



Scottish Leather Group



Group Sustainability Report Year ending 31st March 2015



Innovation,
Sustainable Manufacturing
and Excellence in Leather.



Scottish Leather Group

Scottish Leather Group is the largest manufacturer of leather in the United Kingdom. The Group comprises four leather manufacturing subsidiaries and a technology company, all located in the west of Scotland:

Andrew Muirhead & Son
Bridge of Weir Leather Company
W. J. and W. Lang
NCT Leather
SLG Technology

Scottish Leather Group is a wholly privately owned, independent company which was formed in 1965 and employs 580 people.

The member companies of the group are well established with a combined experience in tanning and finishing leather of over 500 years. Their specialist leathers are produced for a wide range of industries: automotive, furniture, marine, aviation, shoe and leather goods. The group export sales represent over 83% of turnover.

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Jonathan A. M. Muirhead
Chairman

Introduction

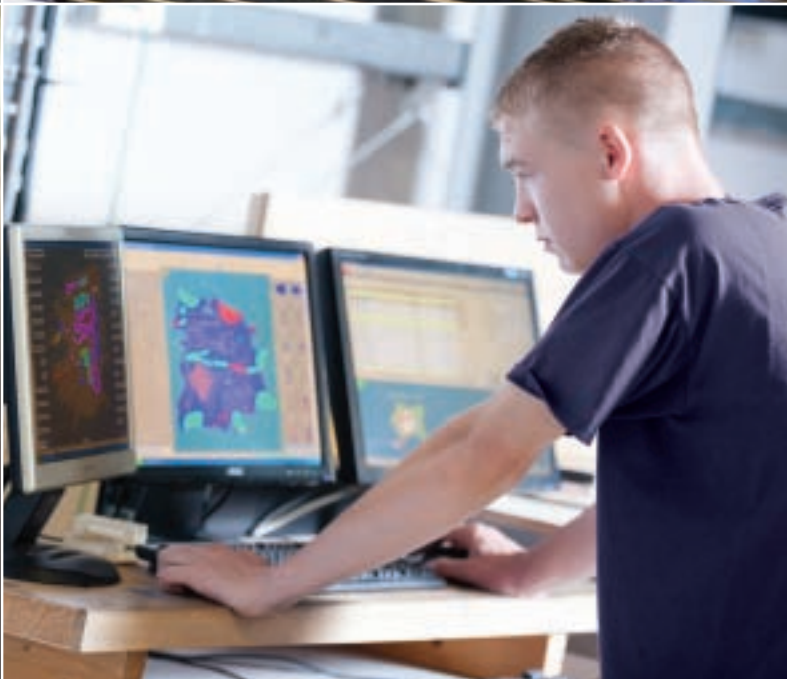
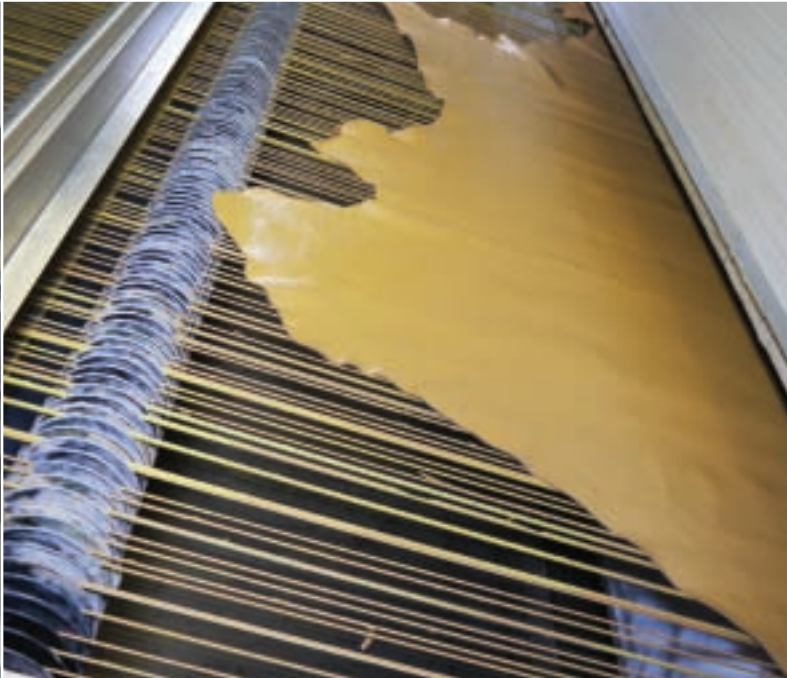
This is our third annual Group Sustainability Report, which as in previous years, summarises our activities and progress towards the ongoing development of a business that needs to be sustainable environmentally, economically and socially. I am pleased to report that in 2014 we took another step towards realising our vision, thanks to the commitment of our staff and the support of our stakeholders.

Our member companies have a proud heritage spanning over 250 years yet have prospered by continuously looking forward. This report charts our achievements in 2014 and the steps we are making towards developing our sustainable business in four key areas: our workplace, the environment, the marketplace in which we operate and the local communities adjacent to our three manufacturing sites.

We also have a long history of both serving and depending on our local communities. Whilst providing employment and contributing to the local economy, we are well aware of our responsibility to those communities and the changing social and industrial global landscape in which we find ourselves today.

Jonathan A. M. Muirhead - Chairman





Innovation, Sustainable Manufacturing and Excellence in Leather

We take seriously the impact we make both locally and internationally. Achieving a sustainable business necessitates a process of continuous development and improvement in each of the areas where our business impacts. Sustainability is at the heart of our business ethos as it will bring benefits in risk reduction; cost reduction through elimination of waste and continuous improvements in process efficiency; higher customer retention through product innovation and enhanced reputation; and through attracting and retaining skilled people at all levels within our organisation for many years to come.

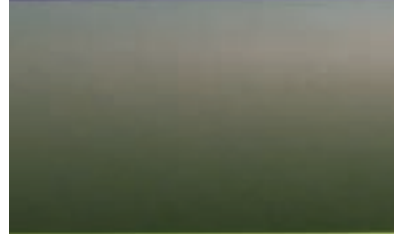
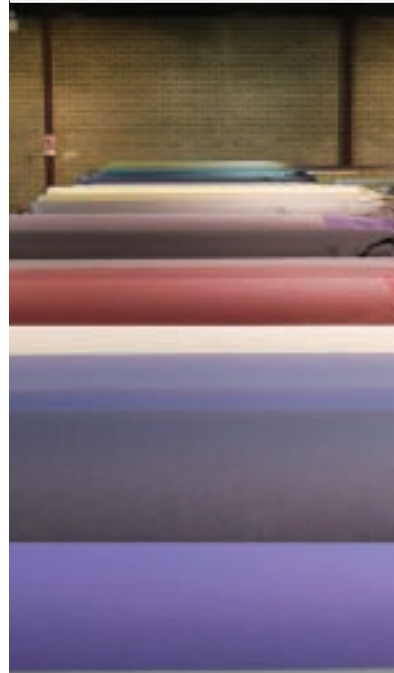
Vision, Mission and Values

The following vision, mission and values statements are communicated to all employees and are at the core of the company's strategy to achieve prosperity in the future.

