by and endorsed at Board level. The relationship between climate-related issues and wider company strategic and material operational issues is also reviewed by the Board through the sub-committees described below.

The Group’s net-zero targets and commitment to the Science Based Targets initiative (SBTi) in line with the Paris Agreement for 1.5°C provide the framework for our short- and long-term targets for climate change management. The Board monitors our progress against these and against several underlying interim targets which make up our net-zero transition plan.

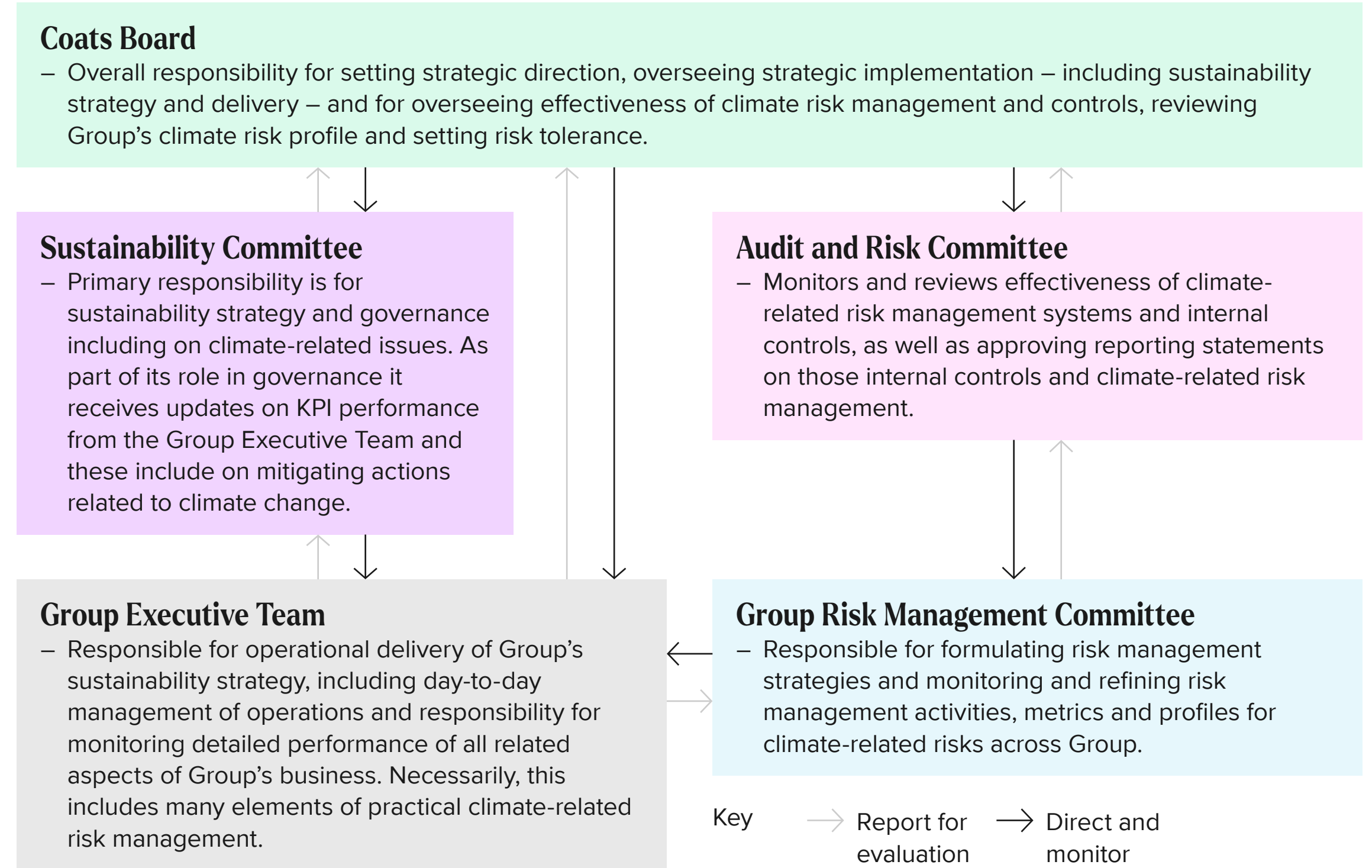
At management level, climate-related responsibilities sit with the Group Executive Team (GET) and relevant Board sub-committees, and the Board receives updates at every Board meeting (generally 8 times per year). The GET is responsible for operational delivery of the Group’s sustainability strategy, including day-to-day management of operations and responsibility for monitoring detailed performance of all related aspects of the Group’s business. Necessarily, this includes many elements of practical climate-related risk management. Two Board sub-committees have important roles to play in managing climate-related risks and opportunities: The Sustainability Committee is responsible for the sustainability strategy and governance, including on

climate-related issues, and receives updates on KPI performance from the GET including on mitigating actions related to climate change. The Sustainability Committee is chaired by the Group Chair, David Gosnell, with Nicholas Bull, the independent NED named as the Advocate for ESG, also a member, and Christopher Dearing, Group Sustainability Director, is the Secretary. The Audit and Risk Committee monitors and reviews the effectiveness of climate-related risk management systems and relevant internal controls, and approves reporting statements, such as TCFD disclosures.

The GET reports progress on agreed actions directly to the Board, the Sustainability Committee and the executive Group Risk Management Committee (GRMC) as appropriate. The GRMC is responsible for formulating risk management strategies and monitoring and refining risk management processes and metrics for all risks, including climate-related risks specifically, and convenes on a quarterly basis. The Sustainability Director is responsible for the delivery of climate-related risk assessment work which is reported into the GRMC quarterly as a short update with a full report to the GET annually. He convenes a cross-functional team, which includes representatives from supply chain, commercial and financial functions, to assess the risks and opportunities.

Monitoring of progress on agreed actions is reported to the GET on a bi-monthly basis. The collection of climate-related data for the timely reporting of progress is largely achieved through an internal cloud-based reporting system that collects data from every operating unit on a monthly basis and is reported automatically to multiple internal stakeholders including the GET via dashboards.

The overall governance structure for climate-related risks and opportunities is illustrated below.



“In December 2022 the Board approved new 2026 Science Based Targets, linked to senior management Long Term Incentive Plan.”

David Gosnell
 Chair

Risk management

2 RISK MANAGEMENT

Coats considers climate-related risks and opportunities in all physical and transition risk categories, and current and emerging regulatory requirements, whether they occur within our own operations, or upstream and downstream of the Group and whether they first occur within the short- (< 10 years), medium- (~25 years) or long-term (~50 years) time horizons. These time horizons are chosen because they align broadly to the average residual life of production assets (short-term), the typical expected life cycle of technologies (medium-term) and the potential plant renewal cycle (long-term), while also aligning to key milestones for climate science projections.



