

ENVIRONMENTAL
PROFIT & LOSS
(EP&L)

2017 GROUP RESULTS



K E R I N G



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 the 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;

OUR 2017 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. This trend of evolving the EP&L since its inception has often lead to "masking" the year on year comparative improvements in our EP&L performance, but as pioneers in natural capital accounting and reporting it is a normal aspect of innovation. 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 our sustainability strategy and, accordingly, we updated the Group EP&L scope following the launch of "Crafting Tomorrow's Luxury" across our luxury brands² last year³. As the next phase of our sustainability strategy, it is a 360° approach within our own operations and throughout the supply chain, whereby

- 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 2013 Group EP&L report.¹

we are continuing to reduce our environmental impacts, advocating social welfare inside and outside the Group, and creating innovative, game-changing platforms. Within the new strategy we included 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.

FOR THE FIRST TIME, KERING IS PRESENTING IN THIS REPORT OUR EP&L IMPACTS AS A LUXURY PURE PLAYER AND WILL BE SHOWING OUR PROGRESS AGAINST OUR 2025 TARGETS ONGOING. OUR CURRENT 2017 GROUP EP&L, IS ESTIMATED TO BE € 482M. THIS REPRESENTS AN 18% INCREASE ON A PRO FORMA BASIS, BUT A REDUCTION OF 10% RELATIVE TO GROWTH AND COMPARED TO 2016.

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.

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

² Kering brands and scope of EP&L as of December 31, 2017: Gucci, Bottega Veneta, Saint Laurent, Alexander McQueen, Balenciaga, Brioni, Christopher Kane, McQ, Stella McCartney, Boucheron, Dodo, Girard-Perregaux, Pomellato, Qeelin, Ulysse Nardin and Kering Eyewear.

³ http://www.kering.com/sites/default/files/press_release/press_release_-_2025_sustainability_strategy_-_25_01_2017_0.pdf

UNDERSTANDING UPDATES TO THE METHODOLOGY FOR 2017

This year we have made improvements to our EP&L methodology and the quality of the data that underpins it, such as aligning conversion factors with the EU Product Environmental Footprint guidance and updating our environmental valuation methodologies. In the results presented in this document, we have applied all the improvements retrospectively to the 2015 and 2016 Group EP&L results and adapted them to reflect the focus on luxury to ensure comparability between years.

INCORPORATING INFORMATION FROM THE EUROPEAN COMMISSION PRODUCT ENVIRONMENTAL FOOTPRINT INITIATIVE

In the context of its Single Market for Green Products initiative⁴, the European Commission established a method to measure environmental performance throughout the lifecycle, the Product Environmental Footprint (PEF). An extensive stakeholders' consultation has led to the development of Product Environmental Footprint Category Rules (PEFCRS) for specific categories of products, including leather products.

Kering is committed to utilize the most up to date sources of information and therefore we have decided to build on the European Commission work and update the relevant conversion factors used for our EP&L in 2017. These conversion factors have been determined through the Leather Product Environmental Footprint Category Rules, based on data provided by key stakeholders of the leather industry. Moreover, these conversion factors closely reflect an extensive data collection conducted across more than 30 tanneries all based in Italy.

This leather metric is the recognized leather industry standard in Italy and specific to luxury. The analysis thus captures the intrinsic relationship between fashion and climate change, and will enable better decision-making and provide the ability to create targeted reduction initiatives. Ultimately, this also allows us to be more precise in the way the EP&L assesses the quantity of leather used and reinforces the level of confidence we have in our EP&L results overall.

TABLE 1: PEF CONVERSION FACTORS

TYPE OF ANIMAL	KG RAW HIDES/M ² FINISHED LEATHER
BOVINE	7.41
CALF	5.74
CAPRINE	2.42
OVINE	3.06

⁴ <http://ec.europa.eu/environment/eusssd/smgp/index.htm>

⁵ <http://www.usetox.org/>

⁶ <https://data.worldbank.org/indicator/NY.GDP.DEFL.ZS>

ENVIRONMENTAL IMPACT AND VALUATION

Putting a value on environmental impacts is an evolving area and we have continued to work with natural capital accounting experts to ensure that the EP&L applies the most up to date methodologies and datasets. Our policy is to update the underlying environmental valuation methodologies periodically to enable easier comparability of our performance across years and also to ensure we offer a "best in class" natural capital accounting tool to our business peers.

This year we have updated the methodology or underlying datasets across five of the six impact areas. Below is a summary of the main changes.