"Our vision is to be the most successful and respected group of leather manufacturing companies in the world."

"Our mission is to maximise customer and shareholder value through leading sustainable manufacturing practices, continuous innovation and outstanding service."

"The company practices and expects integrity, honesty, fairness and respect for people in all aspects of its business; it is dedicated to establishing the highest standards for quality, technology, value, customer service and concern for the environment. These standards will be achieved through team work, respect for each other, fast responsiveness, cost-consciousness, creativity, competitiveness and sustainable development. The company complies with all relevant laws, regulations and codes of practice, refrains from any anti-competitive practices and honours obligations and commitments."

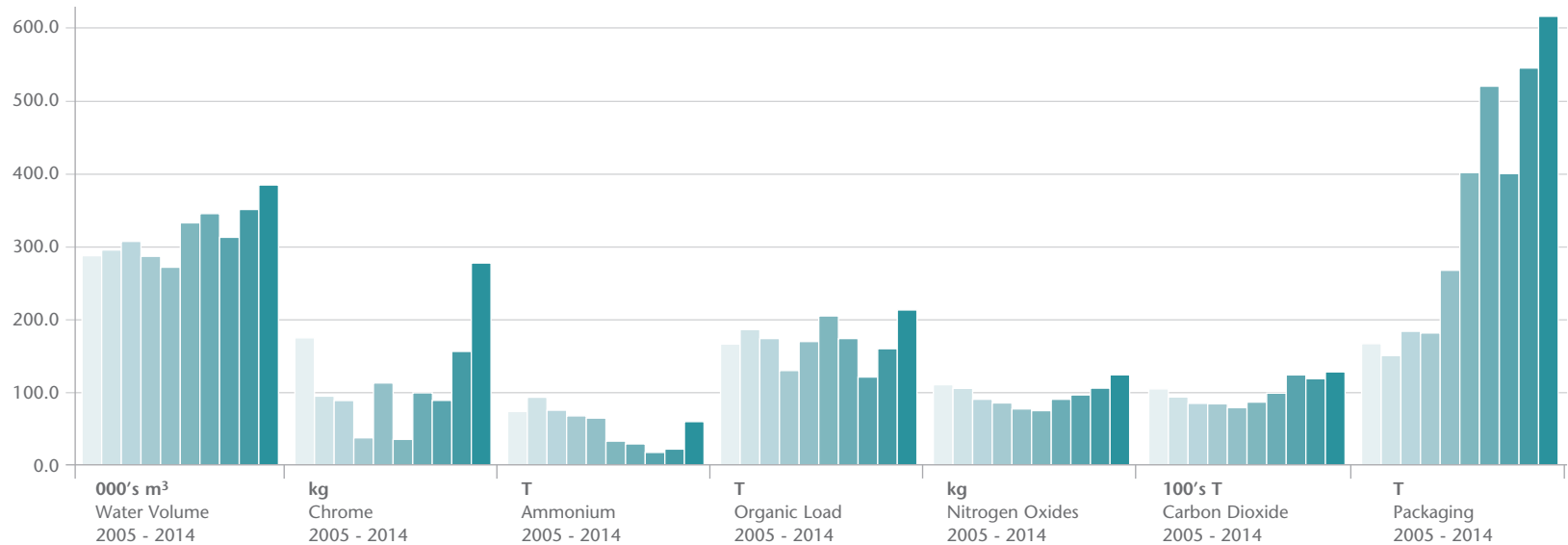




Environmental Sustainability

The group continues to demonstrate its good environmental performance, based upon data published within the Scottish Pollutant Release Inventory (Figure 1) and Scottish Environment Protection Agency's (SEPA) appraisal scores. The operating companies maintain adherence to ISO 14001:2004 and ISO 50001:2011. The data reported is independently audited. On-going improvements are reached by strategic investments and by operational improvement. Increased absolute data for organic load, ammonium and chrome are directly related to increased production volumes at the tanneries during the year. The emissions presented are those from direct on-going operations and are absolute data, reflecting the increased production volumes in recent years. Increasing export business has increased packaging usage.

Figure 1: SLG data reported to the Scottish Pollutant Release Inventory.



The group is continuing to set standards for environmental sustainability within the leather manufacturing sector.

In 2003 the group established a "zero waste strategy". Our goal to maintain a sustainable business remains unchanged. The group is setting standards for sustainability within the leather sector as evidenced by our investments, performance and recognition through accreditations gained. Major investments in membrane water treatment technology and the thermal energy plant, which is recovering heat from waste and exporting energy have reduced the company's impact on the environment. These initiatives are addressing some of the major threats to our long term future such as the reduction in available landfill sites and the declining availability of fossil fuel. Benefits will be derived ultimately through mitigation of the effects of rising landfill and energy costs. The commitments made in our inaugural Group Environmental Report and achievements from the past year continue and are presented in conjunction with key performance indicators.

Environmental Policy

It is the policy of Scottish Leather Group that the affairs of all group companies are managed in a manner which ensures that, wherever possible, the improvement in quality of emissions to water, land or air is a constant aim and a significant feature in process and investment decision making towards sustainable manufacture of leather.

Concern for the environment is integral and fundamental to the business strategy of Scottish Leather Group and its subsidiary companies. It will be the responsibility of individual group companies to identify their own environmental criteria and policies to satisfy group policy to attain the necessary standards to which they subscribe.

Energy and Carbon Footprint

Utility price concerns, on-going political uncertainties and commercial risks of fossil fuel supply underline the need to continue our drive to improve energy efficiency and reduce our reliance on primary fuels. We continue to adhere to the energy hierarchy; that is energy efficiency, reusing heat or energy and the application of renewable energy. This issue is very much at the forefront of supply chain sustainability and is significant to our customers. Bridge of Weir Leather Company is accredited to FILK (Forschungsinstitut für Leder- und Kunstledertechnologie) ECO₂L standard as an applicable measure of the corporate carbon footprint for automotive leather.