Climate-related risks and opportunities are assessed on the existing Group Risk Tolerance Structure to determine their relative significance in relation to other Group risks and to allow for integration into the Group risk management framework. Since we take a scenario-based approach to assessing climate-related risks, the probability element of risk evaluation is largely intrinsic to the alternative scenarios and we focus mainly on building impact models for different risks. Prioritisation of climate risks is based on the overall impact across our 3x3 matrix of scenarios and time horizons.

Risk impact (quantification) is defined as:

Impact	Low	Medium	High
Financial	Impact or opportunity of <\$15m	Impact or opportunity of \$15-30m	Impact or opportunity of >\$30m

The Board reviewed the climate-related risk trend in the light of the external environment and the actions being taken by the company and the delivery on targets during the year and determined that the risk trend should decrease from “increasing” to “stable”.

Further details of the Group’s risk assessment process are in the Principal Risks & Uncertainties section of the Annual Report (ARA Page 42).

Climate risks and opportunities are typically long term, and the change is gradual. Periodically, we review our scenario database to see if it is still in line with the latest scientific consensus and we completed such a review during 2022. We consider short-term mitigating actions for immediate action, and these address both risks that have a financial impact and those that do not. There are other potential mitigating actions that can be actioned at a suitable time in the future depending on how climate change develops compared to our scenarios. The immediate agreed mitigating actions are reported to the GRMC on a quarterly basis and also form part of our company strategy and are built into operational plans for the year. Key recent actions approved and implemented have included the submission of our 2050 net-zero targets to the SBTi and regular monitoring of energy intensity and renewables and materials transition trajectory by the GET.



Climate change has been identified as a Principal Risk within the company’s risk management system. This means that it is a permanent item for review and assessment at regular, quarterly GRMC meetings and that the Board reviews it as a risk on at least an annual basis. Through this mechanism, climate-related risks are fully integrated into the company’s risk management system. In addition to this, the Board reviews sustainability KPIs at every Board meeting including KPIs relating to climate issues, where appropriate.

Strategy

3 STRATEGY

Climate change is reshaping the world we operate in. Although this generates risks for our business, the transition to a net-zero world also provides compelling opportunities. We outline our relevant climate-related risks and opportunities and how each impacts our activities and strategy. Our evaluation of the risks and opportunities covers all of Coats' business units although some risks and opportunities are specific to particular divisions, and this is reflected in our assessment of magnitude. As noted above, the scope of this report does not yet include acquisitions made during 2022.

We have used scenario analysis to improve our understanding of the behaviour of certain risks to different climate outcomes, which helps assess the resilience of our business to climate change. We selected three climate-related scenarios, based on the Shared Socioeconomic Pathways (SSPs) endorsed by the Intergovernmental Panel on Climate Change (IPCC) and used in the development of the Sixth Assessment Report on climate change. For all countries in which Coats has manufacturing operations the SSP base data used for the scenarios included population and gross domestic product (GDP), and hence .GDP/head and growth rate. To account for the non-linear impact of temperature on human productivity and hence GDP, which is not considered in the SSP data, we incorporated modelling work done by Stanford

University which included country level GDP changes due to climate change impacts. In most cases this depresses the future GDP estimates as temperatures climb, but in some Northern hemisphere countries which have a colder baseline it increases the future GDP estimate.

This socioeconomic data is supplemented by World Resources Institute Aqueduct tool data and climate predictions from National Geographic models that are site-specific to company locations, together with more detailed site-level analysis where risks are identified. This allows us to track a wide range of site-specific measures across extended time horizons and under the different scenarios. This includes winter and summer temperature ranges, precipitation, water stress, water depletion, groundwater table decline, riverine and coastal flood risks and drought risk. This gives us a very comprehensive view of future climate impacts across our operations under the different scenarios and focussed on three time horizons.

A cross-functional team works through the scenarios and timelines, and explores the potential impacts that they could have on the business. For each identified risk and opportunity a bespoke financial impact model is developed and updated annually as required. The company uses an external regulatory register, Enhesa, to identify current and potential climate-related regulatory issues and these are taken into account in the risk assessment.

The three scenarios we built are shown below.

CO ₂ e emissions level	SSP used	Scenario name	Global Temperature increase over pre-industrial levels		
			2030	2045	2070
Low	SSP1	Sustainability 'Taking the Green Road'	1.47°C	1.56°C	1.49°C
Medium	SSP3	Regional Rivalry 'A Rocky Road'	1.52°C	2.03°C	2.91°C
High	SSP5	Fossil-Fueled Development 'Taking the High Road'	1.60°C	2.25°C	3.50°C

For each of these scenarios we modelled the physical impacts on our operations and supply chain and looked at the risks and opportunities that might occur, focusing on 2030, 2045 and 2070 horizons. We chose 2030 as our short term horizon because this aligns with our near term transitional strategy. 2045 as our medium term horizon is broadly aligned to our net-zero commitment and is at the longer end of our machinery asset lifespan, and aligns to potential technology renewal timelines. We are also seeing clear divergence of physical climate impacts across the different scenarios at that point. 2070 as a long term horizon is beyond the lifespan of our asset base, and allows us to model the long term impacts. As a company with a heritage of over 200 years it is

important for us to look far ahead to understand issues affecting the long term viability of the company, even beyond the life of our current asset base.





































In general terms the transitional risks relate to our low carbon scenario and have a greater short term potential impact while the physical risks are significantly greater in the high carbon scenarios and increase in their potential impact over time. In determining the materiality of risks and opportunities we have taken into account the financial impact, the level of future certainty and the horizon in which the impact manifests and the relationship of the impact to the life of any impacted asset.

Further details are shown on the following pages.



