

Year ending 31st March 2019



Scottish Leather Group

Sustainability Report

scottishleathergroup.com



Welcome to our seventh annual Sustainability Report, which summarises the various activities being undertaken on our journey towards a sustainable future.

Chairman's Introduction



Jonathan Muirhead
Jonathan Muirhead OBE
Chairman
Scottish Leather Group

Environmental priorities, economic prosperity and social justice are being pursued simultaneously. However, we recognise that sustainability is not a destination, but a continuous journey of learning and improvement. This report highlights the actions being taken by my colleagues in different functions of our business that support our sustainability credentials.

We are fortunate that the product we make, leather, is an inherently sustainable material. Leather is produced from the hides and skins of livestock reared for meat, dairy products and wool. Cattle, from which we obtain hides, are not reared to produce leather. Thus, the manufacture of leather is the most efficient, elegant and viable solution to a potentially huge waste problem for the meat industry.

Although our raw material is a by-product, we continue to use our influence to promote and encourage the highest standards of animal welfare practices. Leather manufacture was the first recycling industry and it remains as relevant and important today as it ever has been. Our responsibility is to produce this most beautiful, long lasting and versatile product in ways that do not use resources that cannot be replaced and do not damage the environment. We also have a responsibility for the safety, security and wellbeing of our employees, contractors and the communities that surround our three manufacturing sites. This ethos will be maintained and implemented also in new production facilities, as our global footprint expands in the years ahead.

The importance of livestock in providing societies with food, income, employment and nutrition has long been widely recognised. The livestock sector is stated as making a significant contribution to climate change emissions but there is mounting evidence that shows previous estimates of greenhouse gases attributed to livestock have been considerably overestimated. The sustainable manufacturing of leather depends on a clear understanding of the true impact of livestock farming and we welcome the fact that policy makers and the scientific community are already working to quantify and act to reduce this impact. This is particularly apparent in the Scottish supply chain.

I am delighted to report that earlier this year the group received the VIBES Scottish Environmental Business Award for 2018 in the Management (Large) category. This award recognises businesses with over 250 employees whose management systems deliver continuous improvement in environmental performance. VIBES is a strategic partnership between the Scottish Government, the Scottish Environmental Protection Agency (SEPA), the Energy Saving Trust, Zero Waste Scotland, Scottish Water and Scottish Enterprise, all of which are key stakeholders in our business. Subsequently, a motion of congratulations to Scottish Leather Group was presented in the Scottish Parliament, which is a very public recognition of our achievements. These awards aim to encourage the efficient use of resources, enhance the competitiveness of business, improve environmental performance and support the wider goals of sustainable development, including social benefits through community and staff involvement.

In the meantime, there is ongoing research and development into potential alternative uses for collagen protein, waste heat recovery systems and other technical leather innovations, the progress of which will feature in subsequent years' Sustainability Reports. Innovation and continuous improvement in every aspect of our business will sustain our business for the longer term and keep us at the forefront of responsible leather manufacturing worldwide.

Figure 1.
Our Sustainability Journey



Dr Warren Bowden
Group Sustainability and
Innovation Director
Scottish Leather Group

Why sustainable manufacturing?

Scottish Leather Group is committed to the sustainable manufacturing of leather. We continue to lead the leather industry in our efforts to create a product with zero carbon intensity and minimal environmental impact. Furthermore, the health, safety and wellbeing of our employees is paramount in all our operations, which extends to our positive engagement with the local community. It is imperative that manufacturing does not impact negatively on the surrounding environment, economy or society and we are gratified that our multi award-winning achievements in this respect continue to be widely acknowledged.

The development of innovative tanning methods and responsible sourcing of hides are all material to underpinning the added value of our product.

Responsible sourcing of materials and the farm to factory traceability of hides ensures transparency throughout our supply chain. In addition, we use industry recognised Life Cycle Analysis (LCA) to independently measure the impact of all our manufacturing processes, supply chain and work to further improve its quality and sustainability.

The Thermal Energy Plant has enabled the group to convert solid waste to steam for circularising the manufacture of our leather and creating revenue from the sale of bio-oil. In developing our own renewable driven self-heating system, we have already reduced the amount of waste sent to landfill by 70%. This reduction in landfill is a major landmark in our journey to zero waste by 2020 and the plant is set to expand over the next two years to bring our goal of zero waste nearer to reality.