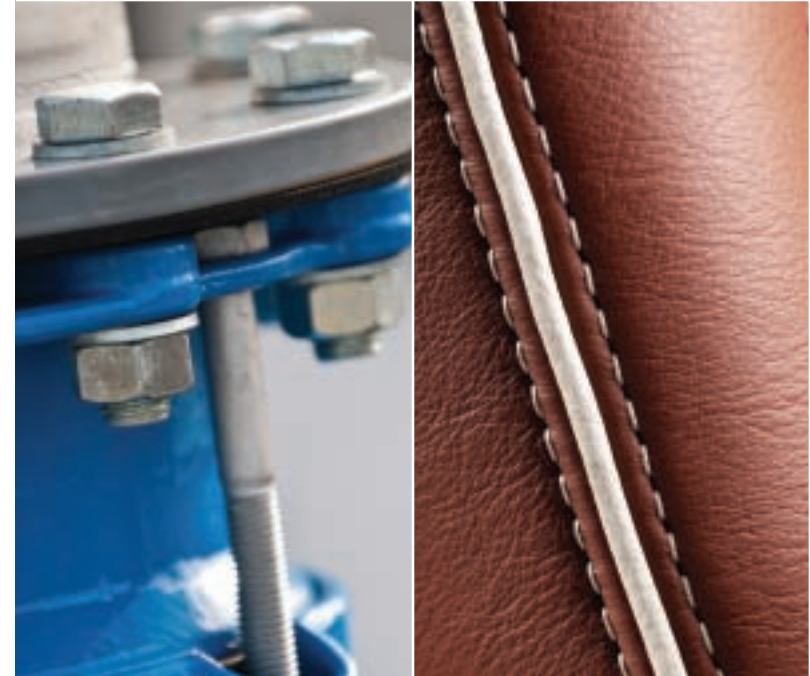
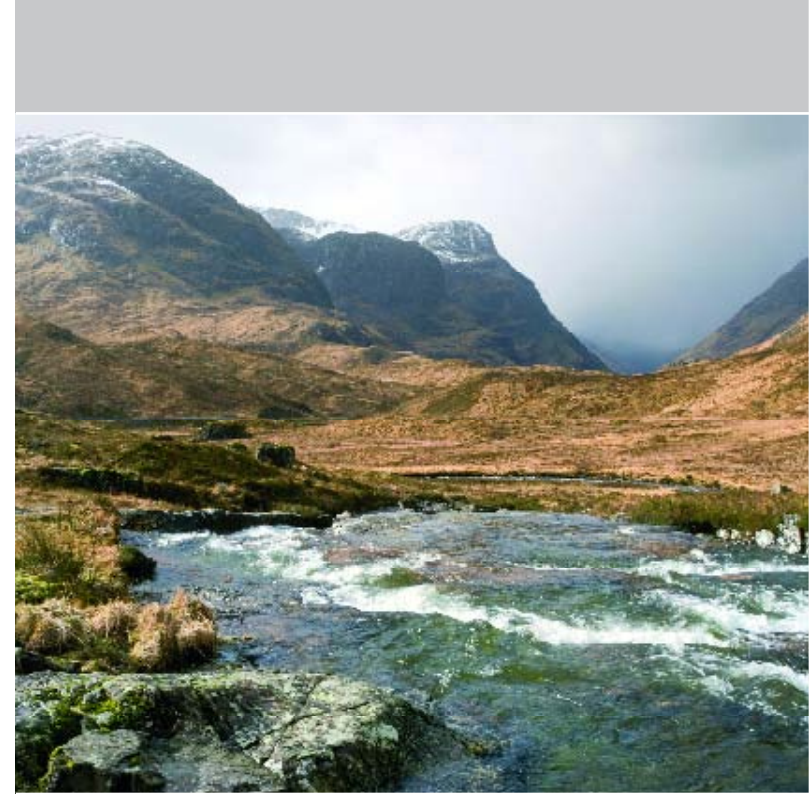




Figure 2: CO₂ Emissions Tonnes per hide.

Reductions in CO₂ per hide as measured and reported per the Greenhouse Gas Protocol.

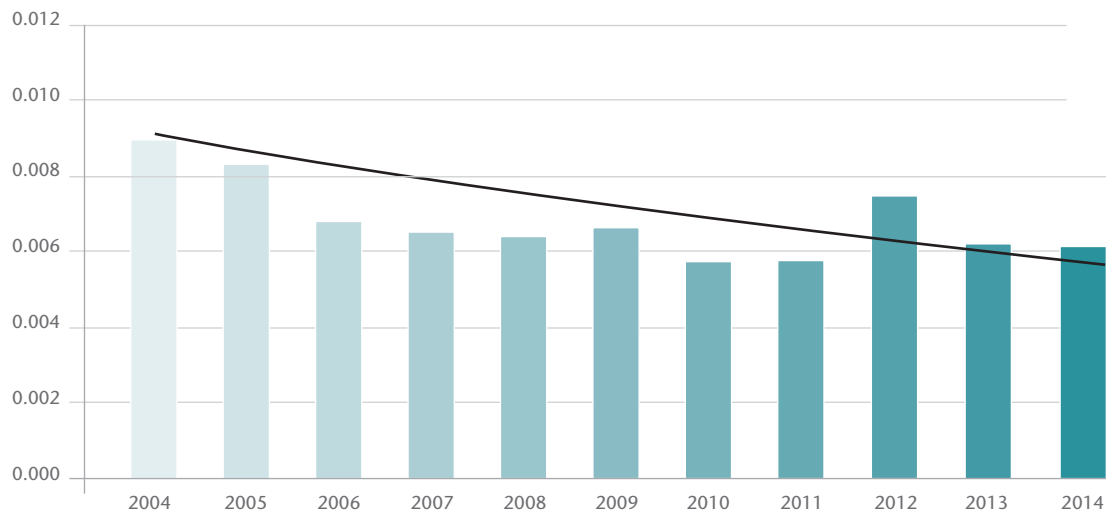
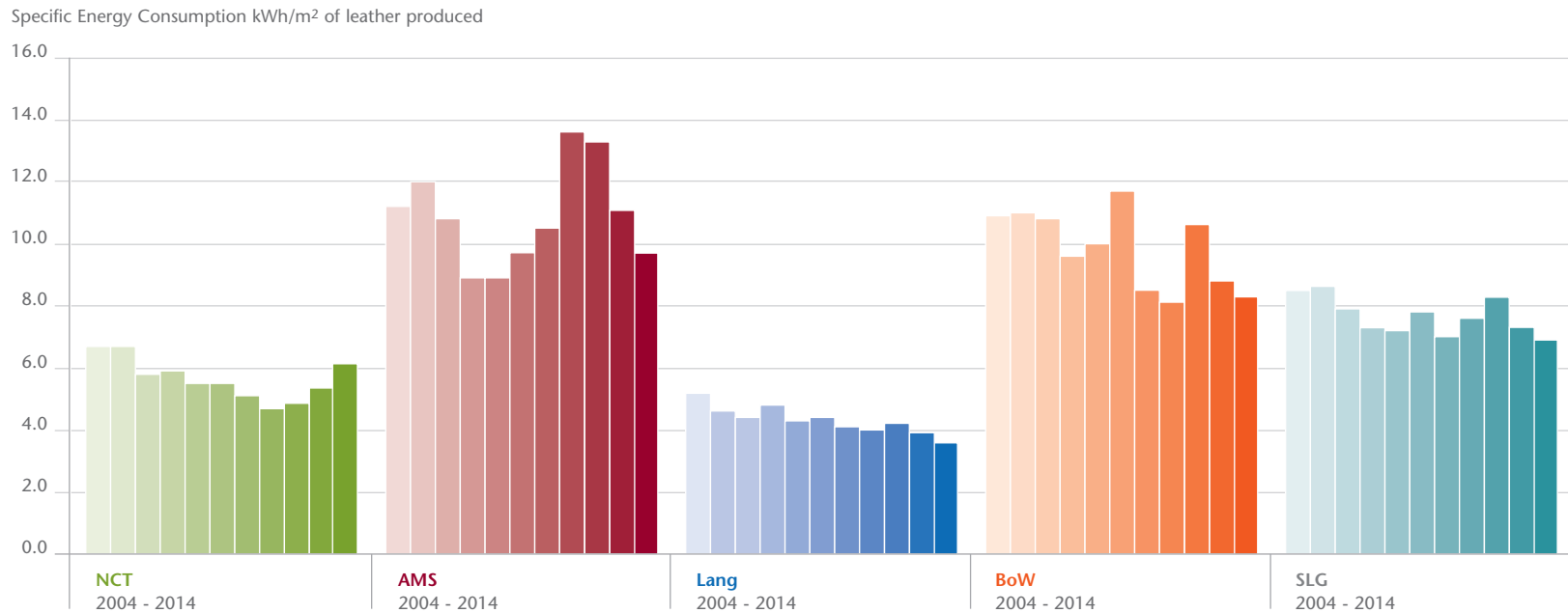