Strategy continued

Risks and opportunities matrix

Summary of our most material risks & opportunities		Potential materiality			Mitigation and strategic response	
		<10 years {short term}	~25 years {medium term}	~50 years {long term}		
Transition: Current and Emerging Regulation	Risk 1: Introduction of carbon taxes leading to increased energy prices.	SSP 1				The strategy that the company has in place to implement its net-zero transition plan, means we continually focus on reducing the embodied carbon in our supply chain. Where possible the cost of increased carbon taxes will be passed on to consumers.
		SSP 3				
		SSP 5				
Transition: Market and Technology	Opportunity 1: Growth in light-weighting products in transport markets, enabling significant increase in market share given our competitive advantage both from a product perspective and an operational sustainability perspective.	SSP 1				Investment in technology and product development is already covered by our Research and Development plans by 2030.
		SSP 3				
		SSP 5				
Transition: Market, Technology and Reputation	Risk 2: Declining sales due to shifting customer sentiment towards more environmentally friendly product options.	SSP 1				The strategy that the company has in place to implement its net-zero transition plan, means we continually focus on reducing the embodied carbon in our supply chain. We work closely with brands to ensure new products are designed to meet changing customer requirements.
		SSP 3				
		SSP 5				
Transition: Market	Opportunity 2: Increased market share with apparel and footwear brands.	SSP 1				Delivery of targets on operational sustainability metrics viewed favourably by brands.
		SSP 3				
		SSP 5				Especially focus on emissions reduction and material transition and in both cases we have strategies in place to meet expectations.

Strategy continued

Risks and opportunities matrix continued

Summary of our most material risks & opportunities			Potential materiality			Impact	
			<10 years {short term}	~25 years {medium term}	~50 years {long term}	Opportunities Low Medium High	
TCFD category	Potential financial impact					Risks Low Medium High	
Transition: Regulation and Technology	Risk 3: Inability to source sufficient renewable energy to meet emissions reduction targets.	SSP 1				We consider this risk to be largely remediated by our current plans for transitioning to renewable electricity including reducing reliance on the grid through solar panels, as well as the use of renewable energy contracts where available.	
		SSP 3					
		SSP 5					
Transition: Policy and Technology	Risk 4: Inability to source sufficient recycled raw material to fully transition to a low carbon product range and hence achieve the SBTi targets.	SSP 1					Since 2020, we have increased the number of approved suppliers and work with key suppliers to further the development of recycled polyester and other recycling plans for other raw materials. Our Shenzhen Innovation hub now exclusively focuses on material transition issues (both recycled and biomaterials) working upstream and with their brand partners.
		SSP 3					
		SSP 5					

Strategy continued

Risks and opportunities matrix continued

Summary of our most material risks & opportunities			Potential materiality			Impact			
			<10 years {short term}	~25 years {medium term}	~50 years {long term}	Opportunities	Low	Medium	High
TCFD category	Potential financial impact					Risks	Low	Medium	High
Physical: Acute	Risk 5: Increase in flood damage risk, particularly in our Asian units presents a material risk to the business.	SSP 1				Our robust business continuity plans, which are regularly updated and refined, will assist in ensuring that we have appropriate contingency plans in place.			
		SSP 3							
		SSP 5							
Physical: Chronic	Risk 6: Disruption of water supply in some units.	SSP 1				Plans are in place to progressively invest in further water recycling capability as one of our key sustainability goals, and this will focus first on the high water stress units so the remediation of this issue is now in progress. Contingency plans to relocate plants if required.			
		SSP 3							
		SSP 5							
Physical: Chronic	Risk 7: Extreme heat leading to possible need for plant relocation to ones with better temperature regulation.	SSP 1				Detailed scenario modelling has generated robust business continuity plans which are regularly updated and refined.			
		SSP 3							
		SSP 5							

Strategy continued

Transitional risks

1) Emerging regulation: Introduction of carbon taxes leading to increased energy prices.

The expected increase in the scope and level of carbon pricing could impact input costs as the cost of embedded carbon is factored into water, waste and transportation but more importantly into the supply chain. Our low carbon scenario includes the assumption that carbon taxes will necessarily be one of the levers used to achieve rapid de-carbonisation of energy and industrial products and processes.

We have not yet fully modelled the risk impact of a full pass through into the cost of materials of the above carbon price scenarios based on our upstream Scope 3. We will complete this modelling work during 2023. The risk impact would be high, but this assumes no reduction of emissions from current levels and that cost increases cannot be passed onto clients, which we believe to be unrealistic, thus lowering the risk impact to low-to-medium.

Therefore, our scenario models a high initial (short term) tax and a drop in tax in subsequent horizons. Under our low carbon scenario, SSP1, these could be introduced in the next few years and increase rapidly through to 2030 after which they would stabilise. Our high carbon scenarios, SSP3 and SSP5, don't envisage there being any carbon taxes. Under SSP1 we expect that the range of carbon taxes could be between \$90 and \$160 per tonne of CO₂e, and we anticipate that this would apply to our Scope 1 and 2 emissions. This range is derived from work done by IEA for their Net Zero Scenario and an analysis done by Wood MacKenzie on the level of carbon pricing necessary to reach a 1.5°C world. Without remediation, and hence based on current emissions levels persisting, the potential for carbon

taxes under scenario SSP1 would see an additional annual cost of between \$27m and \$48m by 2030.

Mitigation:

Coats is fully committed to achieving our Science Based Targets for emissions reductions. As part of these targets, Coats commits to reduce absolute Scope 1 and 2 GHG emissions 46.2% by 2030 from a 2019 base year. We also commit to increase annual sourcing of renewable electricity from 5% in 2019 to 100% by 2030. Coats further commits to reducing absolute Scope 3 emissions by 33% within the same timeframe. These targets are ambitious enough to demonstrate that Coats plans to reduce their carbon footprint and exposure to carbon pricing and result in a better competitive position in the low carbon economy than our peers.

Post-mitigation, where mitigation is taken as delivery of our Science Based Targets for reduction of Scope 1 and 2 emissions (reduction of Scope 1 and 2 emissions by 46.2% in absolute terms from a 2019 base year), this annual cost increase would range from \$15m to \$26m based on our above assumptions of carbon tax rates. We see the pre-mitigation potential costs remaining broadly constant through 2045 and 2070 while the post-mitigation costs would drop to immaterial levels by 2045 and beyond.

We will achieve our Scopes 1 and 2 emissions reduction targets through two programmes. We will continue to deliver improvements in energy efficiency, through our very granular energy monitoring programme that allows us to analyse energy consumption down to machine level in key plants and gain insights that we can deliver to other units. We will also be switching our

Scope 2 energy progressively to renewable sources. We will do this through a hierarchy of approaches according to the opportunities provided by the regulatory environment in each country where we operate. We will firstly support the creation of new renewable assets through direct engagement with on-site or off-site projects in partnership with energy companies. Where this approach is not possible we will support existing renewable assets by purchasing their energy. If neither of these approaches are possible we will support the renewable industry through the energy attribute markets. We recognise that regulatory environments around energy supply are constantly evolving and our approach is flexible to allow for us to optimise our approach as changes occur.

2) Market, technology & reputation: Declining sales due to shifting customer sentiment towards more environmentally friendly product options.