Innovating is necessary to progress industry change towards a zero-impact sustainable manufacturing platform. This is not a set of limitations but an opportunity that Scottish Leather Group is harnessing. The group operates in support of the relevant Sustainable Development Goals (SDGs) and can demonstrate our commitment to the core eight goals in which we have direct influence and activity. The report content is presented by the breadth of skills from members of the group's Sustainability, Innovation and Advisory Committee, which itself draws on external advice to keep us at the forefront of the sector.

We have made a huge reduction in waste going to landfill.

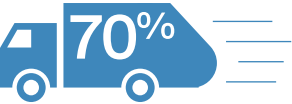
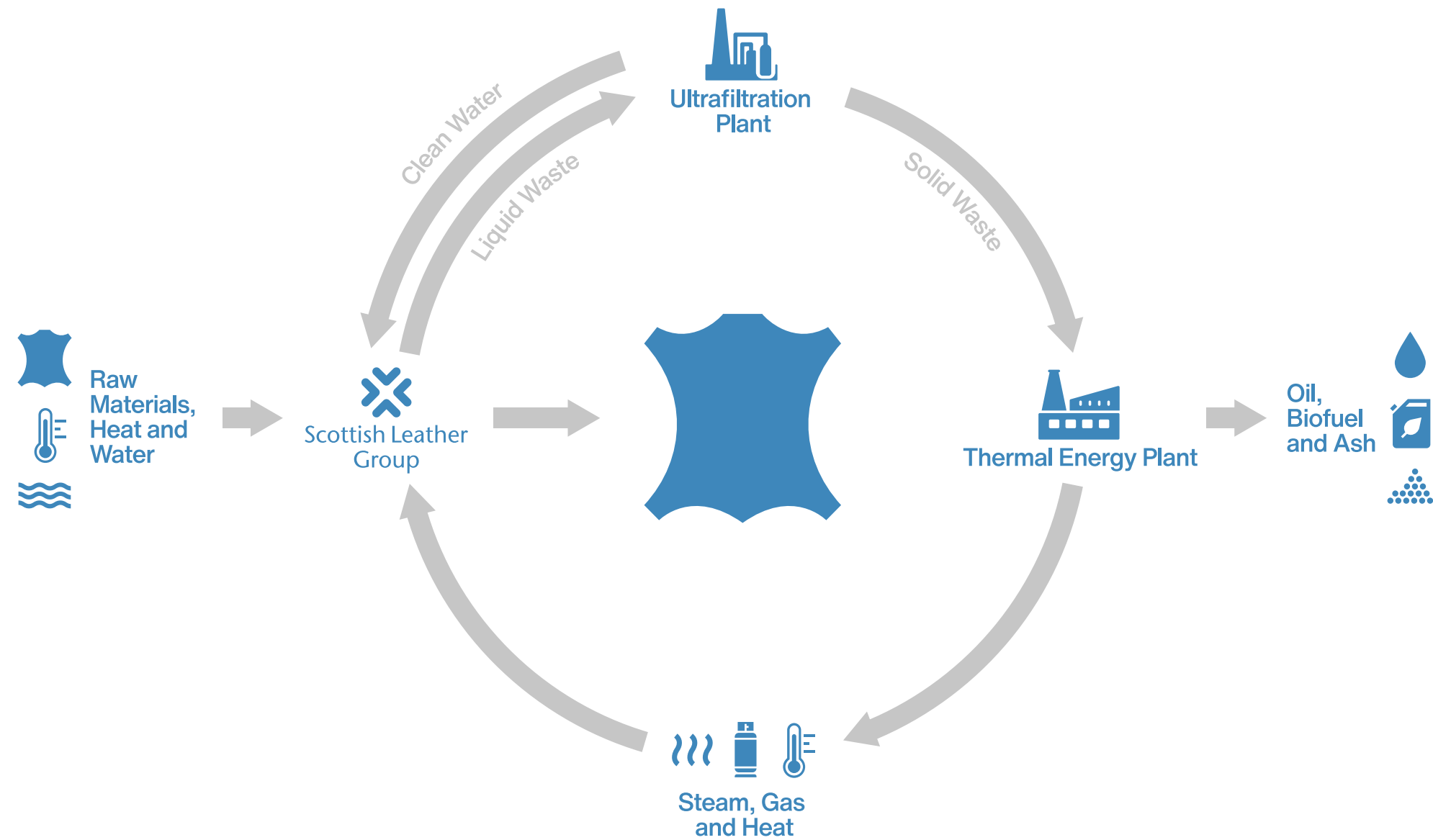


Figure 2.
Sustainable Manufacturing



Innovating is necessary to progress industry change towards a zero-impact sustainable manufacturing platform.