Figure 2 : Reductions in CO₂ per hide to c 6 kg/ hide as measured and reported per the Greenhouse Gas Protocol. This is significantly below the European industry benchmark of 0.024T CO₂/hide (24kg/ hide) Source: Data obtained from the Social and Environmental Report of the European Leather Industry published jointly by the Confederation of National Associations of Tanners and Dressers of the European Community (COTANCE) and the European Trade Union (industriAll-Europe).

Figure 3: Specific Energy Consumption, per site, per year.

In accordance with the UK Climate Change Agreement, SLG consolidated 2014 data was 7.0 kWh/ m² of leather produced.



Waste

The group is working to eliminate waste through efficient resource use, segregation of waste into recyclable categories and thereafter energy recovery. Reclassifying wastes as a resource for both recycling and the recovery of heat represents a step change in approach to disposal practice. We continue to seek beneficial routes for recovery or reuse of our process wastes to avoid landfill. Since 2008 this initiative has already reduced our waste disposal tonnage resulting in a reduced carbon footprint. A new steam heated drier was installed at the end of 2014 and, following a lengthy certification process, the unit has already demonstrated that it can process 50% more waste than the drier it replaced with considerable improvement to operational uptime. The plant continues to generate considerable interest from customers worldwide and it has positioned the group as a world leader in sustainable leather manufacturing. The value of the renewable energy recovery from both the thermal energy and fat plants is facilitating a significant carbon reduction in the leather manufacturing process by the replacement of fossil fuels. Improvement of operational efficiency of the plant is high on the environmental agenda.

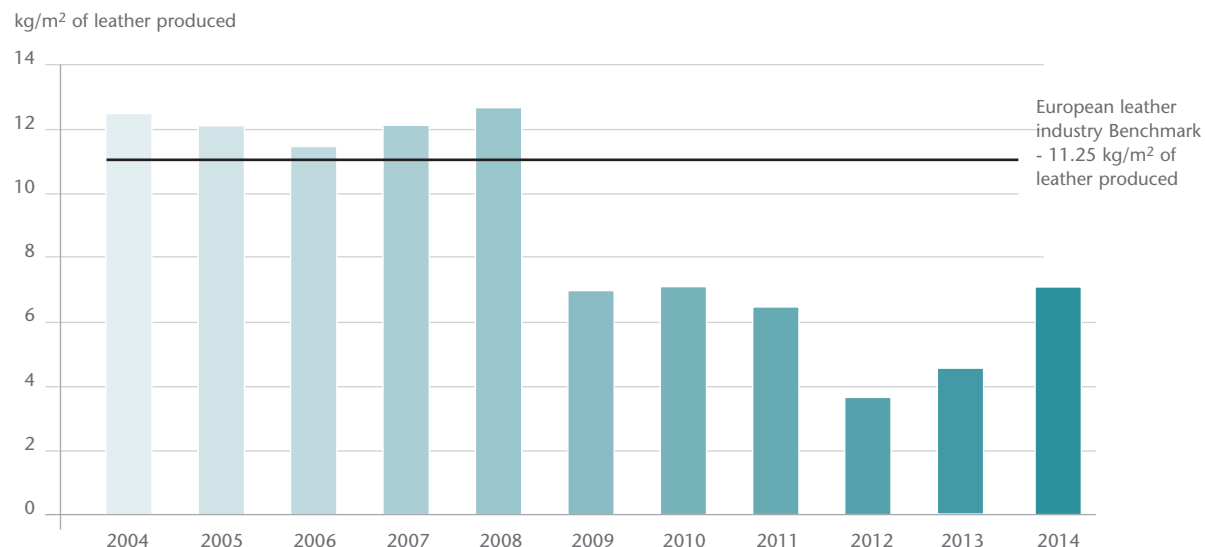
Customers continue to respond favourably to this significant investment, as they seek to reduce their own carbon footprint. Thus it is acknowledged that the thermal energy plant is providing us with a significant advantage over our competitors.





Figure 4: Specific waste disposal as kg/m² of leather produced.

Whilst our external waste disposal has reduced significantly since the commissioning of the Thermal Energy Plant, there has been increased downtime for plant decommissioning during the past year, hence the increase in the specific waste disposal figure shown on the graph below. However, a new steam heated drier has been installed to improve plant throughput, the positive results of which will be evident in next year's report.

