# ENVIRONMENTAL PROFIT & LOSS (EP&L)

2018 GROUP RESULTS

KERING

# WHAT IS AN EP&L?

An Environmental Profit and Loss (EP&L) account is a business management tool providing an in depth analysis of the resulting impacts a company's activities have on the environment, which also helps decision makers consider this valuable information alongside traditional financial metrics. Kering's pioneering EP&L measures and values in economic terms the environmental impacts across our own operations and entire supply chain.

In doing so it helps us:

- Translate environmental impacts into a language business understands;
- Compare between different types of impact;
- Facilitates comparison between brands and business units.

As a result we can:

- Identify the most significant drivers of impacts in our business;
- Understand the impact of every day decisions;
- Develop more robust business policies to address the risks and opportunities presented by environmental challenges;
- Implement targeted projects concerning choice of materials, or development of new manufacturing processes, for example;
- Monitor progress of our sustainability strategy, while forecasting and preparing for the future;
- Be transparent with our stakeholders.

For more details on our EP&L methodology, see our Methodology paper[1].

# OUR 2018 EP&L RESULTS

Since 2012 we have been measuring and monitoring our progress in becoming more sustainable as a Group using the Environmental Profit & Loss (EP&L) account. As we continue to integrate our EP&L findings into our day-to-day operational decisions and strategy overall, we have seen positive results and also recognize its inherent value to help inform our product design, sourcing decisions, manufacturing research and development. To leverage it further, we have continued to enhance our EP&L coverage and scope of our supply chain which is due to improved data collections and analysis methods. We have also made technical advancements through a new cloud based analytics and reporting tool that is now core to the EP&L annual rollout and analysis. Our ambition is to ensure that the EP&L is "best in class" and we will continue to drive further enhancements in the upcoming years and open source our progress.

Another aspect of adaptation has been a shift to focus our EP&L analysis and results as related to our luxury brands. This is mainly due to the natural alignment of our EP&L use with the recent profile of the Group as a Luxury pure player and our sustainability strategy. Kering's sustainability strategy, "Crafting Tomorrow's Luxury", is a 360° approach within our own operations and throughout the supply chain, whereby we are continuing to reduce our environmental impacts, advocating social welfare inside and outside the Group, and creating innovative, game-changing platforms. Within the strategy we outlined quantifiable targets to reach by 2025, under the three themes of **CARE**, **COLLABORATE** and **CREATE**. As an example, a cornerstone of CARE is the target to reduce our EP&L footprint by 40% across our supply chain by 2025 and relative to our growth, using a 2015 baseline.

**KERING'S 2018 GROUP EP&L, IS ESTIMATED TO BE €514M. THIS REPRESENTS AN 12% INCREASE ON A PRO FORMA BASIS, BUT A REDUCTION OF 12% RELATIVE TO GROWTH AND COMPARED TO 2017**.

This reflects the efficacy of the Group's sustainability efforts, which has a key focus on responsible sourcing policies and improving the environmental efficiency of our industrial processes while seeking optimum management of sites and activities. When analyzing the bigger picture of the Group EP&L results, we see that we are on track on our reduction pathway to our 40% EP&L 2025 target in our own operations and across the supply chain, **achieving a 14% reduction in our EP&L intensity between 2015 and 2018.**

1 Kering 2013 Environmental Profit and Loss
http://www.kering.com/sites/default/files/document/kering_epl_methodology_and_2013_group_results_0.pdf

# UNDERSTANDING UPDATES TO THE METHODOLOGY FOR 2018

This year we have made improvements to our EP&L methodology and the quality of the data that underpins it, such as including data that reflects restorative farming practices, the impact of sourcing cellulose-based fibers from key locations and recycled palladium. Within the results presented in this document, we have applied all the improvements retrospectively to the 2015, 2016 and 2017 Group EP&L results and adapted them to reflect the focus on luxury to ensure comparability between years.

# LAND USE VALUATION

Convinced of the positive impact regenerative agriculture can have in the fashion industry, Kering announced a new collaboration as a first in luxury and fashion in 2018. Partnered with the Savory Institute under Savory's Land to Market ™ program[2], Kering is advocating verified regenerative sourcing solutions and helping to expand the regenerative agriculture framework in fashion's global supply chains.

Through its use of agricultural raw materials, the fashion industry and its supply chains are directly linked to the degradation of soil, conversion of natural ecosystems and biodiversity loss. Regenerative agriculture can protect and reverse this environmental degradation, including restoring healthy soil, which removes $CO_2$ from the atmosphere and acts as a carbon sink for mitigating climate change. The inclusion of regenerative raw materials is also one of the three key principles to building a circular economy in fashion.