UN Sustainable Development Goals

A research partnership between Textile Exchange and KPMG produced a 2018 report entitled *Threading the Needle*. It identified eight UN Sustainable Development Goals (SDGs) where the textile sector, which includes the leather industry, can create the most impact for change and an engagement framework for implementing these goals throughout a company's operations.

The group is already an industry leader in the sustainable manufacturing of leather. To further align ourselves with the global Sustainable Development agenda we have committed to these eight industry SDGs.



Gender equality

- ✂ We are an Equal Opportunities Employer, engaged in strict ethical standards and equal pay.



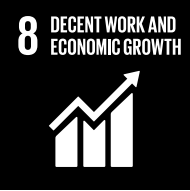
Water and sanitation

- ✂ We treat the waste water from our production processes on-site and recycle up to 40% back into production as clean water.
- ✂ Our Water Treatment and Recycling Plant reduces the water usage from our own reservoir, thus minimising the impact on the local watershed.



Affordable and clean energy

- ✂ Our patented thermal process provides Scottish Leather Group with its own renewable heating system, significantly reducing our carbon footprint.
- ✂ Diversifying our energy mix through various renewable sources allows us to operate off-grid with low carbon intensity.
- ✂ We will be using renewable, wind backed electricity as our sole power provision from this year onwards and will draw on district heating in the forthcoming years to provide a carbon free source of heat.
- ✂ We provide electric vehicle charging points for staff and visitor parking and plan to add further solar and non-fossil fuel sources to supplement our existing non-fossil fuel energy mix.



Decent work and economic growth

- ✂ The health, safety and wellbeing of our employees is paramount. We promote the workplace based Healthy Working Lives initiative which encompasses employee workplace recognition, equal pay and equal rights. Policies and practices are implemented to prevent modern slavery and promote a safe working environment.
- ✂ We have created vocational qualifications for our industry, certified by the Scottish Qualifications Authority (SQA), and support the attainment of professional qualifications throughout the group.



Industry, innovation and infrastructure

- ✂ The group is at the forefront of innovation in the tanning sector. We seek to achieve a fully circular manufacturing model within the next few years.



Reduced inequalities within and with countries

- ✂ The group is working to ensure that our supply chain adheres to locally applicable regulations and the highest ethical standards.
- ✂ The SLG Academy runs a two-year apprenticeship programme designed to develop the next generation of skilled employees.
- ✂ We do not use conflict minerals.