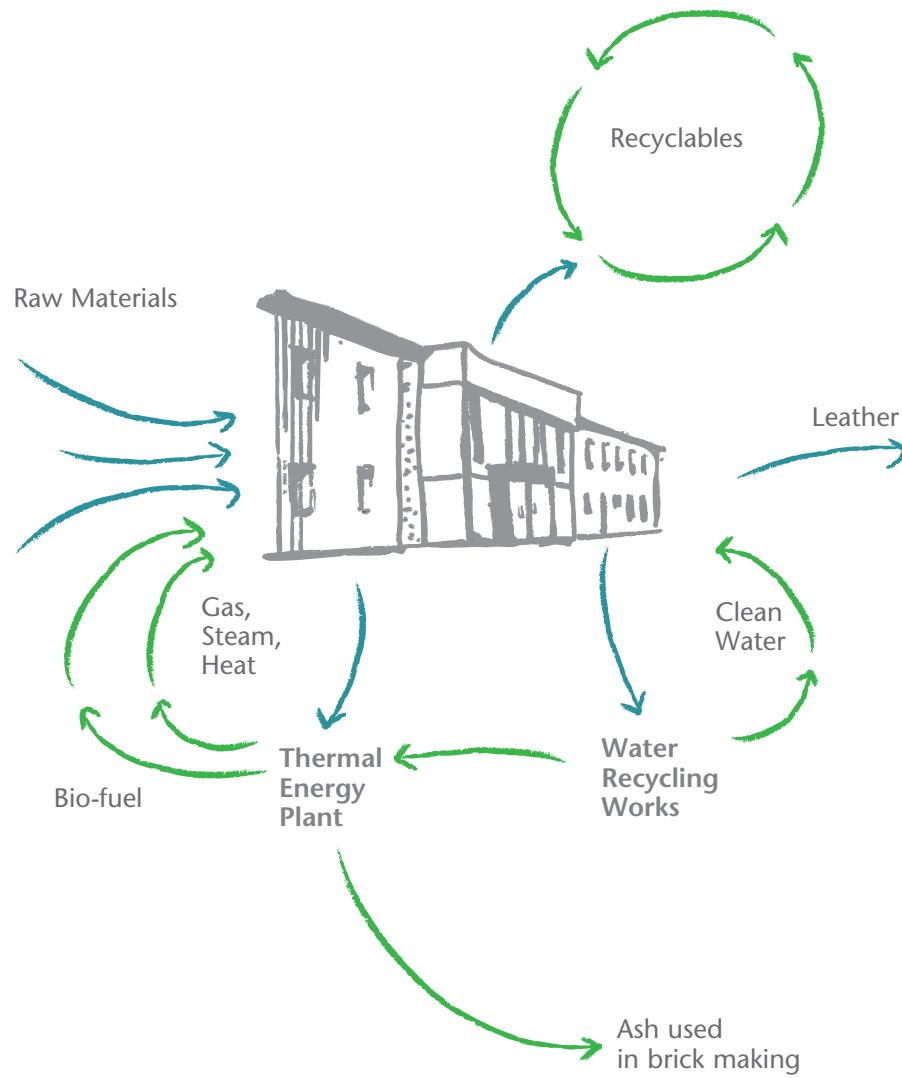


Water

We source water from both our privately managed and public supplies and use this efficiently to produce leather, consuming on average 42 litres per m² of hide. This compares with the European leather industry average consumption of 85 litres per m²*. The liquid effluent is currently discharged to licensed treatment plants, following extensive treatment at our own modern on site facilities. Following the investment in an ultra filtration plant at our Bridge of Weir site, as advised in last year's report, 30% of our process water used on that site is being recycled. In addition there was investment in our Paisley site last year with the installation of a new large storage tank that will facilitate increases in Lang's production capacity to support the group's future needs.

*Source: Data obtained from the Social and Environmental Report of the European Leather Industry published jointly by the Confederation of National Associations of Tanners and Dressers of the European Community (COTANCE) and the European Trade Union (industriAll-Europe).

Sustainable Leather Manufacturing and the Zero Waste Plan





Environmental Impact

The group recognised wasteful production processes of the industry as a whole and established a new way of thinking, i.e. to consider our process waste (cake, fleshings, hair, trimmings) as a raw material or resource.

We can become self-sufficient through this cyclical manufacturing approach and embrace the concept of sustainable manufacturing. We are already able to be entirely self-sufficient for heat from our own waste at our Bridge of Weir site.



Economic Sustainability

Businesses cannot be sustainable unless they prosper. Prosperity can be achieved if all the available resources are used to best advantage. Economic sustainability can then be measured on the ability to support a defined level of production indefinitely. The group must use its resources in a way that is both efficient and responsible, so that it can continue to operate over many years to come whilst consistently returning a profit.

In the Workplace

- A business cannot be sustainable unless it is competitive. Cost reduction, lower inventories, waste elimination and optimising productivity are all objectives within our ongoing manufacturing excellence programme.
- Building, plant and infrastructure maintenance and replacement are all functions that are essential for supporting a sustainable business. A preventative maintenance programme is in place throughout the group to ensure that our assets are always capable of delivering the necessary levels of production safely, efficiently and responsibly.

In the Marketplace

- To customers we promote and encourage the highest standards of ethical business practice when developing, selling and marketing products; customer satisfaction is assessed regularly; and education of our customer supply chain in our products and their performance is provided as an integral part of our business service.





Customer Satisfaction

Jaguar Land Rover Ltd

We use leather across our entire range of JLR products. It is a beautiful material that enhances the feeling of being in a very special car.

We have built up a relationship with Bridge of Weir over many years. We have mutual trust and understanding of each other's requirements, and that gives the very best results for our customers.

Jaguar Land Rover is committed to sustainable business growth and responding to the increasing global environmental and social challenges.

Bridge of Weir's self-sustaining leather manufacturing process helps to deliver this commitment by reducing environmental impacts, protecting the natural environment and adding value to society.

Siobhan Hughes

Creative Specialist, Colour & Materials - Jaguar Land Rover Ltd



Morgan Contract Furniture Ltd

We consider our relationship with Muirhead to be special. We always, uniquely among suppliers, try to use Muirhead leather and encourage our customers to consider switching to it. In our quiet way we are responsible for a great deal of specification and confirmation of customer confidence in the selection of Muirhead leather.

This reflects the exceptional service and quality we have enjoyed from Muirhead since I bought Morgan Furniture 22 years ago, and reflects our determination to develop and maintain long term relationships with the few suppliers in our industry that take a proper professional approach to supporting us.

We thank Muirhead for their support and hope we can build on our relationship for the future.

Rodney McMahon

Managing Director - Morgan Contract Furniture Ltd

Sustainable Procurement

Our sustainability procurement policy, which was implemented in 2013, has done much to achieve our sustainability objective by ensuring that our raw materials, goods and services are environmentally appropriate and ethically produced, whilst cost competitive. This procurement policy underpins our commitment to a lower carbon footprint, low road miles and fair trade.

The majority of our raw hides are purchased within the British Isles, direct from abattoirs for quality assurance, traceability and animal welfare assurance. Local sourcing supports British farming and beef industries. It also retains the revenue within our local economy, mitigates climate change and reduces “hide miles”. We can trace the chain of hide custody from raw hide to finished product.