Consumers are becoming more aware of their carbon footprint and there is a growing desire for sustainable living, causing a change to demand patterns. This is resulting in an increased preference for products with a lower carbon footprint, making use of a higher proportion of recycled or bio-based components and with lower process emissions. In 2020, this was classified as a substantial risk, but since then the actions taken by the company have reduced the impact of this risk. Since then, our teams have worked hard to meet the supplier targets and standards of our key brands both in terms of reducing emissions and in the specification of raw materials. In terms of material transition, as we increasingly move away from the use of virgin polyester, we reduce the embedded carbon in

our products. Energy and water intensity reductions through our Cleaner and Lighter programme also deliver a significant reduction in our direct emissions that further reduces the carbon load of our products. Finally, our process of transitioning to renewable energy is a major means to reducing our emissions. Reducing the embodied carbon within our supply chain is an integral part of our net-zero by 2050 target.

Mitigation:

During 2022, we have continued to engage with customers who are most advanced in terms of climate expectations, ensuring our plans and targets are aligned with theirs. We work closely with our key brands to ensure new low carbon products and processes are continually being developed in line with our net-zero objectives (see opportunity 1). We work closely with our suppliers to increase our use of sustainable raw materials with a target of 60% for 2026. Progress is tracked by measuring our Scope 3 emissions and the % of recycled raw materials purchased. We will continually reassess this risk to ensure all products continue to meet internal and external environmental requirements, as any failure to deliver on this will increase the materiality of this risk. By focussing our Shenzhen, China, Innovation Hub exclusively on developing more sustainable raw materials both in terms of recycled and bio-materials we are ensuring that a substantial part of our global innovation spend is dedicated to climate-related developments.

Strategy continued

3) Regulation and technology: Inability to source sufficient renewable energy to meet emissions reduction targets.

Energy market regulatory challenges still exist in many of the countries in which we operate, and these can make the transition to renewable electricity difficult or impossible at the moment. We assess this risk as the alternative cost of buying Energy Attribute Certificates (EACs) to cover our requirements where we cannot gain access to certified renewable energy itself. The potential cost impacts of sourcing EACs will continue, but we expect that the regulatory hurdles that lead to this requirement will have diminished substantially in this horizon as more countries establish functioning renewable energy markets.

Mitigation:

We expect to mitigate this risk through our current plans to transition to renewable energy (including a commitment to use 100% renewable electricity by 2030), although we acknowledge that in some material countries (eg China & Vietnam), the regulatory framework, is not yet supportive of offsite supply of renewable electricity. We will continue our programme of installing onsite solar panels (which are installed as part of our purchase power agreements with energy suppliers), but accept that this will never be more than a fractional part of our energy supply. Obviously, we will continue our efforts to work across our operations to reduce energy demand as this facilitates the transition to renewable energy as well as reducing costs and emissions. Key initiatives include the optimisation of the usage of our machine motors as we dynamically monitor energy demand and through installation of LED lighting.



If we are unable to transition to renewable electricity in the required timeframe then we will need to purchase EACs to meet emissions reduction targets. We have evaluated this cost based on a weighted basket of current EAC prices across some of our units and we consider that this financial risk is currently immaterial across all time horizons. We recognise that prices for EACs, which currently have a wide range (from around \$0.25/MWh to \$13/MWh and with a current weighted average of around \$5), might increase or decrease in the coming years and we will need to continue reviewing this risk in case an increasing price trend makes this risk material.

4) Policy & technology: Inability to source sufficient recycled raw material to fully transition to a low carbon product range and hence achieve the SBTi targets.

Our initial scenario analysis work in 2020 highlighted the supply of high tenacity recycled polyester fibre was constrained and was preventing us from achieving a faster transition from virgin to recycled polyester. Since recycled polyester has a roughly 40% lower emissions footprint than virgin fibre this is a risk in terms of achieving our emissions reduction targets. Currently 100% of our recycled polyester comes from bottles as we require high quality material for our products.

Mitigation:

Since 2020 we have increased the number of approved suppliers and currently there is no supply constraint on our growth of recycled product sales and the growth is dependent on customer dynamics. With the aid of external consultants, we have also established that there are a large number of projects underway to increase the supply of recycled polyester for the textile industry. These include research into biomaterial alternatives to polyester. Their detailed analysis has led to the conclusion that supply will consistently exceed demand beyond 2025. Therefore, in the short term (<10 years) this is not a material risk, and for longer-term horizons the recycling and biomaterial supply opportunities will continue to grow.

Physical risks

5) Acute: Increase in flood damage risk, particularly in our Asian units, presents a material risk to the business.

The increased frequency and changing pattern of flooding, both from riverine and coastal flooding, presents a risk to 10 sites out of a total of over 40. Flooding at our sites could disrupt our supply chain due to the sites having to be evacuated for safety concerns or damage to the equipment from water ingress. This not only reduces our revenue from delays in our services but also increases the cost of capital expenditure for repairs to the damages caused to the facilities or equipment.

Mitigation:

We have made extensive use of the World Resources Institute Aqueduct tools (<https://www.wri.org/aqueduct>) to model water-related issues under our different scenarios in all of our operations. We have established the current baseline for flood risk in all of our units, and assessed how that changes in our different scenarios and timeframes. This year we have also carried out detailed site-level assessments for those units identified as high risk in order to further improve the base data and analysis of risks. This has, in some locations, resulted in a marginal reduction in the previously assigned risk rating under some of the scenarios and timelines. Minor risk reductions have been applied where our sites are located in more elevated locations or where preventative flood actions have been implemented either by local government, or by our local business unit.

The exhibit on page 11 has used local intelligence to determine our manufacturing sites with material riverine & coastal flood risk under scenario SSP1. The majority of these sites are concentrated in South East Asia.

Under the higher carbon scenarios we see an increase in both riverine and coastal flood risks in this horizon. In our low carbon scenario the risks remain relatively flat.

Local intelligence has resulted in a small risk reduction being applied to coastal flooding in Shenzhen, China, under the low carbon scenario due to significant government drainage infrastructure and further coastal reclamation.