Responsible production and consumption

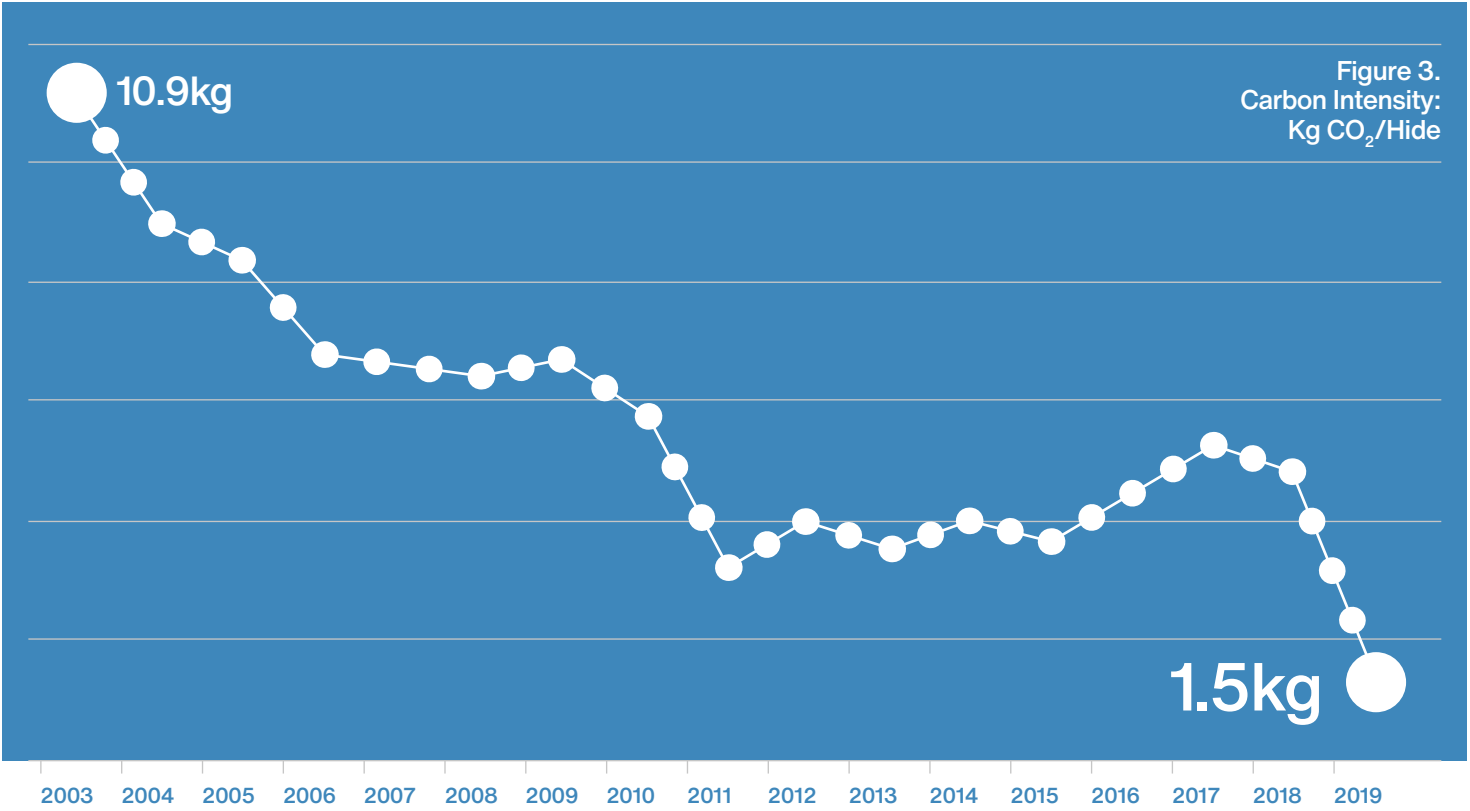
- ✂ The group ensures that all materials used throughout production are responsibly sourced.
- ✂ Reducing chemical waste through our innovative tanning methods has further contributed to our reduced impact on finite material consumption.
- ✂ We have reduced our production waste to landfill by 70% and are investing to reach 100%.



Life on land

- ✂ Our raw hides are sourced responsibly to provide traceability and accountability that ensures compliance with the Five Freedoms Principles of animal husbandry.
- ✂ We continue to research and develop new technologies to mitigate our impact on the environment to assist our supply chain in reducing their impact.

Clean affordable renewable energy



All industries must commit to mitigating and eliminating the anthropogenic impact of climate change. Our group established its Zero Waste Policy in 2003 and we continue to pursue this. In line with this we have developed, and continue to use and develop, alternative sources of renewable energy across our three manufacturing sites.

Moreover, our independently audited performance to the UK Climate Change Agreement demonstrates our determination to reduce our carbon footprint. Using solely renewable wind derived electricity has dramatically reduced the carbon intensity measured as carbon dioxide equivalent (CO₂ eq) of our product, from a baseline of 10.9kg of CO₂ eq per hide in 2003, to an anticipated 1.5kg of CO₂ eq per hide.

In our desire to further reduce this carbon intensity we have partnered with SHARC Energy Systems, which will lead to the installation of a zero-carbon water heat system to supply ground source heat to meet some of our direct water and indirect space heating demands. This should lead to an even lower carbon intensity for our leather going forward.



The installation of a zero-carbon water heat system should lead to an even lower carbon intensity for our leather and support our journey to zero.





Our hides come from healthy cattle herds, bred in accordance with the highest animal welfare standards.