For certain products, hides may be sourced from outside Europe, as directed by our customers. Most of these hides are semi processed in their country of origin to comply with national legislation. Our sustainable procurement and animal welfare policies have been communicated to our overseas suppliers and an auditing process is in place to ensure compliance.

Within the British Isles raw hides are purchased from suppliers who have adopted the Five Freedoms set of principles, drawn up by the Farm Animal Welfare Council, to encourage farmers to maintain practices that provide lifestyles which take into account the animals’ needs and natural behaviours. The selection of overseas hide suppliers will be based on the same criteria.

The environmental integrity of all our supply chains is being developed to strengthen our sustainability credentials and generate further reductions in our carbon footprint. Local sourcing is preferred where appropriate and sustainability requirements are considered as part of our criteria for supplier selection.





Social Sustainability

The obvious social role of business is job creation. We embrace social responsibility in conducting our daily business.

Corporate social responsibility is embedded within our wealth creation process and enhances the competitiveness of our business, benefiting our employees, their families, the local community and our stakeholders.

In the Workplace

Health and Safety

Scottish Leather Group is committed to ensuring the health, safety and welfare of all employees. A policy is in place and an annual report is published internally. The prevention of injury and illness to workers and others affected by work activities is fundamental to a fair and decent society. Accordingly our aim is to have an extremely safe working environment with zero accidents.

Human Resources

A sustainable business requires robust succession planning which recognises and develops talent at all levels. Our human resources strategy is fully aligned to our corporate vision, mission and values. The continuous improvement of skills, expertise, performance and leadership has been implemented at all levels within each of our companies. Our objective is to have well trained, motivated and engaged employees. The business recognises this is key to identifying and developing the next generation of talent and leadership to ensure the group's future prosperity.

Figure 5: Age Demographic.

This table highlights that we have a mix of age demographics, which complements our succession plan.

Age Range	Males	Females	Total
16 - 25	53	14	67
26 - 35	122	47	169
36 - 45	96	23	119
46 - 55	96	41	137
55+	70	18	88
Grand Total	437	143	580



Figure 6: Age and Gender Distribution.

The average age within Scottish Leather Group is 41. The highest concentration of employees (group wide), falls within the 26-35 category.





Figure 7: Length of Service.

Employee retention is essential to maintaining a healthy balance of youth and experience. Succession planning is an important company focus to ensure that vital knowledge and experience is passed on to new recruits and developing employees. Our Apprenticeship Academy is an example of this where 16-20 year olds benefit from knowledge transfer from more experienced workers. The chart highlights that over 31% of our employees have over ten years' experience with the company. This experience is vital for employee development as well as encouraging innovation and continuous improvement of our product offering.