To reflect the positive contribution of agricultural regenerative practices, the EP&L methodology has been adapted, especially through the way land use impacts are estimated.

To estimate the land use impact of different processes we consider ecosystem service provision. Ecosystem services are benefits that society gains from an ecosystem: including provision of food, flood control and climate regulation.

When land is utilized for business – such as growing crops, raising livestock or mining – the biodiversity, biomass and soil health of the land area is reduced. This tends to result in loss (partial or full) of ecosystem services that would be available to society otherwise. For example, intensively farmed soil is not as effective at retaining water as pristine soil, meaning that flooding is more likely, and the societal benefit of natural flood control is reduced.

To estimate the ecosystem service loss of each type of land use for the EP&L we use three indicators: above ground biomass, species richness and soil organic carbon (SOC). SOC levels are a strong indicator of soil health: soils with higher organic carbon levels are more fertile and are able to hold much more water than soils with lower organic carbon levels. Globally, good soil health is crucial for climate change control and food security. The disturbance of soil through farming and land management can result in significant reduction in SOC.

Including SOC in our approach for valuing land use impacts gives us the ability to differentiate between the impact on ecosystem services of conventional, organic and regenerative farming practices. Because farmers working to be more sustainable take steps to minimize chemical use and/or physical disturbance of the soil, the impact they have on SOC is often lower than intensive, conventional methods. Including SOC means we can recognize the land use benefits of using organic and regenerative practices for our plant and animal fibers requirements. The overleaf shows the range in ecosystem services and EP&L impact savings for materials examples relative to conventional practices.

2 https://www.kering.com/en/news/savory-institute-collaborate-first-verified-regenerative-sourcing-in-fashion

**TABLE 1**: EP&L IMPACT SAVINGS RELATIVE TO CONVENTIONAL PRACTICES

| MATERIAL | AVERAGE PERCENTAGE SAVING RELATIVE TO CONVENTIONAL PRACTICES[3] | € EP&L SAVINGS RELATIVE TO SOURCING MATERIAL FROM CONVENTIONAL PRACTICES |
|---|---|---|
| **WOOL – RESTORATIVE GRAZING** | 9% | €2k |
| **CASHMERE – RESTORATIVE GRAZING** | 23% | €112k |

This new type of analysis will greatly benefit our understanding when accessing prospective supply partners and sourcing practices, which will ultimately help us reach our sustainability targets. We hope these improvements will also help define sourcing best practices and sustainability measurement for luxury.

