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;
- 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

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 impacts 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 related to our luxury brands. 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 €428m. 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.

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 (PEFCR) 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

<table>
<thead>
<tr>
<th>TYPE OF ANIMAL</th>
<th>KG RAW HIDES/M2 FINISHED LEATHER</th>
</tr>
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<tbody>
<tr>
<td>BOVINE</td>
<td>3.06</td>
</tr>
<tr>
<td>CALF</td>
<td></td>
</tr>
<tr>
<td>CAPRINE</td>
<td>2.42</td>
</tr>
<tr>
<td>OVINE</td>
<td></td>
</tr>
</tbody>
</table>

1 Kering 2013 Environmental Profit and Loss http://kering.com/c/document_library/get_file?uuid=376608ad-50e7-426c-a2d2-b9c7f8c5d5fc
df=Kering 2017 Environmental Profit and Loss
http://kering.com/c/document_library/get_file?uuid=2ca1d4ab-deb6-53a4-9b9d-f1a357a071e5

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, Giardini-Perregaux, Pompelato, Qeelin, Ulysse Nardin and Kering Eyewear

3 http://kering.com/c/document_library/get_file?uuid=376608ad-50e7-426c-a2d2-b9c7f8c5d5fc
df=Kering 2017 Environmental Profit and Loss
http://kering.com/c/document_library/get_file?uuid=2ca1d4ab-deb6-53a4-9b9d-f1a357a071e5

4 http://ec.europa.eu/environment/eussd/smgp/index.htm
5 http://www.usitox.org/
6 https://data.worldbank.org/indicator/EN.GOZ.DEFL.ZS
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

<table>
<thead>
<tr>
<th>MATERIAL</th>
<th>AVERAGE PERCENTAGE SAVING IN ECOSYSTEM SERVICE RELATIVE TO CONVENTIONAL PRACTICES</th>
<th>€ EP&amp;L SAVINGS RELATIVE TO SOURCING MATERIAL FROM CONVENTIONAL PRACTICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>WOOL – ORGANIC</td>
<td>11%</td>
<td>€40K</td>
</tr>
<tr>
<td>CASHMERE – RESTORATIVE GRAZING</td>
<td>27%</td>
<td>€235K</td>
</tr>
<tr>
<td>COTTON – ORGANIC</td>
<td>45%</td>
<td>€225K</td>
</tr>
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</table>

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 (€M)
- Targeted reduction in EP&L intensity

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 €7.14 per €1,000 of revenue in 2015. This reflects we are on track to reach our reduction ambitions.

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.

7 2015 EP&L intensity of €4.8 per €1,000 of revenue has been calculated on a revised revenue base of €7.14 per €1,000 of revenue. This revised figure adjusts for the fluctuations in currency exchange rates seen in 2015. The published revenue for luxury in 2015 was €7.14 million.
**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 small-scale changes in sourcing options, such as replacing materials with recycled alternatives, can result in tangible EP&L savings (Figure 3).
FIGURE 4: MAP OF IMPACTS AND KEY DRIVERS

**NORTH AMERICA**
The US is an important source of bovine leather and cotton, as well as gold.

**EUROPE**
Italy is the main manufacturing location for luxury brands. The Netherlands, Italy and France are also key locations for sourcing bovine leather. Whereas Spain is a key source for lamb leather.

**SOUTH AMERICA**
South America is a key source of metals driving water pollution impacts.

**ASIA**
China is a key sourcing location for cashmere, silk and gold. A number of countries in Asia, including Vietnam, 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 2017 VS 2016

Figure 5 shows the main drivers of change between 2016 and 2017. 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>
<thead>
<tr>
<th>TYPE OF ACTIVITY</th>
<th>CHANGE</th>
<th>REASON FOR CHANGE</th>
</tr>
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<tbody>
<tr>
<td>OPERATIONS</td>
<td>-€0.3 MILLION</td>
<td>Increase in renewable energy use and energy efficiency programs across stores, offices and warehouse.</td>
</tr>
<tr>
<td>MANUFACTURING</td>
<td>+€18.2 MILLION</td>
<td>Major increase in production volumes compared to 2016.</td>
</tr>
<tr>
<td>RAW MATERIALS PRODUCTION AND PROCESSING</td>
<td>+€51.0 MILLION</td>
<td>Major growth of business supported by increase in raw materials purchase volumes compared to 2016.</td>
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</table>
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. 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

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).

As a result, the EP&L in no way reflects nor has any impact on Kering's past, present or future financial performance. In particular the EP&L does not create any liabilities, implied costs or any rights to offset any amounts contained therein, nor does it trigger any provisions and neither does it result in any off balance sheet commitments.

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Empowering Imagination