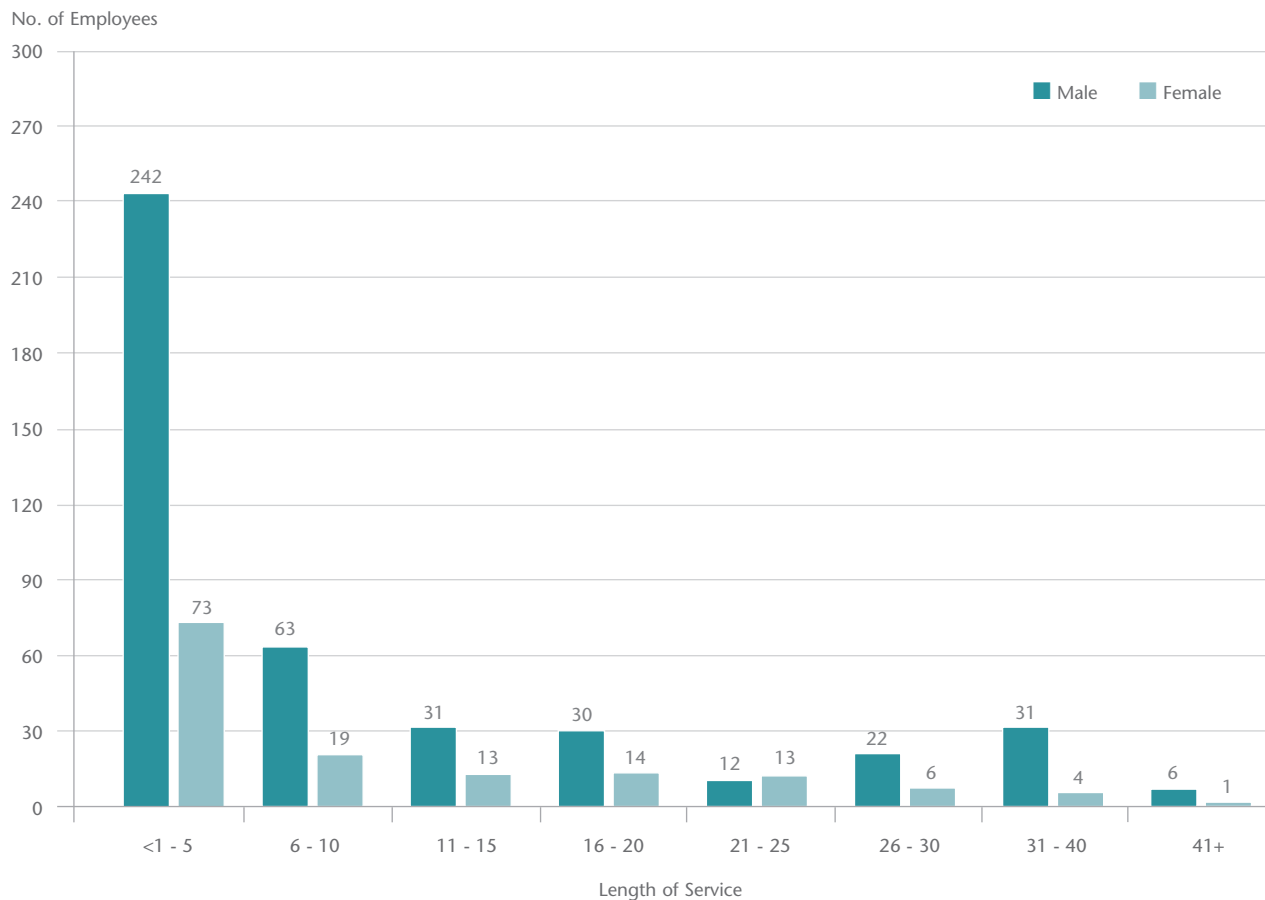
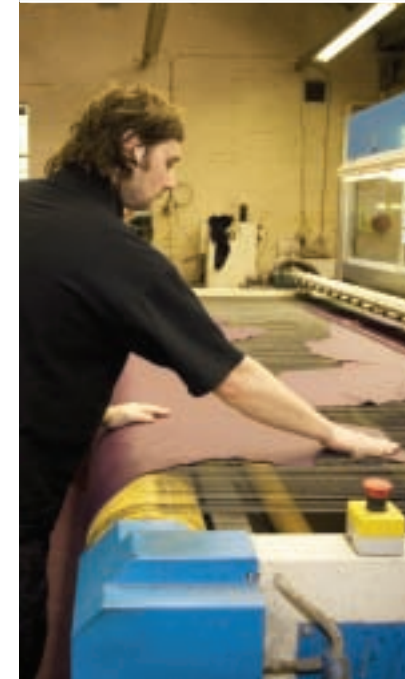
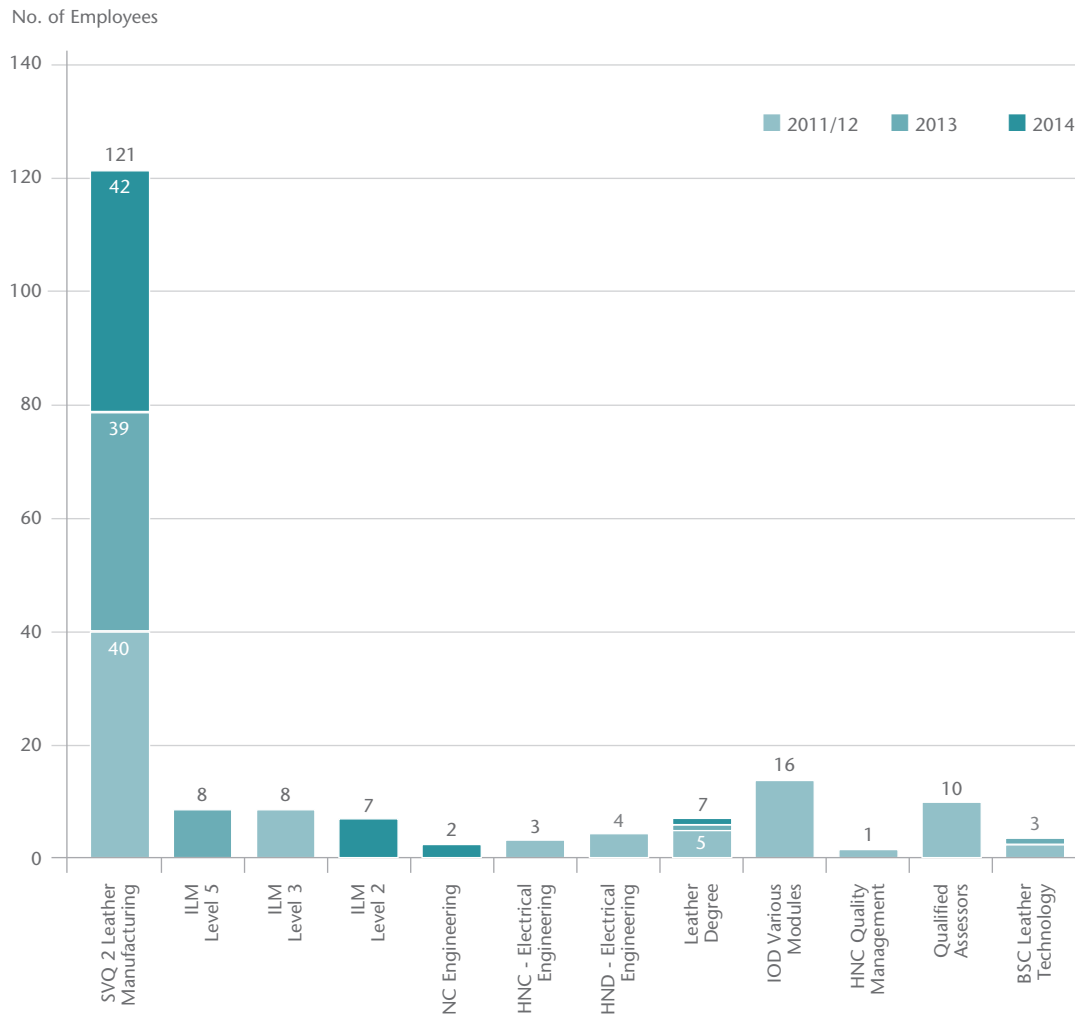


Figure 8: Learning and Development

Scottish Leather Group is committed to investing in its most valuable resource, its people. We have continued to focus on improving the skills of our workforce through a variety of blended learning and development interventions. Throughout the last year we have developed and implemented our SVQ 3 in Leather Manufacturing and also the introduction of an SVQ 2 in Business Administration.

The dedication to constantly create innovative learning and development interventions ensures that our employees have advanced technical knowledge of the leather industry. The table below shows cumulative figures of qualifications attained within the business between 2011 and 2014. These qualifications continue to complement the wide range of internal workshops that form part of our employees' continuous professional development. Developing our people continues to be a strong focus in the group and is what helps contribute to gaining a competitive advantage in a highly specialised industry.





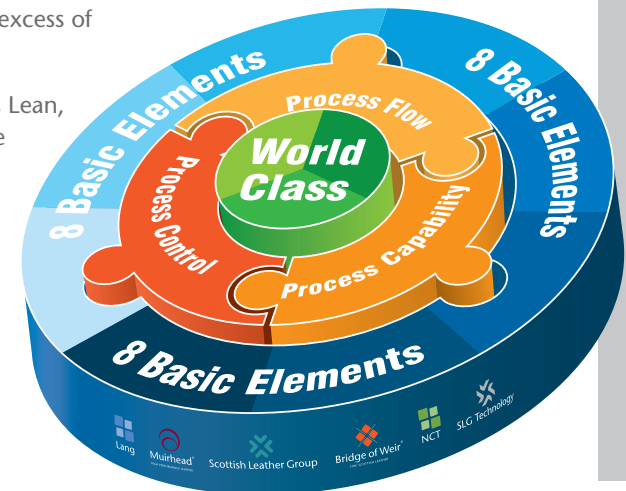
Operational Excellence

Scottish Leather Group continues to be committed to improving every day in all it does, as individuals and as teams, and as a business as a whole.

The group has continued to invest in continuous improvement activity with a number of successes over the last year.

- Changing the programme title to Operational Excellence, to reflect that excellence has to be across the whole business.
- Increasing the “know-how” & “know-why” of the workforce with respect to Excellence and Change, with 403 employees, including business MDs, participating in the Torch Game. The torch game is a manufacturing simulation that introduces the concepts of 5S, Lean, Change in a contextual way.
- Six Sigma Green Belt training completed for 18 staff, in partnership with Devro, increasing our strong customer links.
- Developed a tablet based common 5S Audit tool, that has seen 1,688 5S Audits completed across the business in the last year.
- Each business has developed a project pipeline that has clear line of sight between vision & mission, 2015 objectives and planned and actual activity, ensuring that resource applied to change projects is focussed and best used, objective being to “Do Change Well” and maximise benefits to the business.
- Completed projects have delivered bottom line benefits in excess of £200k, with more in the pipeline.