## SPOTLIGHT: DIGITAL EP&L, OPEN DATA AND HACKATHON

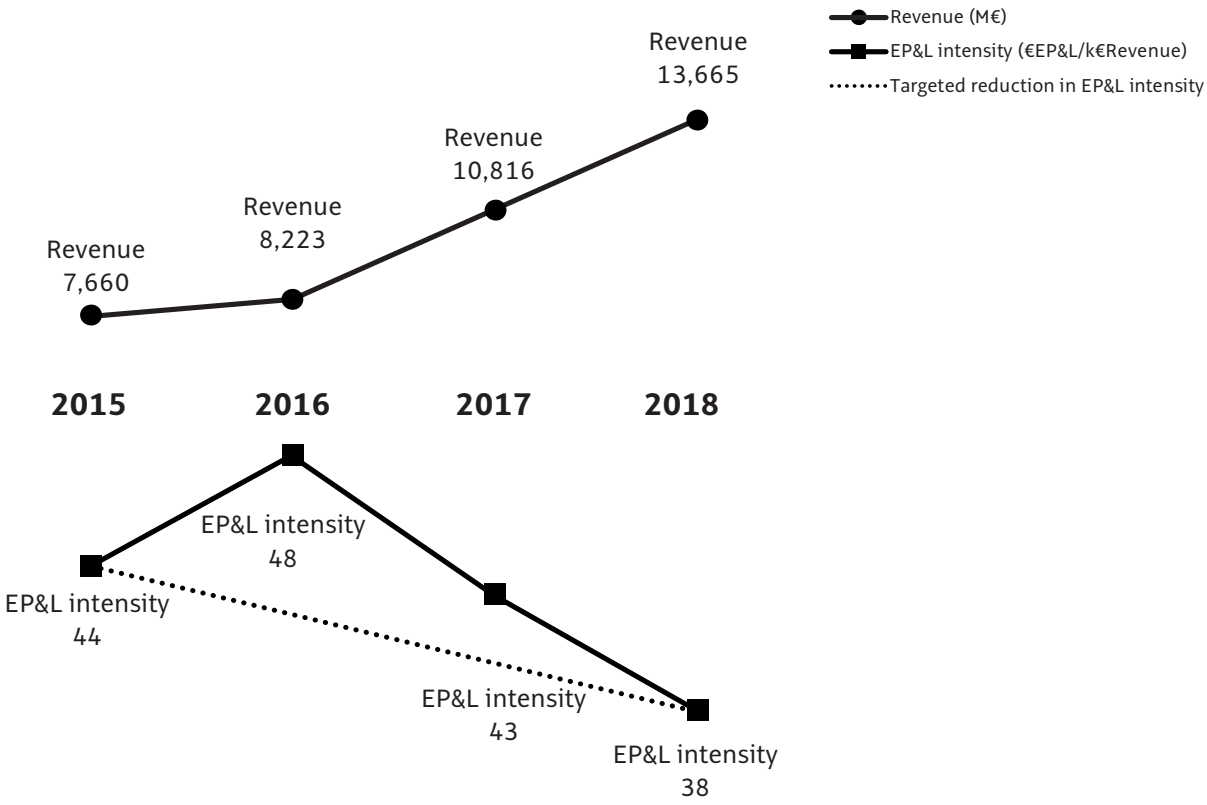
When releasing our first EP&L, Kering committed to open source the EP&L methodology and influence other stakeholders towards natural capital accounting practices. In 2019, linked to the 2018 Group EP&L results, Kering made a major step forward in open sourcing our approach thanks to a dedicated digital EP&L platform. To mark World Environment Day on 5 June, Kering launched an open source platform allowing everyone to access an interactive version of our EP&L results. Through the new digital EP&L platform, the underlying aggregated EP&L data sets have also been shared, including the Environmental Key Performance Indicators (EKPIs). This level of transparency allows unprecedented access to information about the relationship between business and the natural resources business relies on. Consequently, Kering's stakeholders will have greater understanding of our impacts and supply chain resiliency. Furthermore, the data sets provide enough details to enable other luxury and fashion players to initiate their own EP&L analysis and begin their natural capital accounting journey, which will offer critical new insights into their business and a pathway to mitigate their footprint.

Building on this digital EP&L platform, Kering will leverage the EP&L data sets by organizing a 48-hour Hackathon in October 2019. This event will gather developers, students, tech and sustainability experts, as well as Kering representatives, in order to create a new generation of Apps and other digital solutions that will provide transparency around fashion's footprint. A jury will select the top three initiatives and winners will be awarded monetary prizes. Furthermore, the best solution(s) identified during this Hackathon will be incubated and their development will be financed by Kering with the goal to use it within the Group and to share it more widely with the luxury and fashion industry.

3 These percentages include differences in diet and ecosystem service provision found in restorative systems

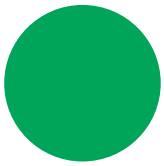
# UNDERSTANDING OUR 2018 EP&L RESULTS

**FIGURE 1:** EVOLUTION OF THE EP&L IMPACTS RELATIVE TO REVENUE




**Revenue:** € million
**EP&L Intensity:** € EP&L per €1,000 revenue (Intensities based on EP&L results calculated using the 2018 methodology)
**Targeted reduction in EP&L intensity**: We have targeted a 40% reduction in our EP&L intensity by 2025, with a 2015 baseline. This trajectory is shown in the chart and leads to an EP&L intensity of 27 (€EP&L/k€CA) in 2025. This reflects we are on target to reach our reduction ambitions.

**FIGURE 2:** EP&L IMPACTS ACROSS SUPPLY CHAIN TIERS SPLIT BY IMPACT AREA

| | TIER 0: STORES, WAREHOUSES, OFFICES | TIER 1: ASSEMBLY | TIER 2: MANUFACTURING | TIER 3: RAW MATERIAL PROCESSING | TIER 4: RAW MATERIAL PRODUCTION | TOTAL IN MILLIONS: |
|---|---|---|---|---|---|---|
| AIR EMISSIONS |  |  |  |  |  | **7%** €36.4 |
| GHGs |  |  |  |  |  | **34%** €174 |
| LAND USE |  |  |  |  |  | **32%** €162.6 |
| WASTE |  |  |  |  |  | **6%** €31.7 |
| WATER CONSUMPTION |  |  |  |  |  | **7%** €38.5 |
| WATER POLLUTION |  |  |  |  |  | **14%** €71.1 |
| TOTAL IN MILLIONS: | 11% €58.7 | 6% €29.4 | 9% €48.3 | 10% €51.8 | 63% €326.1 | **100%** €514.3 |