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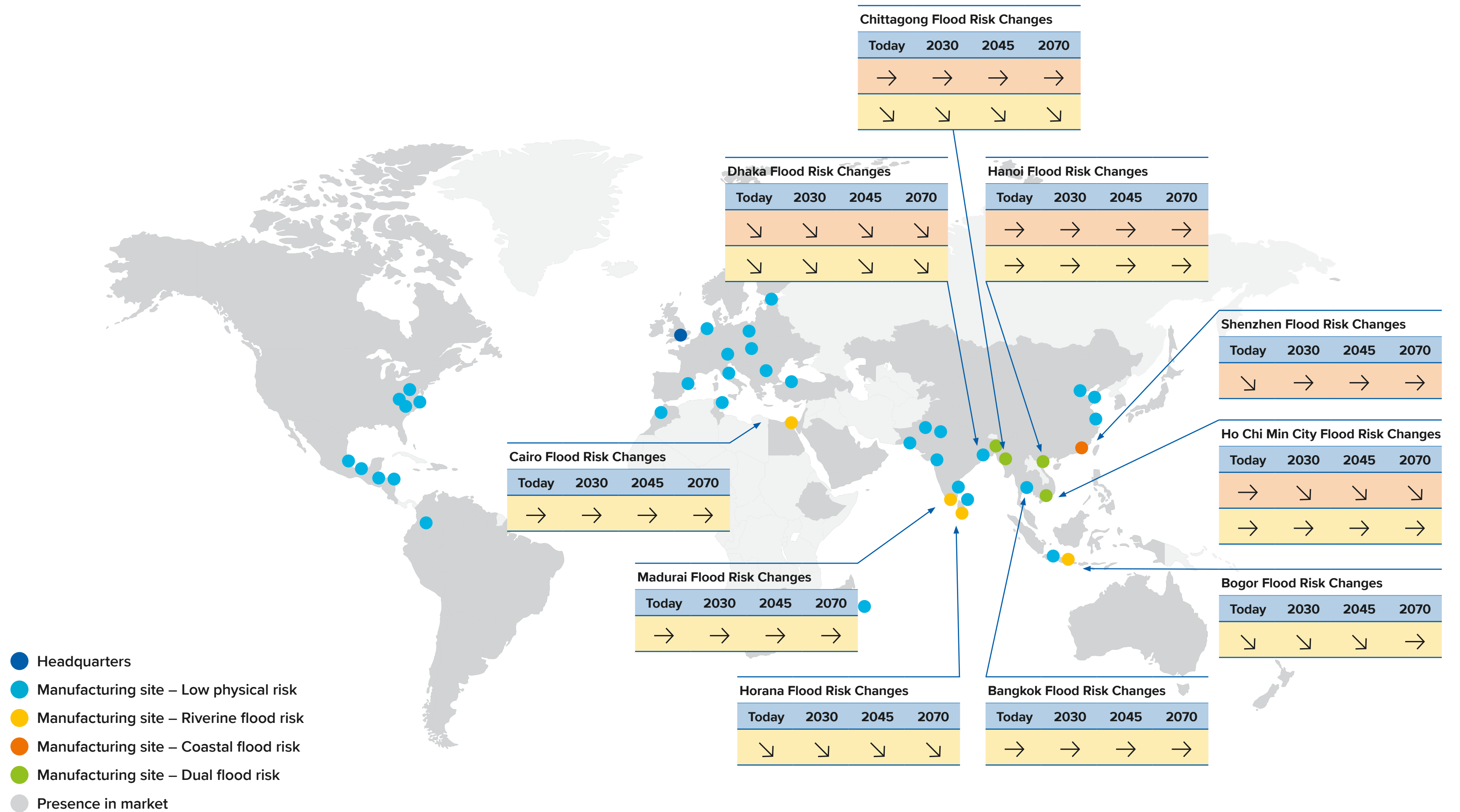
Strategy continued

Similarly, a risk reduction has been applied to HCMC, Vietnam, in the medium carbon scenario based on the site's elevated position above sea level and the positioning of a significant portion of manufacturing assets in first- or second-floor locations.

A marginal lowering of coastal flood risk has also been allocated to our Dhaka, Bangladesh, site under the low carbon scenario on the basis of its elevated position, and local flood mitigation measures.

Compared to riverine flood risk, our coastal flooding risk is focussed in a small number of units on the coast and even under the worst case, high carbon, scenario the impact of coastal flood risk has been assessed as immaterial across all time horizons. Each business unit has a business continuity plan to protect and secure staff, critical operations and infrastructure during emergencies and disasters, including man-made and weather-driven natural disasters. Our property acquisition strategy will also look to avoid areas that could be susceptible to an increased risk of flooding. Maintaining a spread of regional and global supply chains reduces the impact of local disruptions. To date, there have been no significant incidents of water ingress or flooding and with our mitigating activities we believe we are well placed to deal with any future increase in probability of flooding. Hence, we see ourselves as fully able to manage this risk with negligible impact.

2022 – Flood risk level amendments based on site-level assessments for high risk locations



Strategy continued

6) Chronic: Disruption of water supply in some units.

We assess water stress at all our locations using the Aqueduct tool. This has identified locations where the high level of water stress might lead to future disruption of water supply. Our analysis concluded that although 50% of our manufacturing sites were in high water stress areas, there are no significant short term risks to water supply identified, currently, or under any of our scenarios.

Our high carbon scenarios would see the risks of water stress increasing and extending to additional units during this time horizon. The highest risks for major plants are in our Pakistan plants. Turkey, Egypt and Sevier, USA are also major plants with increasing risks.

Mitigation:

The risk of water shortages leading to plant stoppages is difficult to quantify, so the approach taken here is to assess the potential capital and operational costs of the effluent treatment plant upgrades that would be necessary to recycle enough water to mitigate this risk. We now have a plan in place to progressively invest in further water recycling capability (including reverse osmosis and ultrafiltration systems) as one of our key sustainability goals and this will focus first on the high water stress units. Our water recycling investments have previously been prioritised to units with extremely high water stress levels, where we recycle 48% of our water, compared to 25% globally. The capital investments necessary to achieve these upgrades will fit inside our regular annual budgets so are not a material additional cost. The additional operational costs are also immaterial. Under this programme, we have clear targets in place to increase our water recycling by 33% in the next 4 years.

7) Chronic: Extreme heat leading to possible need for plant relocation to ones with better temperature regulation.

Global temperature is expected to rise in all three scenarios we studied. We also assessed our risk to extremes in heat both in terms of severity and timeframe. Under our different scenarios we have modelled the number of extreme heat days that are likely to occur in our different locations. Without effective temperature regulation this could worsen working conditions and reduce productivity. We see the potential for high heat days (days over 35°C) to be happening sufficiently frequently in a small number of units in Thailand, India and Pakistan for this to be an area of growing concern, though probably not to the extent that would require plant relocation. In the high carbon scenarios the number of extreme heat days continues to climb with Thailand, India, Pakistan and Vietnam all being areas of concern. However, in aggregate we consider the risks to be low through 2030 with a medium potential by 2045 under high carbon scenarios.