The group continues to use the continuous improvement tools Lean, Six Sigma, Kaizen, etc to deliver change, but the focus is to use them well in all areas of the business to build and utilise a common vision of excellence across the group.



Health and Safety

Benchmarking Reportable Accidents - Major and Over-Seven Day

- In the UK Manufacturing Sector in 2013/14 there were 3,159 reported major/specified injuries to employees. This equates to a rate of 120.8 per 100,000 employees.
- In the UK Manufacturing Sector in 2013/14 there were 10,436 reported over-seven day injuries to employees. This equates to a rate of 399.0 per 100,000 employees.
- In 2014 in Scottish Leather Group there were 0 reported major injuries to employees. This equates to a rate of 0 per 100,000 employees.
- In 2014 in Scottish Leather Group there were 5 reported over-seven day injuries to employees. This equates to a rate of 700 per 100,000 employees.

Figure 9: RIDDOR Reportable Accident Trend
12-month Rolling Average No. Reportable Accidents per Employee 2010-2014





Achievements

Environmental Award at EI Awards 2014

Scottish Leather Group was declared winner of the Environmental Award at the Energy Institute Awards 2014, sponsored by the Environment Agency. The award was presented to Warren Bowden, SLG Technology's Environmental Director, by Robert Light of the Environment Agency at a ceremony in London with broadcaster, Huw Edwards.

Manufacturing Leader Award at this year's Manufacturing Champions Awards

Operations Excellence Coordinator at NCT Leather won the Manufacturing Leader Award at the 2014 Manufacturing Champions Awards. Kirsty Wainwright, a bioscience graduate, was presented with the prestigious award after successfully championing the Operational Excellence programme at NCT Leather and W. J. & W. Lang tanneries.

Kirsty was presented with the award in Manchester, after beating other talented individuals from Coca Cola, Fujifilm, Jaguar Land Rover and BAE Systems Naval Ships.



In the Community

The group recognises the need to engage with the local community and the wider business community. We engage with a wide variety of organisations, including Community Councils, with whom we consult on a range of local issues.

The group is proud to support local charities and community initiatives, some of which are mentioned in the following pages. Our employees often work together with us to nominate local organisations and good causes to support.

Glasgow School of Art Leather Competition

Bridge of Weir has supported The Glasgow School of Art's GSA Fashion & Textiles Project, Leather Project 2014: Rework, Reinvent, Regenerate, by providing materials, mentoring and the opportunity for the winning student to attend 100% Design, London. Prize money was donated by The Incorporation of Skinners and Glovers of Glasgow.

The Fashion & Textiles students at the GSA were asked to revive, rework, revitalise, reinvent and regenerate leather for a range of applications to create economically efficient and innovative new products. Bridge of Weir supplied leather for the project in the form of scraps for experimentation purposes and ten full cowhides for the final pieces of work.

Susan Ross, design manager at Bridge of Weir, and a former GSA graduate, spoke to the year group at the beginning of the project to provide information about the leather industry. Susan also supported the students at the award judging by providing in-depth tailored feedback on each of the students work.

The winning student, Kirsty Lamont, joined Bridge of Weir at the 100% Design exhibition in September 2014 at Earls Court, London to display her winning design on the stand providing a special opportunity for her to network with key designers throughout the exhibition.

Drumsagard 99s FC Sponsorship

Muirhead is proud to sponsor local amateur football team, Drumsagard 99s coached by our very own Quality Manager, Stevie Connor.





Emirates Road Cycling Club

In 2014 Andrew Muirhead and Son sponsored new cycling jerseys for the Emirates Road Cycling Club (ERCC).

ERCC has been running for just over 6 months and already has more than 70 members who represent Emirates in a number of challenges all over the world, including the Spinneys Dubai 92 Cycle Challenge, the Yas Criterium, the Coast to Coast Challenge, the Cape Argus and the Tour of Cyprus.

Children's Play Park, Houston

Bridge of Weir Leather Company supported the improvements at Houston Play Park. Children now have access to a large basket swing, a roundabout and a zip slide. Also installed was a Rain Maker, Funky Mirrors and a Mezzo specifically for children with disabilities allowing children of all abilities to socialise and play together.



15 Muirhead staff complete 40-mile round bike trip in aid of Glasgow's With Kids Charity

Setting off from Bell's Bridge in Glasgow's city centre, the team of 15 cyclists completed the 40-mile round trip to Balloch, West Dunbartonshire and back in under 5 hours in aid of Dennistoun-based charity, 'With Kids'.

With Kids is a charity that is close to the hearts of those at Muirhead, as an organisation working tirelessly to improve lives and opportunities for a number of needy youngsters in the communities local to the Muirhead Dalrnock Leather Works.

Thanks to support from generous donations from friends and family and its sister companies within the Scottish Leather Group, Muirhead have so far managed to raise more than £4,680 in sponsorship for this very worthy cause, and, even though the cycle is now complete, Muirhead is aiming to raise a great deal more.



Our Sustainability Journey

Zero Waste Policy





A Sustainable Future

The group is making good progress towards its goal of sustainable manufacturing in its efforts to achieve zero waste and energy self sufficiency. We are motivated by the increasing cost of energy and carbon taxes, legislative requirements and the benefits of having an improved brand image as a result of achieving lower carbon emissions. Sustainability has been incorporated into our business strategy and decision making.

Whilst we have been able to demonstrate reductions in our footprint of 33% to date, the group will take the opportunity over the coming months to re-base the throughput of the thermal plant to bring this into line with increasing production. This growth will bring more waste and more energy demand. The new higher capacity plant will not be forthcoming until the latter part of the next year. However, we can report the routine recycling of 30% of site water demand using treated effluent from the ultrafiltration plant, before the target date of 2015.

These major investments have already provided greater robustness for our main manufacturing site and helped to insulate us from our infrastructure constraints, allowing the potential to reduce our footprint further. The conclusion to the life cycle assessment and carbon footprinting exercise, in which we are a key partner, will establish an industry wide standard and allow further demonstration of our performance against our peers.

There is pressure on manufacturing industry to improve its processes and other activities from an environmental and cost perspective. Therefore we must continue to look at new technologies and systems. However whilst such improvements must be financially feasible, they must also promote an even greener image, be compliant with increasingly tough legislation and meet the expectations of the local community.

Sustainability is not just about reducing the impact of our operations and being “green”; it is also a tool to drive innovation and improve business thus sustaining local employment for future generations and maintaining our proud heritage.



Scottish Leather Group



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