Gareth Scott
Operations Director
NCT and Lang

Responsible sourcing, traceability and animal welfare

The group procures over 95% of its raw hides within the UK and Ireland. The balance comes from verified sources within Europe. These hides are a by-product of the meat and dairy industries and they are sourced directly from abattoirs that are subject to daily inspections by Government veterinarians and licensed under UK and EU regulations. This procurement policy ensures that our hides come from healthy cattle herds, bred in accordance with the highest animal welfare standards. Our strict policy guidelines can be summarised as follows:

We only purchase hides from abattoirs in the UK and Europe whose farm suppliers do not engage with practices that contribute to deforestation or any form of animal mistreatment.

Left: Alan Meston, Farmer

We only purchase hides from abattoirs that themselves observe strict animal welfare standards enshrined in the “Five Freedoms Principles”. These have been adopted by the Farm Animal Welfare Council and the World Organisation for Animal Health and they outline five aspects of animal welfare under human control. Our suppliers’ adherence to these principles is independently audited to provide both ourselves and our customers with assurance of the source and treatment of the cattle in our supply chain.

The group has adopted a “Farm to Factory” initiative within its purchasing processes. This is designed to promote the traceability of raw hides, so that we can be assured of the ethical treatment of each animal whose hide is processed.

All UK sourced hides are governed by the globally respected UK Government Cattle Tracing System, which ensures adherence to high quality breeding and welfare standards.

The “Farm to Factory” initiative mentioned above promotes the traceability of raw hide batches from their source through the supply chain. This is a world leading initiative and its practice is now being audited by our customers, who are keen to know the provenance of the hides we purchase. The aim is to provide complete traceability for each individual hide and we are currently engaged in further development work with specialist companies and our supply chain partners to realise this goal within the coming years.

The latest stage in the development of our responsible raw hide procurement policy is the aim to source only those hides that are certified as Edible Co-Product material. This will permit a much wider use of the by-products from our production processes, including the food chain.

We procure most of our raw hides within the UK and Ireland.



Simon Cook
Group Technical Director
Scottish Leather Group

Sustainable leather innovation

Scottish Leather Group is continually looking at innovative and sustainable chemistries and processing methods to develop novel leather products, whilst simultaneously reducing our impact on the environment.

Our technical team is working on innovative finishes and leathers with properties to meet the demands of the automotive and aviation sectors, whilst using bio-based or responsibly sourced REACH registered chemicals. Our group is a willing partner in several initiatives towards achieving zero discharge of hazardous compounds.

In recent years, our customers have become more socially and environmentally aware. There is a heightened view that if sustainable approaches are not valued, then our customers will ultimately lose market share from future generations of consumers. It is therefore key that the group continues to evolve and innovate to meet their needs.

Developments:

- ✂ We have introduced a new high efficiency mineral tanning system that increases the uptake of chemicals to 95% and lowers the amounts of salt and acid required in processing, resulting in a lower demand for effluent treatment.
- ✂ We can now produce leather that has 20% less weight than our traditional product for the aviation sector. This has been achieved without impacting the luxurious aesthetic properties of the leather and it is being used today by some of our aviation customers.
- ✂ We are in the early stages of using waste from our shaving processes in the manufacture of re-tanning chemicals or to upcycle into alternative products.

- ✂ We are seeing an increase in the use of aniline leathers by some of our customers. As aniline leathers are less protected by surface coatings, fewer chemicals are used in their processing.

The group remains at the forefront of the leather industry due to our lean processing techniques, careful selection of chemicals, our innovative use of equipment and the reuse of our waste streams.



Our aviation leather is **20% lighter** than our traditional product.



Dr Warren Bowden
Group Sustainability and Innovation Director
Scottish Leather Group

Economic sustainability and investment in the future – our people and our plant

Our customers and their consumers are increasingly aware, quite rightly, of human impact on the planet. They and we seek lower impact, higher value materials that are made ethically and with a conscience. The historical, linear manufacturing models of a throwaway society are becoming increasingly exposed.

We are pleased to be at the forefront of our sector's circularised sustainability journey in support of SEPA's One Planet initiative, but also with our customers' demands in full view. Furthermore, the automotive sector is developing at a rapid pace towards autonomous vehicles, electrification and the use of novel materials both outside and inside.