Mitigation:

Beyond 2045 there is lower visibility to high heat impacts and further work is needed in this area, but it is reasonable to assume that the impacts will further increase in the high carbon scenarios. Contingency planning for realignment of plant capacities and withdrawal from extreme heat locations is in place.

Risks summary

Physical risk mitigation from extreme weather has to be addressed at site level as that is where the physical risks are manifested. During 2022, we carried out detailed site-level assessment of the risks by including additional information on key topographical and infrastructural issues relative to each site, to complement the existing Aqueduct data. We will continue to develop our analysis as new data is made available both internally and externally, but currently we prudently assume there is no mitigation possible for those physical risks. Appropriate insurance policies are also in place, and we monitor sites for flood, storm and wildfire risks, among other acute physical events.

The short-term risks are principally transitional risks related to the company's low carbon (SSP1) scenario. The strategy that the company has in place to implement Science Based Targets for emissions reduction, to transition to renewable electricity and to convert to recycled materials is a robust response to these risks. The medium- to long-term risks are mainly physical risks more closely associated with higher carbon scenarios (SSP3 and SSP5).



Strategy continued

OPPORTUNITIES

1) Growth in light-weighting products in transport markets, enabling significant increase in market share given our competitive advantage both from a product perspective and an operational sustainability perspective.

At Coats we aim to reduce the carbon footprint of our products by using lower carbon (or lower weight) products targeted at markets we have identified as high growth. Our initial focus has been on the Electric Vehicle (EV) market, where lightweight components are critical to enhanced performance and to maximise range. Coats has developed a technology (Lattice Lite) which allows for almost zero waste production of complex shapes, from textile materials that can be converted into automotive components. These components are initially being used in EVs but we will also focus on other segments of the automotive market, like high performance sports cars, where reduced weight and a lower carbon footprint are key benefits. The potential additional operating profit in 2030 from the growth in this product segment ranges from around \$26m to \$38m. This growth would come from sales of our light-weighting products, mainly into the transport market. Looking beyond 2030 at this stage is difficult, but continued growth in these segments will continue to be an opportunity.

Strategy to realise opportunity: Coats is exploring this opportunity through several initiatives and continued investment in R&D, and new product development through the Coats Innovation Hubs in the USA and Turkey which allow us to develop new products in collaboration with customers. We anticipate achieving this growth without capex as our model is based on using manufacturing partners.



2) Increased market share with apparel and footwear brands.

As more governments follow the UK in establishing net-zero targets and regulations on carbon emissions, and consumer preference continues to shift to environmentally friendly products, we expect to gain market shares with our brands as we continue to focus on their environmental credentials and work with our suppliers to ensure they have a clear path towards net-zero in 2050. This trend should see some of our leading brands gain market share as they have clear environmental standards for their suppliers. As Coats' raw materials meet requirements for production with low emission suppliers and our products use a high percentage of recycled materials, we expect to become a supplier of choice as more brands seek to reduce the carbon footprint of their supply chain as they aim to meet their own net-zero targets.

Strategy to realise opportunity: In apparel & footwear, we are growing faster than the market, in part due to our strong sustainability agenda.

This reputation is enhanced by our commitments to transition all premium polyester products in apparel and footwear to recycled materials (represented by our EcoVerde line), as well as all our electricity and 70% of our total energy to be renewable by 2030.

The potential additional operating profit from this increased market share in 2030 ranges from around \$41m to \$62m. (This number has increased significantly in our 2022 review, compared to our 2021 disclosure, based on more accurate forecasting of Sales, Distribution & Administration (SD&A) changes needed to support the growth opportunity.) To achieve this, we anticipate an average annual capex cost to support this growth of between \$5m and \$7m up to 2030. In addition we have committed to \$10m of investment to be focussed on the development of green technologies and materials over the next 4 years. For example, in Shenzhen, China, the team will focus on the application of biomaterials and recycled materials with a longer-term ambition to move all products to more environmentally friendly materials and chemicals.

OTHER OPPORTUNITIES

At Coats, we have identified three additional opportunities where we see the potential to reduce our emissions. Our focus for 2023 will be to review the scenario impacts of these opportunities and we will update on our progress against these in our FY 2023 report.

3) Reduced energy cost and emissions through use of renewable energy.

The transition to renewable electricity will be achieved by promoting the building of new onsite and offsite renewable assets through the commitment to long-term power purchase agreements with suppliers, as well as buying from existing renewable assets to achieve our target of 100% sourcing of renewable energy by 2030. This will reduce our Scope 2 market-based emissions from 158,078 tonnes in FY2022 to zero in FY2030 at the latest.

Strategy to realise opportunity: By investing in various renewable energy initiatives we can reduce costs and carbon emissions. We aim to secure long-term lowest cost contracts for renewable energy and use of Renewable Energy Guarantees of Origin (REGO) backed suppliers where available. These measures should help us achieve our target of 100% sourcing of renewable electricity by 2030.

Strategy continued

4) Reduced costs from less waste and increased recycling ie expansion of the circular economy.

New rules proposed by the European Commission highlight that all packaging in the EU must be fully recyclable by 2030. The new proposals set a target to reduce packaging waste by 15% by 2040 per Member State per capita through reuse and recycling. According to the Commission, the proposed rules would result in a 23 million tonne reduction in greenhouse gas emissions by 2030, reduce water use by 1.1 million cubic metres and reduce environmental damage costs by €6.4 billion.

Strategy to realise opportunity: We have invested in systems to measure and manage waste and energy reduction and expect to provide more detailed analysis in coming years. We also focus on improving packaging recyclability and reducing its weight. For example, with our structural components, Coats recycles c 20% of sheet waste materials. We have targets to increase the sale of recyclable material and for internal waste reduction. Additionally, we aspire that by 2030 all our products will be made completely independently of new oil-extraction materials like polyester and nylon. Although our products constitute only c 1% of the weight of the final product, we contribute to the broader goal of making the textile industry more circular, through our bio-based set of products and other products that support the recycling of garments at the end of life. Examples of this include Ecocycle, which is a water dissolvable thread at 95°C, with which we are currently working with stakeholders to upscale usage.



5) Improvements in process technology reducing water and energy intensity.

Dyeing of threads is one of our most energy and water intensive processes. At Coats, it accounts for c.60% of our energy used both as electricity and fossil fuels and c.90% of our water use.

Strategy to realise opportunity: We continue to invest resources on emerging technologies that will allow us to deliver thread colouration without use of water as our dyeing solvent and heating medium. In 2018 we invested in Twine, a start-up based in Israel that is developing digital dyeing technology for yarns. In 2023 we will allocate US\$2m to support rollout of the Twine technology. Although this opportunity is currently in the early stages of development, we expect to be able to provide a more comprehensive update in coming years.