- **Air pollution:** to improve the understanding of human exposure to air pollutants the meteorological data used in pollution dispersion models have been updated and collected for more locations.
- **Land use:** the soil organic carbon content of soil under different farming practises has been included as a proxy for ecosystem services values (see following spotlight section for more details).
- **Waste:** data on quality and types of waste treatment facilities has been updated to better reflect the likely impacts of non-recycled waste.
- **Water consumption:** to improve the correlation between corporate or agricultural water consumption and the prevalence of waterborne diseases in water stressed areas we have updated the statistical approach applied.
- **Water pollution:** the latest version of the USEtox⁵ database is now used as the basis for estimating the quantity of water pollutants that are likely to affect the human population.

We have also updated the price year by applying global average inflation from the World Bank⁶. We applied global average inflation because of the global nature of our supply chain.

SPOTLIGHT: LAND USE VALUATION

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. The table below shows the range in ecosystem services and EP&L impact savings for materials examples relative to conventional practices.

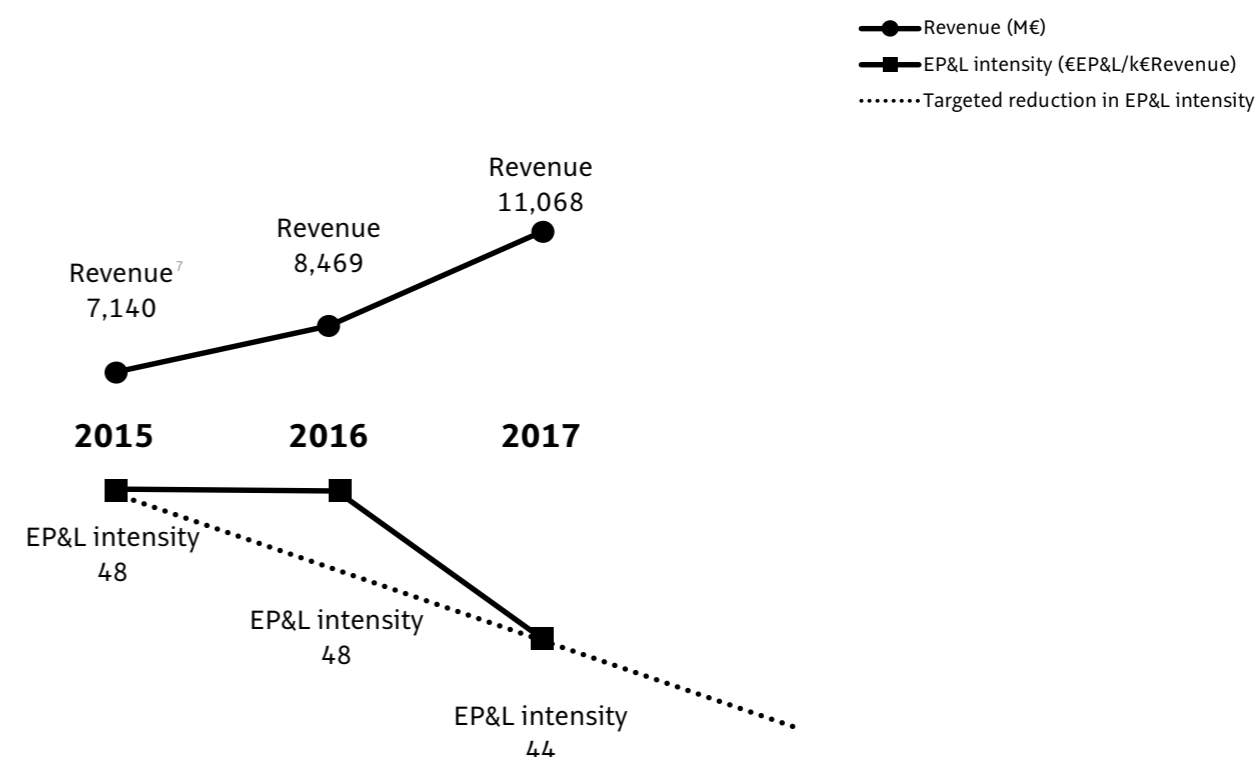
TABLE 2: EP&L IMPACT SAVINGS RELATIVE TO CONVENTIONAL PRACTICES

MATERIAL	AVERAGE PERCENTAGE SAVING IN ECOSYSTEM SERVICE RELATIVE TO CONVENTIONAL PRACTICES	€ EP&L SAVINGS RELATIVE TO SOURCING MATERIAL FROM CONVENTIONAL PRACTICES
WOOL – ORGANIC	11%	€40K
CASHMERE – RESTORATIVE GRAZING	27%	€235K
COTTON – ORGANIC	45%	€225K

This new type of analysis will greatly benefit our understanding when assessing prospective supply partners and sourcing practices, which will ultimately help us reach our sustainability targets.