What we must now do is to innovate and increase our efficiency to stay at the forefront of this changing market place. We must also look beyond our current markets to new opportunities and one in which we are making headway is protein utilisation.

Closer to home, the group continues to reinvest in our people, our plant and in innovation. The staff wellbeing agenda has moved rapidly, with staff welfare central to healthy living and healthy working initiatives. The group has also committed to providing continued additional financial support for the company's pension schemes.

Investment in plant continues with the replacement of processing vessels in the tanneries with higher efficiency units, and investment in the expansion of thermal and effluent plants bringing us another step closer to the internalisation of waste and water.

Industry 4.0 has provided insight into possibilities for the tannery of the future with a more efficient and automated process based on the integration of cloud-based systems, enabling higher levels of productivity.



The group is investing in new accounting and automation systems to provide greater integration and automation of plant, to improve production scheduling and right first-time operations, per our Operational Excellence program. This will be augmented in the coming years with increased traceability of hides using visual tracking systems.

In addition to our concern for the environment, the group practices and expects integrity, honesty, fairness, and respect for people in all aspects of business.

We are dedicated to practicing the highest standards for quality, technology, value and service. The company complies with all relevant laws, regulations and codes of conduct, and refrains from anti-competitive practices. We believe bribery, corruption, and human trafficking are a blight on society.

All of our directors and senior staff are externally audited for their business practices. We have diligent labour and payroll monitoring systems and both discrete and overt links with our supply chains. We actively audit our supply chain.

Archie Browning
Sales Director
Muirhead

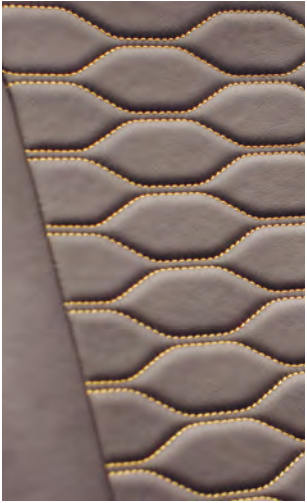
Aviation, Bus, Rail, Furniture and Marine

Aviation has been a pioneering industry from the very earliest days of flight. This trend continues as we see the industry evolve and become more sustainable through design and technology. Aluminium is now being replaced by lightweight recyclable composite. Modern engines are far more efficient and increasingly powered by biofuels, with trials underway on electric engines. Inside the aircraft, more and more of the materials used are selected based on their weight and performance.

Though these improvements are primarily based on fuel efficiency and therefore CO₂ reduction, the industry is looking at other aspects of sustainability as a matter of corporate responsibility and, of course, engaging with customers.

“At Davison Highley we take sustainability seriously, so it’s always great to find companies to work with that show the same high standards. At a time when environmental concerns are of growing importance to our clients, being able to use the Scottish Leather Group’s products and share their sustainability story, helps us to not only manufacture and supply beautiful furniture, but environmentally sound furniture also.”

Andy Kirk
Davison Highley



The consumer has driven the need for the change to sustainable sources of goods, materials and transport. Our customers are looking for as many ways as possible to demonstrate their sustainability credentials, ranging from recycling of cabins, bins and seats, down to the consumables on the aircraft such as meal trays and cups. We will always have a desire to travel, for business or leisure.

The group’s aviation industry specialist, Muirhead, supplies many of the world’s airlines. To close the manufacturing loop, we are to receive retired aircraft seat covers and will recycle them for energy recovery by processing them through the group’s unique thermal energy plant. The company also continues to set the standard in terms of fire safety in the rail industry from recent development work carried out at our in-house laboratory.

With partners we have developed bespoke products that allow leather to be used on standard and first-class seats, replacing fabrics that were much harder to maintain and not as durable, whilst giving the passenger the luxury of leather.

In recent years we have grown to share and mirror our customers’ desire to demonstrate their global sustainability credentials. There are many recognised industry schemes that our domestic and global partners adhere to and as a key supplier we must recognise, develop and promote our sustainability ethos within the furniture, leather goods and marine industries.

Our customers recognise and respect our determination to produce quality, low carbon, sustainable leather that is manufactured in the UK.

James Muirhead
Sales Manager
Bridge of Weir

Automotive

In 2018 the UK Government announced that it will end the sale of new conventional petrol and diesel cars by 2040 and has stated its ambition to see at least half of new cars to be ultra-low emission by 2030. Other countries have also introduced policies and incentives to accelerate the uptake of zero and low emission vehicles within similar time frames. On the back of these announcements it is apparent that interior trends are changing as well.