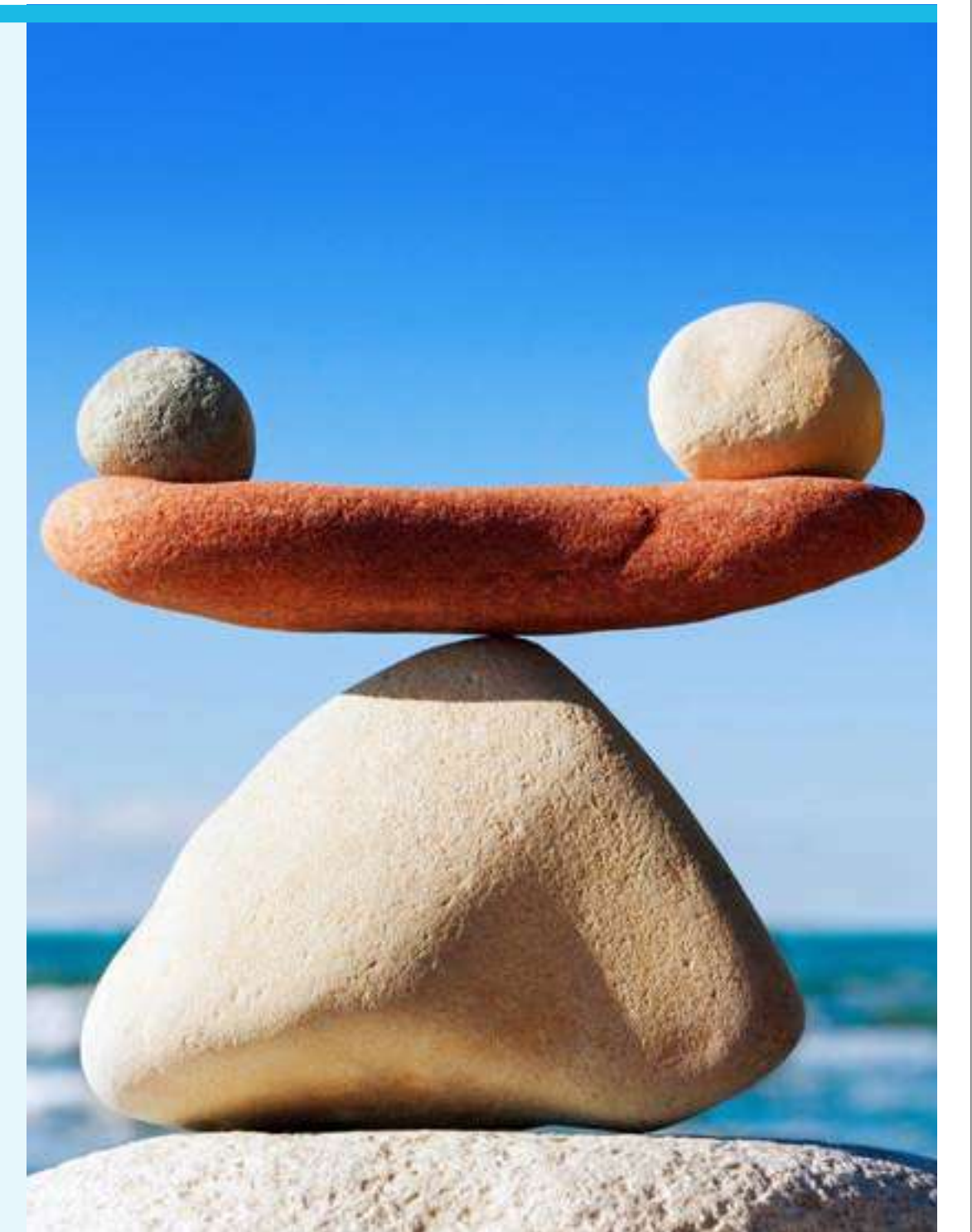
SUMMARY ON RISKS & OPPORTUNITIES

We have analysed and attempted to quantify the scale of these in financial terms under the three scenarios and different timeframes outlined above. When taken in aggregate, we conclude that our risk mitigation approaches strategy, disclosure, and ambition make our business resilient to climate change. Currently our overall assessment indicates that the opportunities are of the same broad order of magnitude as the risks in the short term and are linked to the same scenarios so are well balanced. The higher carbon medium and long term physical risks are higher and during the coming year we will do more work on the other opportunity areas to be able to comment on the longer term balance by the end of 2023.

We will continue to develop our analysis as new data is made available both internally and externally, and we will continue to monitor our climate exposures and action plans through Coats' risk management framework and governance structure. The opportunities identified continue to be developed in line with the company strategy and objectives.

RESILIENCE:

Resilience is evidenced in most of our mitigation approaches described above. Taken in aggregate, we conclude that our overall climate risk exposure is low and our existing and planned mitigation strategies mean the Group is financially resilient and strategically robust in relation to climate change. Any impact will be accommodated in our



business-as-usual activity, so no fundamental change to business strategy or budgets resulting from climate change are likely to be required for the foreseeable future. In addition, there are no effects of climate-related matters reflected in judgements and estimates applied in the financial statements.

Metrics and targets

4 METRICS AND TARGETS

Coats has considered TCFD guidance for relevant metrics and has included those that are appropriate for our business. Assets-at-risk is not considered a relevant metric given the above analysis of risks, and Coats has not determined yet whether an internal carbon price strategy would add value to our management of climate-related risk.

Coats monitors and reports on Scopes 1, 2 and all relevant Scope 3 greenhouse gas (GHG) emissions on a regular basis, as well as energy consumption. Scopes 1, 2 and 3 emissions are calculated in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, disclosed separately in our Annual Report (ARA Page 82) and, in more detail, in our Sustainability Report (SR Pages 23 and 66). Senior management remuneration is linked to key sustainability targets including ones related to climate and details on these can be found in the Remuneration Report (ARA Page 88 onwards).

To manage the principal emissions reduction opportunities within Scopes 1 and 2 we measure the

energy source mix and the amount of certified renewable electricity within that. We also measure energy and water intensity metrics as these are both contributory to emissions reductions. The principal metric for managing Scope 3 emissions is the overall transition from non-sustainable to sustainable raw materials.

Furthermore, to cover opportunities, we measure the sales growth of recycled materials and the percentage they represent of premium sales.