# DISTRIBUTION OF IMPACTS ACROSS THE SUPPLY CHAIN

Figure 3 shows our impacts across our supply chain. We see that the most significant impacts are generated in the supply chain (89%), and in particular from the production and processing of raw materials that together represent 73% of the total. Our own operations represent only 11% of the impacts. Indeed, leveraging changes across the supply chain is a long-term process and in many cases will not yield immediate results. However, with this knowledge gained from the EP&L we have shifted our efforts and we are creating programs to promote sustainable best practices and innovating in our supply chain. Furthermore, since the supply chain is difficult to influence as one Group alone, we are collaborating with our peers, and across sectors, to drive positive change.

Amongst the raw materials we use, leather continues to be the major driver of impacts, followed by animal fibers, such as wool and cashmere, and metals, such as brass and gold. These last two material categories offer significant possibilities to leverage impact reduction and change. Proactively making small-scale changes in sourcing options, such as replacing materials with recycled alternatives, can result in real EP&L savings (Figure 3).

**FIGURE 3:** EP&L CONTRIBUTION OF MAJOR GROUPS OF RAW MATERIALS AND QUANTITY OF CONSUMPTION

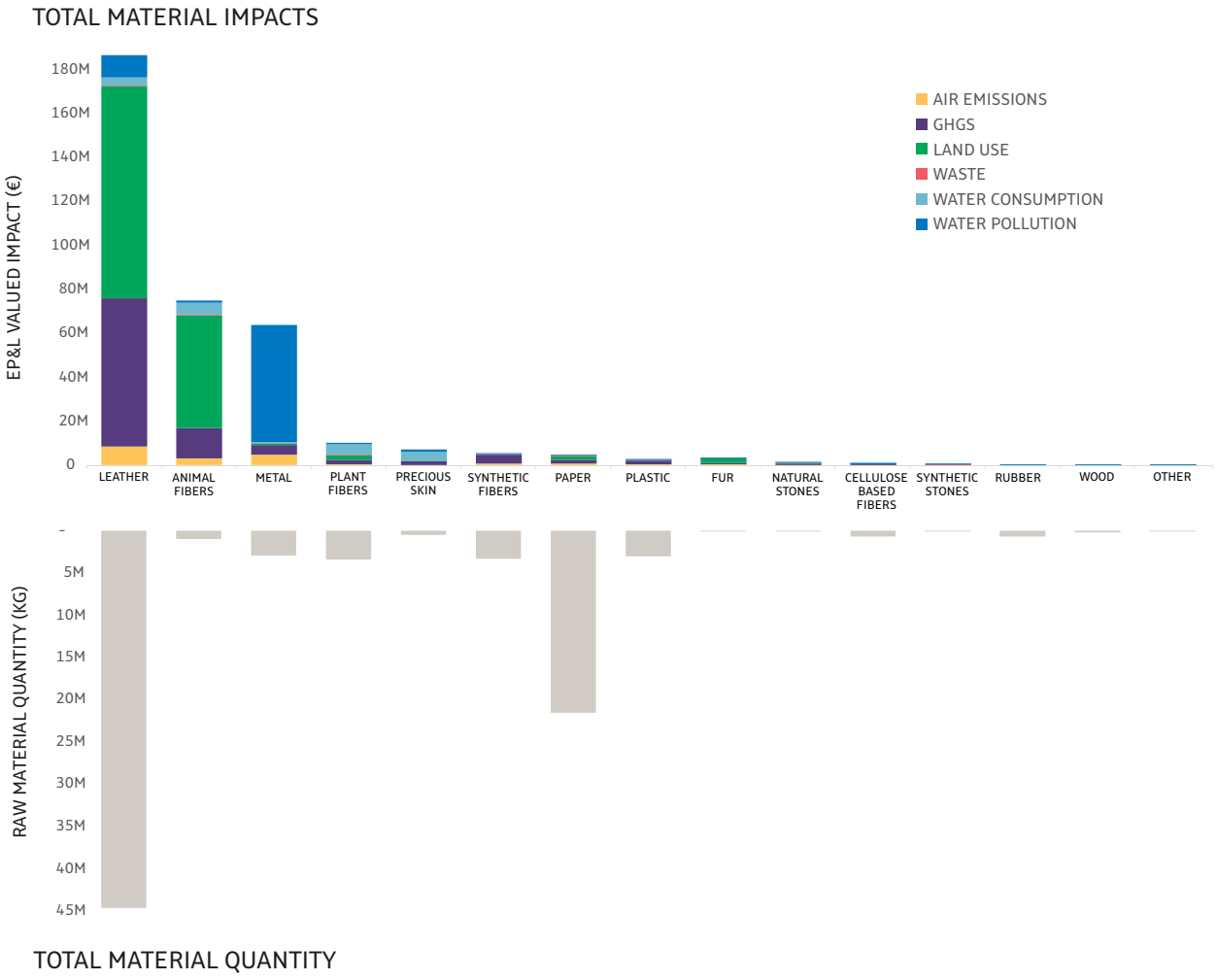
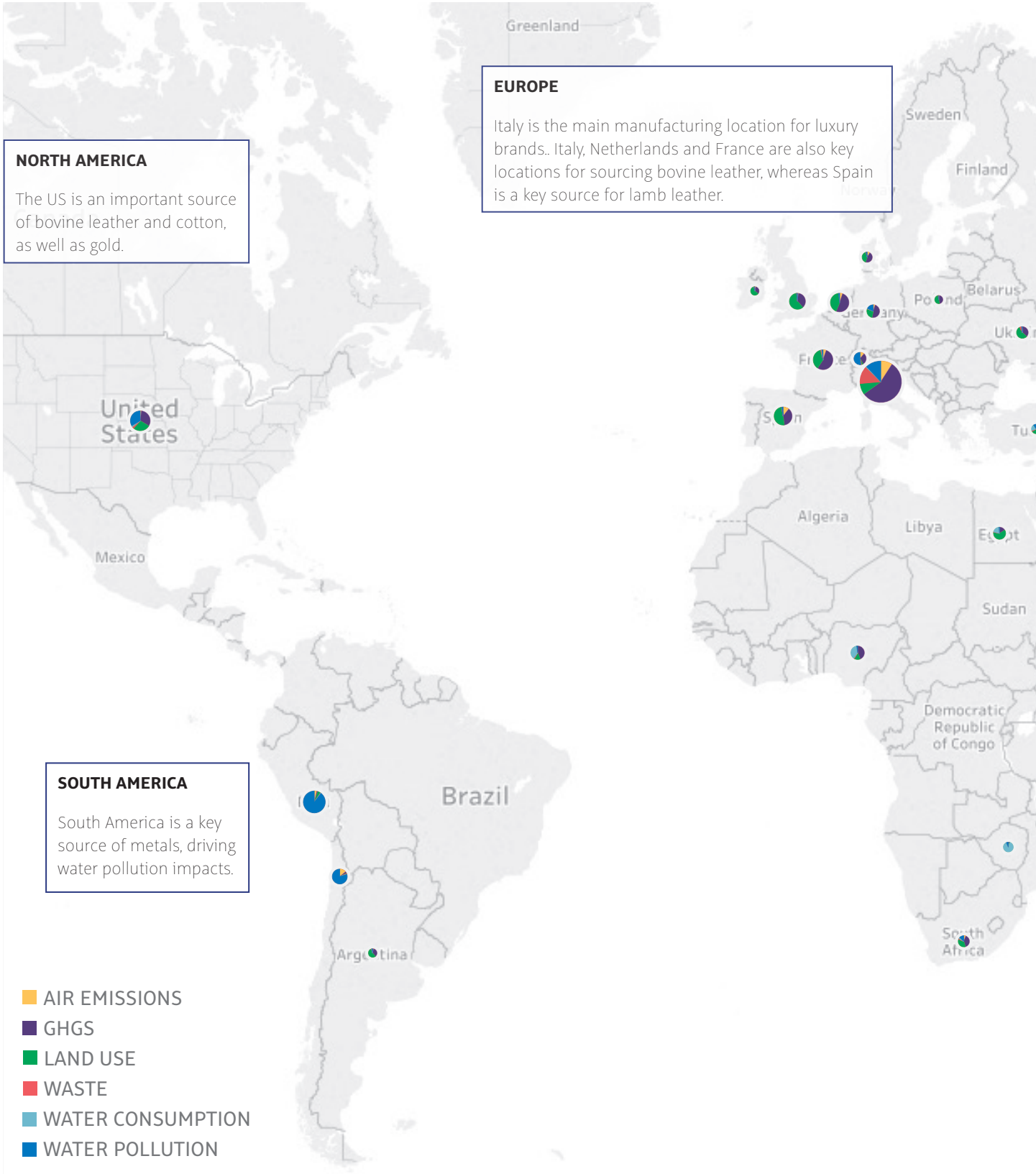
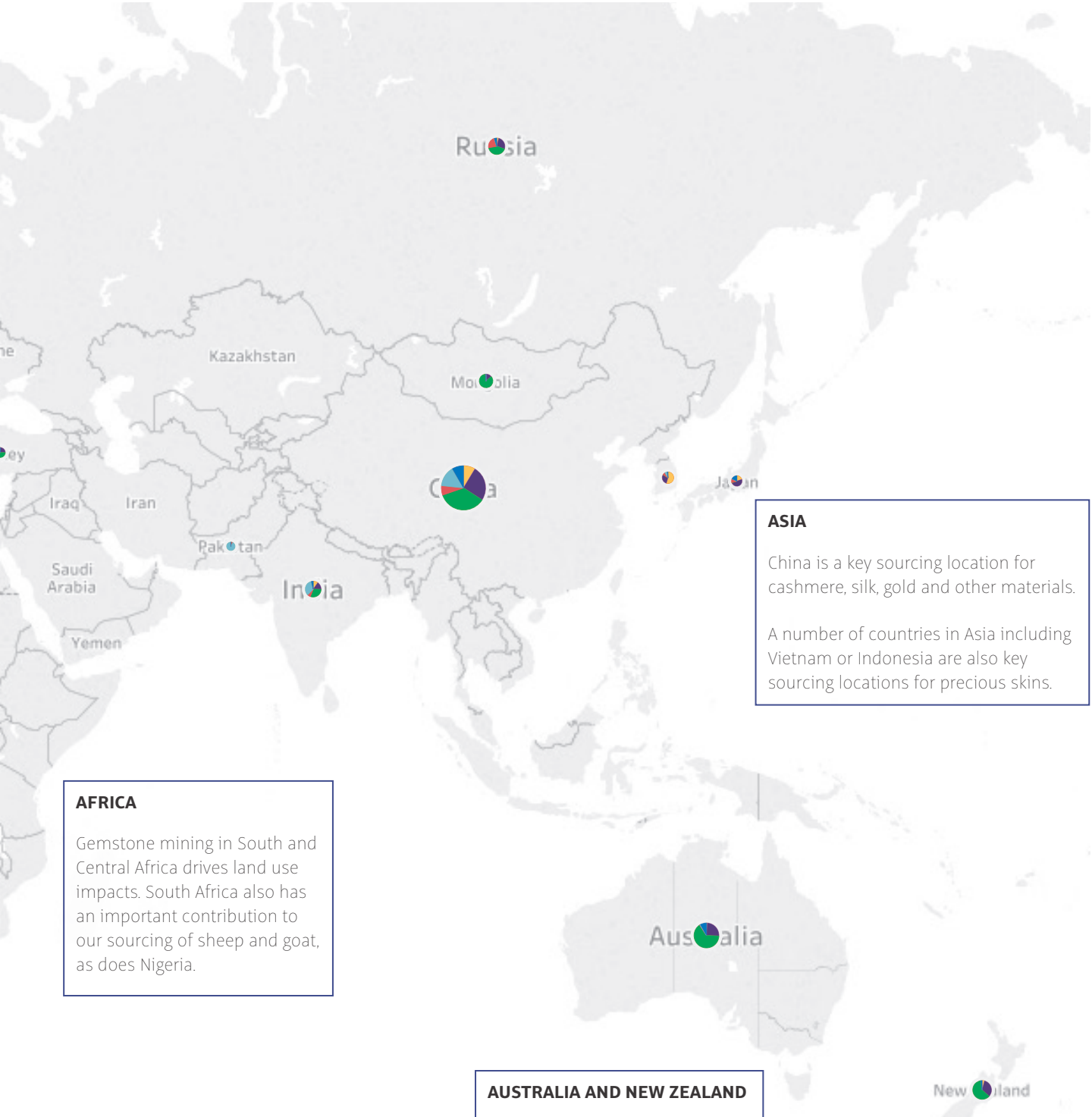


