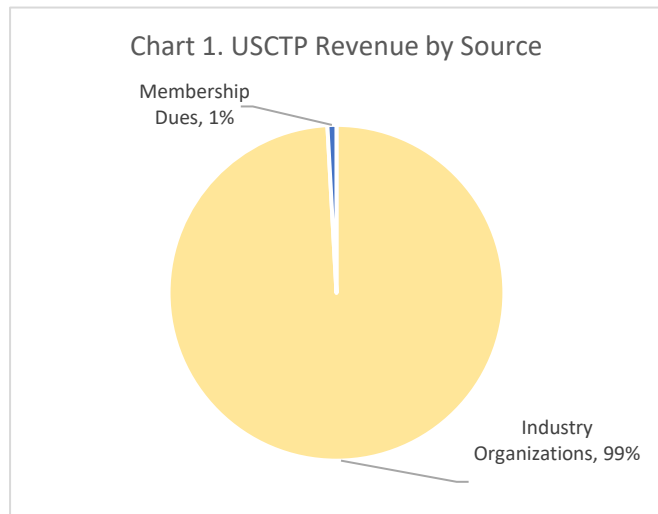


U.S. Cotton Trust Protocol Financial Overview for 2020

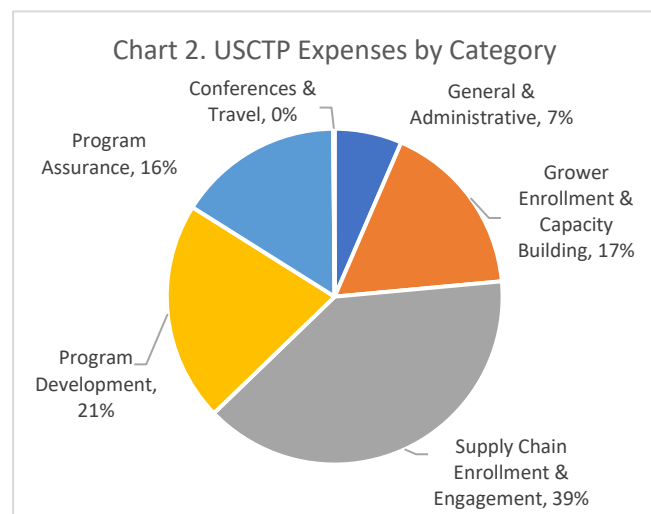
2020 represented a launch year for the U.S. Cotton Trust Protocol (USCTP) with certain components of the overall program being in a developmental or pilot phase. As a result, initial membership dues represented only 1 percent of the total revenue for 2020 (Chart 1). Being a collaborative effort of the U.S. cotton industry, essentially all activities of the Trust Protocol were funded through support provided by the National Cotton Council, Cotton Council International, Cotton Incorporated, and the Cotton Board.

Industry support was comprised of direct contributions to the Trust Protocol, funding of outside sustainability consultants, contracts with a global communication company, IT development support, and in-kind staffing resources. As many as fifty staff from the four organizations contributed a portion of their time to the development and promotion of the Trust Protocol. While the cotton industry organizations will continue to provide support for the near term, membership dues and consumption fees are expected to emerge as the primary sources of revenue for the program.



Trust Protocol expenses are allocated across six primary activities: Grower Enrollment & Capacity Building; Supply Chain Enrollment & Engagement; Program Development; Program Assurance; Conferences & Travel; and General & Administrative. Promotion, engagement, and enrollment with textile supply chain companies – from yarn spinners to brands/retailers – constituted 39% of total expenses (Chart 2). Another 17% of expenses were devoted to outreach and enrollment of U.S. cotton producers. As a result, more than one-half of 2020 expenses were devoted to raising awareness about the program and enrolling new members.

21% of Trust Protocol expenses were devoted to program development activities, including IT developments to the Trust



Protocol's web-based platform. Activities related to program assurance comprised 16% of total expenses. Among the items captured in this category are expenses for independent third-party verification of participating producers, quality control and aggregation of producer data, and interactions/alignment with global sustainability initiatives. General overhead and administration of the Trust Protocol accounted for 7% of total expenses, while expenses related to conferences and travel accounted for less than one-half of 1% of the total. In future years, conference and travel expenses are expected to constitute a larger percentage of the overall budget as travel and in-person conferences resume.

In 2021, the composition of income will be very similar to 2020 as the influx of membership fees are not expected until the beginning of calendar 2022. At that time, it is anticipated that the Protocol Consumption Management Solution – the platform that allows brands to track the use of Protocol Cotton through the supply chain – will be fully operational. Overall expenses are also falling in line with the 2020 breakdown. In-person meetings and travel remain limited due to COVID restrictions.

Over a 3 to 5-year time horizon, operations of the Trust Protocol will be increasingly funded by membership dues and cotton consumption fees. For planning purposes, it is estimated that membership dues will provide 25-30% of overall revenue, with consumption fees constituting another 50-60%. Industry support and foundation grants will comprise the remaining income for the Trust Protocol.