Coats has developed Science Based Targets which have been validated and approved by Science Based Targets initiative. As these address the full range of value chain emissions we regard them as being the most comprehensive approach to target setting for climate change mitigation. These commit to emissions reductions of Scopes 1, 2 and 3 emissions in line with the 1.5°C Pathway up to 2030, and are crucial in managing the risk of not meeting customer expectations. Components of this target include:

- A commitment to reduce absolute Scope 1 and 2 GHG emissions by 46.2% by 2030 from a 2019 base year, and absolute Scope 3 emissions by 33% by 2030.
- Increase sourcing of renewable electricity to 100% by 2030.
- Increase renewable energy to 70% by 2030.
- No new oil-based materials by 2030 as we transition to recycled materials.
- Transition to 60% sustainable raw materials by 2026.
- The company has developed and submitted for validation net-zero targets for our Scopes 1, 2 and 3 emissions for 2050. We expect to receive validation on these targets during 2023.

The net-zero targets submitted for validation are based on absolute contraction and abatement of emissions from scopes 1, 2 & 3, and covering all GHGs apart from NF3 which is not relevant to Coats' value chain, using cross sector pathways and together with neutralisation of a small element of residual emissions. Since the targets are still under review by SBTi and are subject to modification we will provide more detailed commentary in our 2023 report. Post-delivery of our 2030 near-term targets, by when we will have transitioned to 100% renewable electricity and have completed the material transition away from virgin oil based materials, the key elements that will require continued abatement are the heat energy used in dyeing, the emissions from energy used by our suppliers and the emissions coming from product and people transportation. The early stages of transition to zero emissions transportation for land and sea is already underway and we are also beginning to assess the energy mix of our key suppliers. The emissions from heat energy in dyeing currently come from the burning of fossil fuels to produce steam which is used to heat the water used in dyeing. We see two emissions reduction roadmaps for this. Our steam generating boilers will all require normal replacement before 2050 and any replacements will be done with biomass or electric boilers. In parallel we will be continuing to expand the use of dyeing technologies that don't require high temperature water. Our investment in Twine is part of this strategy. We do not, at this stage, anticipate any additional capital or operational costs for achieving net-zero that would not occur anyway in terms of asset replacement cycles.

Full details on the progress we are making towards these targets can be seen on the following pages of our Sustainability Report.

Emissions and Science Based Targets – (SR Pages 23-24 and 66-67)

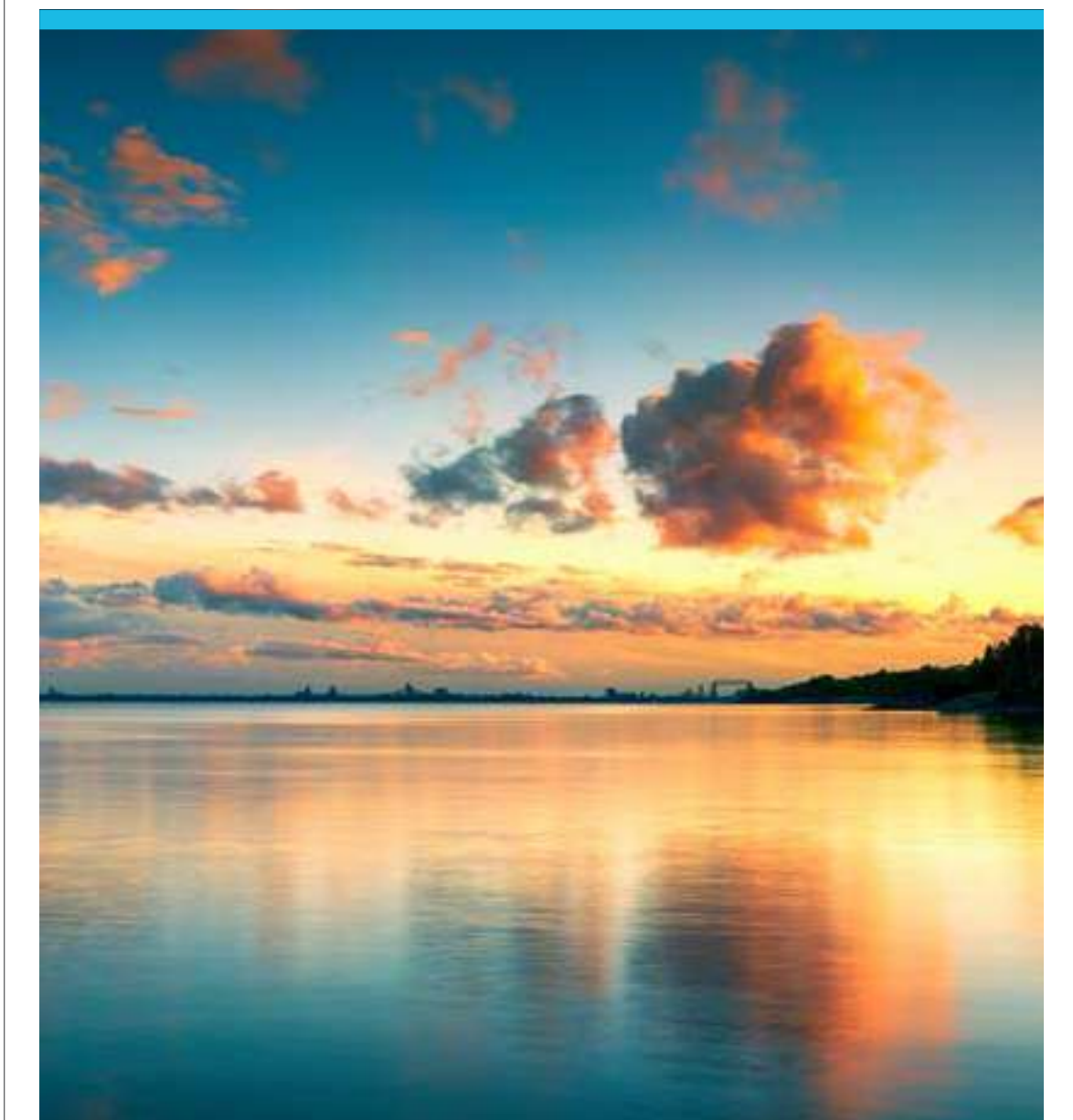
Energy source mix and renewable electricity – (SR Page 66)

Energy Intensity metric – (SR Pages 28 and 66)

Water Intensity metric – (SR Pages 42 and 68)

Material transition metric – (SR Pages 33 and 67)

The principal risks related to these emissions are the ones that could endanger delivering on the company's targets for reduction in line with the 1.5°C Pathway and net-zero by 2050. The most material of these risks are inadequate opportunities to transition to renewable electricity and lack of reliable supply of recycled raw materials, and the company has robust programmes to manage these risks.





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