The automotive industry understands that leather is a sustainable product if manufactured in a responsible manner. In consideration of recent consumer and government pressures, car makers have launched their own environmental strategy teams to monitor their supply chains and associated carbon footprints. Customer focus is on animal welfare, husbandry and traceability to ensure that only the cattle hides we source come from farms that operate and treat their animals with the best practices.

We are experiencing a growing trend in greater awareness amongst the end consumer, who want to be better informed and is therefore taking an interest in the provenance of interior trim and their associated supply chains. To give them further comfort, our customers have walked our supply chain, from the farm to the factory to the car.

In summary, whilst there is growing pressure on sales through an increasing use of plastic materials, leather is more sustainable, durable, luxurious, and better value for money. We are adapting to this changing market by ensuring that we continue to be industry leaders in the fields of innovation and environmental sustainability. This has never been more important than it is today, as we strive to increase our market share and ensure that leather retains its rightful place as the material of choice for discerning consumers.





It is essential that we develop our own talent.

Karen Marshall
Chief Operating Officer
Scottish Leather Group

Scottish Leather Group Academy

We believe that it is essential that we develop our own talent. In association with Scottish Qualifications Authority and West College Scotland we have created two new SVQs in Leather Manufacturing. All our leather apprentices will be able to achieve this qualification through their two-year apprenticeship, with many going on to further education whilst still working with us.

The group is delighted to have commenced its fourth intake of apprentices into the SLG Academy, which was established in 2012. Since its inception, 27 apprentices have graduated and completed their SVQ.

Two apprentices from our first intake have recently graduated from the University of Northampton with a BSc (Hons) degree in Leather Technology. Two others are currently studying for a Leathersellers Certificate and a Leathersellers Diploma.

One of our apprentices was honoured to be named Apprentice of the Year at the 2018 Scottish Apprenticeship Awards, and we are supporting his further development whilst he reads a BEng (Hons) Engineering: Design and Manufacturing degree at the University of Strathclyde, through a graduate apprenticeship. Several others have gone on to become Supervisors, Laboratory Technicians, Quality Engineers and Colour Technicians within the business. All perform essential roles in leather making.

Alongside our apprentices we have had colleagues graduate in Safety and Risk Management, Human Resources and Quality over the course of the year.

Our engineers are also engaged in apprenticeships, with two of them completing and gaining an HNC in Electrical Engineering.



In the community and beyond the workplace

The group is keen to support charitable projects that can really make a difference both locally and, in our sector, globally. Our presence within the local communities in which we operate demonstrates the difference we can make beyond the workplace.

Many employees continue to be involved in a diverse range of local charitable causes. The inputs vary from those giving time and enthusiasm or raising funds, to others who give professional knowledge or skills. This giving, in whatever form, is part of our corporate culture.

It is important to us that support is not just a one-off gift but often regular and ongoing donations. This year Muirhead supported SAMH through a sponsored cycle from Glasgow to Balloch.

Bridge of Weir were involved in the same event supporting the Renfrewshire-based charity, Brightest Star.

This year's most notable project was The Spirit of Christmas appeal, in which a huge number of employees collected children's gifts, from small toys to bikes and scooters, which benefitted underprivileged children across Renfrewshire and Glasgow. A significant gift was also made to the Royal Alexandra Hospital in Paisley for intensive care equipment.

A donation was made to the Amanda Michel Trust Fund which, together with the Leathersellers' Company, has established an electron microscopy suite at the University of Northampton – a massive resource to education in leather manufacturing.

The group continued its support of the National Leather Collection in Northampton, which together with the Leather Conservation Centre is fast becoming a global centre for leather.

Apart from financial and charitable donations, the group staff have supported STEM initiatives, giving inspiring talks at local schools and giving their time and professional skills to other local community-based projects. The group also uses the facilities across our sites to host networking and training events for the wider business community.

We retain strong working links to our neighbours and stakeholders.

The group also provided support to the following projects this year:





Our responsibility is to produce this most beautiful, long lasting and versatile product in ways that do not use resources that cannot be replaced and do not damage the environment.





Scottish Leather Group

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