UNDERSTANDING OUR 2017 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 2017 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 track to reach our reduction ambitions.

7 2015 EP&L intensity of €48 per €1,000 of revenue has been calculated on a revised revenue base of €7,140 million. This revised figure adjusts for the fluctuations in currency exchange rates seen in 2015. The published revenue for luxury in 2015 was €7,865 million.

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 						9% €42.3
GHGs 						32% €154.3
LAND USE 						32% €154.5
WASTE 						5% €26.2
WATER CONSUMPTION 						8% €37.0
WATER POLLUTION 						14% €67.3
TOTAL IN MILLIONS:	10% €48.6	5% €24.3	8% €40.7	10% €49.3	66% €318.7	100% €481.6

DISTRIBUTION OF IMPACTS ACROSS THE SUPPLY CHAIN

Figure 2 shows how our impacts are distributed across our supply chain. We see that our most significant impacts are generated in the supply chain (90%), and in particular from the production and processing of raw materials that together represent 76% of the total. Our own operations represent only 10% of the impacts. 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 drive impact reduction. Proactively making materials with recycled alternatives, can result in tangible EP&L savings (Figure 3).

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

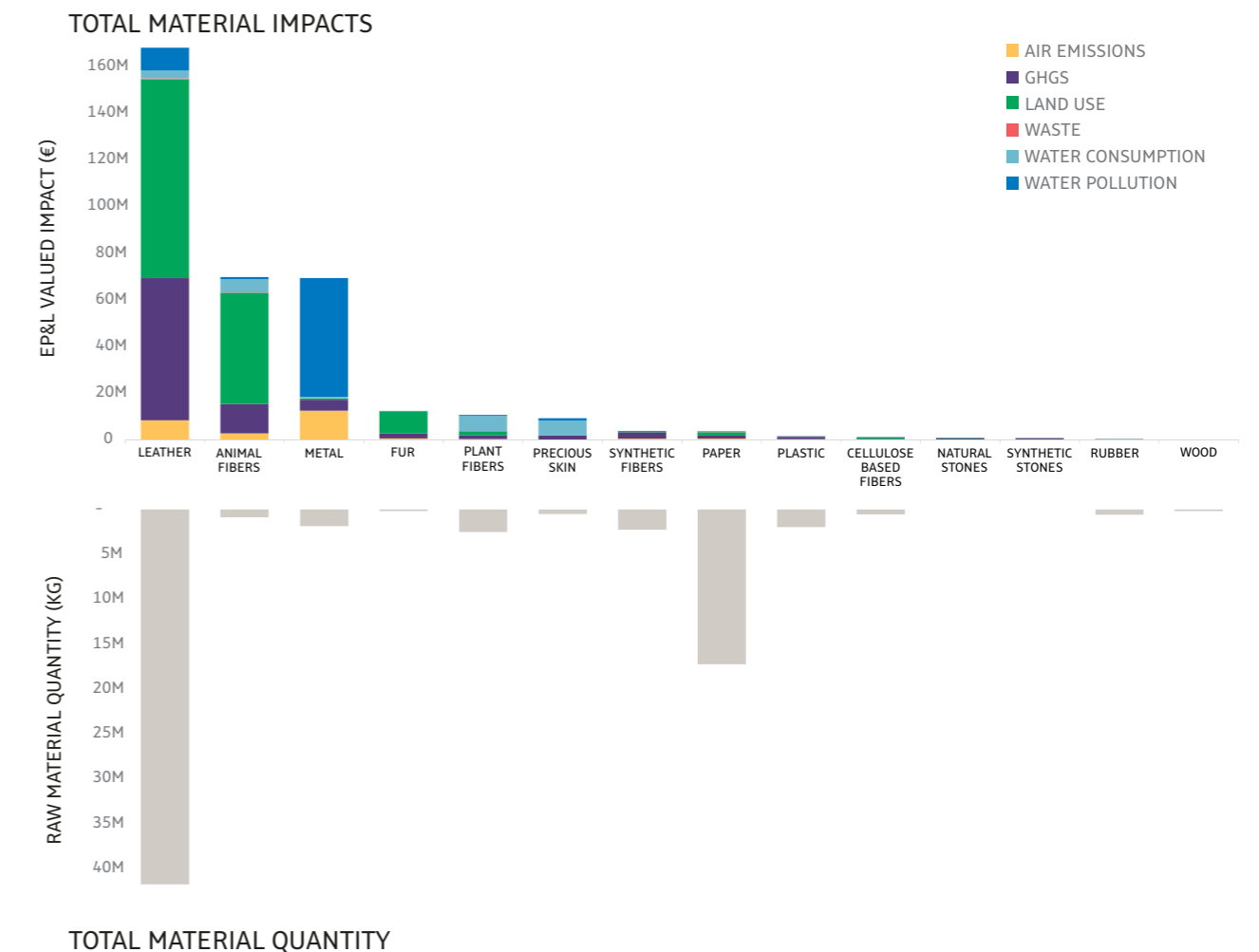


FIGURE 4: MAP OF IMPACTS AND KEY DRIVERS



UNDERSTANDING 2017 VS 2016

Figure 5 shows the main drivers of change between 2016 and 2017⁸. 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.