**FIGURE 4:** MAP OF IMPACTS AND KEY DRIVERS






**ASIA**

China is a key sourcing location for cashmere, silk, gold and other materials.

A number of countries in Asia including Vietnam or Indonesia are also key sourcing locations for precious skins.

**AFRICA**

Gemstone mining in South and Central Africa drives land use impacts. South Africa also has an important contribution to our sourcing of sheep and goat, as does Nigeria.

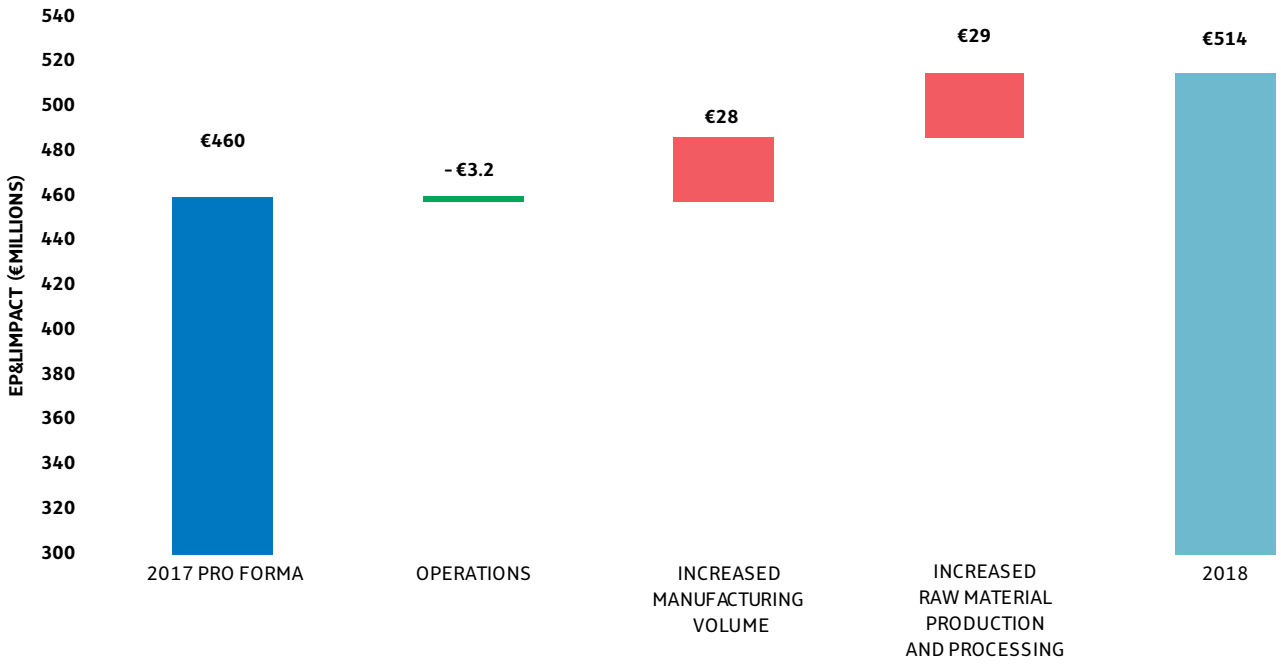
**AUSTRALIA AND NEW ZEALAND**

Australia and New Zealand are key sourcing locations for wool and sheep leather, driving land use and GHG impacts.

## UNDERSTANDING 2018 VS 2017

Figure 5 shows the main drivers of change between 2018 and 2017[4]. The perceived increase is due to the growth of the business and subsequent greater raw materials purchasing and provisioning, which also led to increased manufacturing impacts. Given this, we were nevertheless able to show a reduction from our own operations thanks to renewable energy use and energy efficiency programs across our stores, offices and warehouses. Although there was an increase on a pro forma basis, there was a reduction of 12% relative to this growth and compared to 2017. This reflects the efficacy of the Group's sustainability efforts in its supply chains as well.

**FIGURE 5:** 2018 EP&L RESULTS, SHOWING RELATIVE INFLUENCES OF CHANGES SINCE 2017 PRO FORMA RESULTS




4 There have been updates to the scope, methodology and input data since the 2017 Group EP&L analysis

**TABLE 2:** DESCRIPTION OF THE MAIN DRIVERS OF CHANGE BETWEEN 2017 AND 2016 PRO FORMA RESULTS

| TYPE OF ACTIVITY | CHANGE | REASON FOR CHANGE |
|---|---|---|
| **OPERATIONS** | **-€3.2MILLION** | Increase in renewable energy use and energy efficiency programs across stores, offices and warehouse. |
| **MANUFACTURING** | **+€28.1MILLION** | Significant increase in production volumes compared to 2017. |
| **RAW MATERIALS PRODUCTION AND PROCESSING** | **+€29.1MILLION** | Major growth of business supported by increase in raw materials purchase volumes compared to 2017 |