FIGURE 5: 2017 EP&L RESULTS, SHOWING RELATIVE INFLUENCES OF CHANGES SINCE 2016 PRO FORMA RESULTS



TABLE 3: DESCRIPTION OF THE MAIN DRIVERS OF CHANGE BETWEEN 2017 AND 2016 PRO FORMA RESULTS

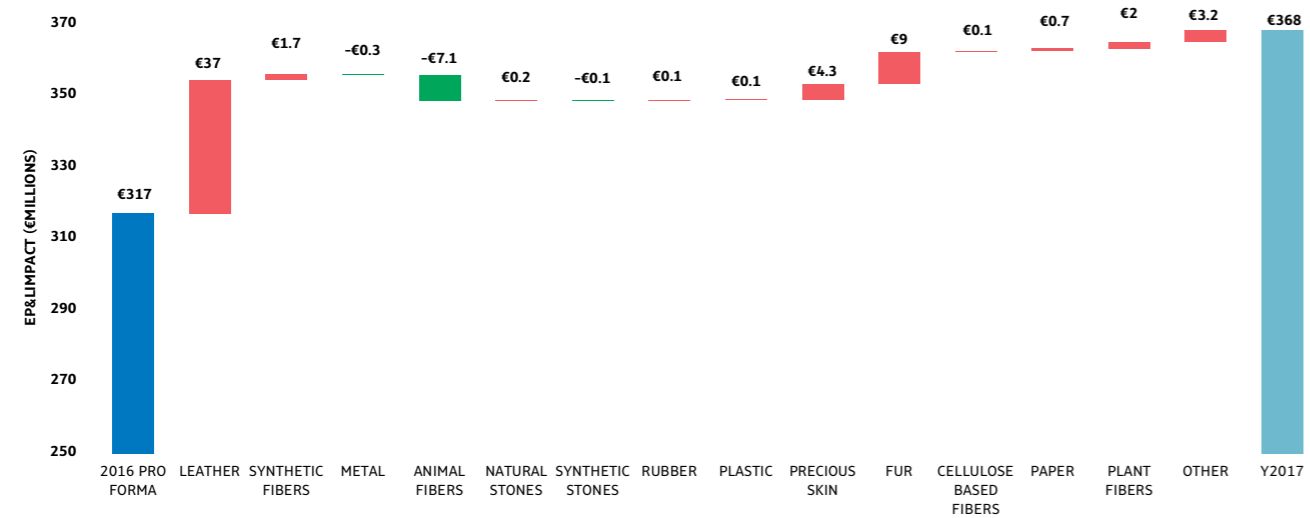
TYPE OF ACTIVITY	CHANGE	REASON FOR CHANGE
OPERATIONS	-€0.3MILLION	Increase in renewable energy use and energy efficiency programs across stores, offices and warehouse.
MANUFACTURING	+€18.2MILLION	Major increase in production volumes compared to 2016.
RAW MATERIALS PRODUCTION AND PROCESSING	+€51.0MILLION	Major growth of business supported by increase in raw materials purchase volumes compared to 2016

8 There have been updates to the scope, methodology and input data since the 2016 Group EP&L analysis.

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 Processes⁹ in January 2018. 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. As of 2018, we are 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. The launch of our standards and progress towards them followed the 2017 Group EP&L results.

Due to a major increase in production volumes as a consequence of business growth, as well as the Kering Standards launched after this EP&L reporting year, 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 impacts, such as animal fibers, which is a testament to our continual efforts to embed new sustainable sourcing approaches, such as restorative grazing practices in our wool and cashmere supply chains. Additionally, other approaches such as the reuse of material cuttings and a greater adoption of circular economy principles are contributing to these positive results.

FIGURE 6: A CLOSER LOOK AT CHANGES IN RAW MATERIAL IMPACTS IN THE SUPPLY CHAIN SINCE 2016 PRO FORMA RESULT





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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 référence) and other published information (regulated information disclosed as such).

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