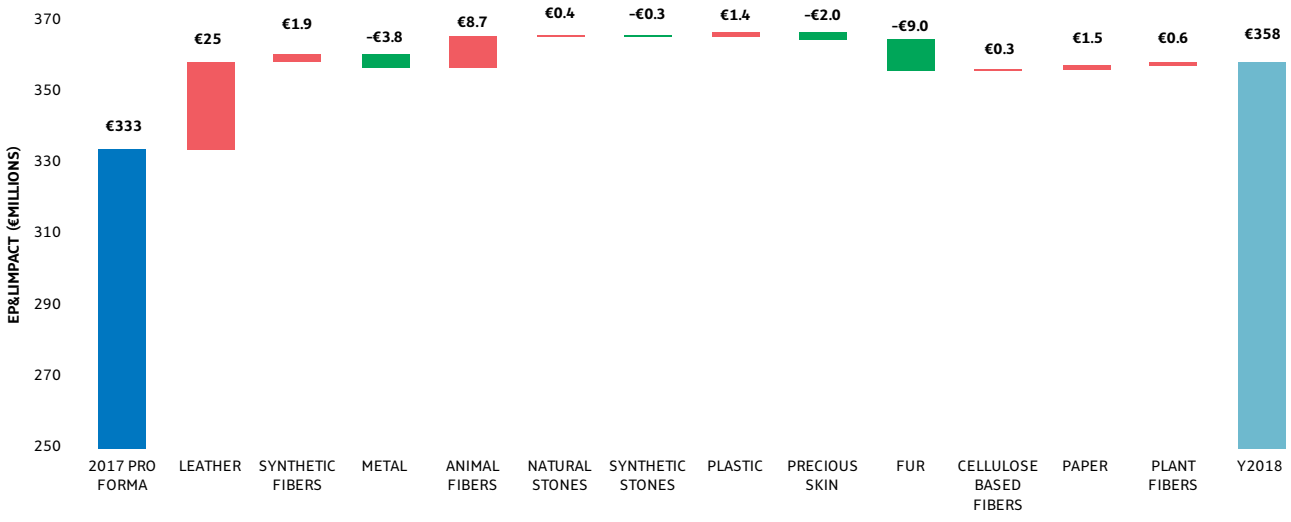
A key priority underlining our 2025 Sustainability Strategy continues to be focused on reducing the impacts of the raw materials we use in our products. To support our efforts, we launched our Kering Standards for Raw Materials and Manufacturing Processes in January 2018. An updated and more comprehensive version of these Kering Standard was released in January 2019 and are publicly available on the Kering website. They are the fruit of several years' research, both internally and in collaboration with external experts and NGOs, and founded on internationally recognized principles and research. Where no regulations existed, Kering defined sustainability standards of our own that set the bar high and are applicable across the luxury sector. Since 2018, we have been assessing all new suppliers for adherence and also working with current suppliers who have challenges in meeting the criteria within these sustainability requirements, in order to make this transition together.

Due to a major increase in production volumes as a consequence of business growth, the impact associated with the use of raw materials (Figure 6) shows that our impact has increased. Even so, we have seen a reduction in key raw materials, such as metals, which is a testament to our continual efforts to embed responsible sourcing approaches, such as the Kering responsible gold platform and a greater adoption of circular economy principles through the increased use of recycled metals.

The impact of fur has also significantly reduced as a consequence of the commitment from the Group on animal welfare[5] and further commitments of the brands, such as Gucci to stop using fur.

Additionally, our continuous effort towards regenerative practices across our leather supply chains and the new partnership we set-up with the Savory Institute will be a key asset in reducing our environmental impacts linked to the use of leather as well as animal based fibers and will create positive outcomes in terms of supporting healthy soil, carbon emission mitigation and biodiversity conservation.

**FIGURE 6**: A CLOSER LOOK AT CHANGES IN RAW MATERIAL IMPACTS IN THE SUPPLY CHAIN SINCE 2017 PRO FORMA RESULT




5 See the new Kering Animal Welfare Standards: https://keringcorporate.dam.kering.com/m/163ccd09fe07f9ab/original/Kering-Animal-Welfare-Standards.pdf

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This report is prepared in accordance
with the Natural Capital Protocol

# DISCLAIMER

The Environmental Profit & Loss (EP&L) account issued by Kering is the product of a methodology developed by Kering to measure the impact of an economic activity on the environment, applying financial metrics. The EP&L is one among other manifestations of Kering's commitment to protect the environment and leadership in sustainability. As such, Kering aims to share the methodology and tool hereby published with the general business community so as to make sure they will be improved and benefit to other actors in their own efforts to minimise the impact of their own industrial and economic activities on the environment.

Because of its nature the EP&L cannot achieve the accuracy of financial results nor can it be subjected to financial audits. For any financial information about Kering, readers should refer to Kering's Reference Document (document de reference) and other published information (regulated information disclosed as such).

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