



Kering Group Modern Slavery statement 2018

This statement is made pursuant to Section 54 of the Modern Slavery Act 2015 and California Transparency in Supply Chains Act of 2010 (SB 657). It sets out the steps which the Kering Group and the companies in that group have taken during the financial year 2018 to identify and prevent modern slavery, including forced labour and human trafficking from taking place in our supply chains or in any part of our business.

This report covers the following Kering Group brands: Gucci, Saint Laurent, Bottega Veneta, Balenciaga, Alexander McQueen, Brioni, Boucheron, Pomellato, DoDo, Qeelin, Ulysse Nardin, Girard-Perregaux, and Kering Eyewear, notwithstanding that some of the Group's brands may also issue their own Modern Slavery Statements.

Our ambition is to be the world's most influential Luxury group in terms of creativity, sustainability and long-term economic performance.

As such, we are committed to improving the labour standards of those who work in our supply chains and businesses. This includes taking steps to both identify and address the risks of modern slavery.

Our business

2018 key figures

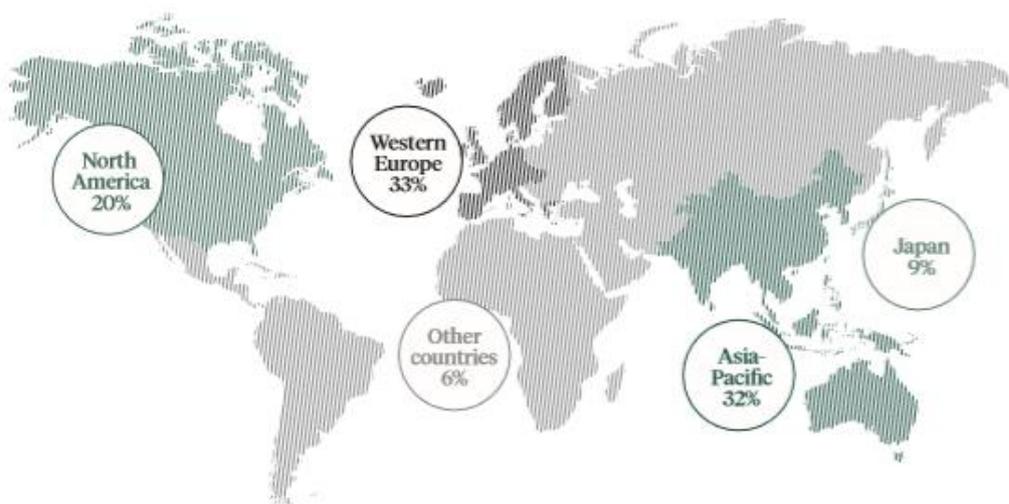
€13,247 million

in revenue

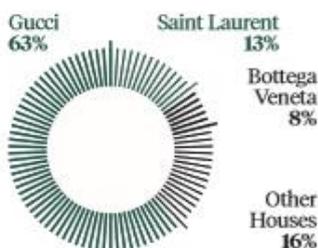
Revenue
(in € millions)



Breakdown of revenue by region



Breakdown of revenue by brand



Breakdown of revenue by product category



Breakdown of revenue by distribution channel



Our supply chain

Kering operates in the luxury market, where supply chains are structured in a very specific way, with a large supply base in Italy. Additionally, our suppliers are predominantly small companies with an average number of employees below 50.



(1) Geographical breakdown in 2018 of direct suppliers and contractors, managed within the centralized system introduced by Kering in 2016.

Modern slavery, labour rights and human rights

We manage risks and impacts related to modern slavery as part of our existing programme on labour rights, ethical trade and human rights, which falls more broadly within our approach to sustainability.

Kering has significantly developed its sustainability strategy over the last 20 years. In 2017 we published our 2025 sustainability strategy which is based on three pillars – environmental, social and innovation - and which sets ambitious targets for all of the Houses which are part of the group.

In 2018 we published our sourcing and production standards, which are in line with the Group's [open source policy](#). One of the five core pillars of the Kering Standards is social impact, with a defined place for human rights, including fundamental freedoms. This includes our efforts to ensure that people working in our supply chains are free from modern slavery.

As part of our 2025 strategy we have carried out a materiality analysis which seeks to identify priority challenges, consistent with the Group's priorities and stakeholder expectations. Through this analysis, we have identified respect for human rights and fundamental freedoms of one of the eight principle non-financial risks identified as being material to our business.

Our standards on modern slavery and human rights

Since 2013, the Kering Group's [Code of Ethics](#) has included the Group Suppliers' Charter, which sets out in detail Kering's specific expectations of its commercial partners in respect of social and environmental issues. For any contractor of Kering or one of its Houses, compliance with the Charter is a precondition of the business relationship. The Group requires its suppliers to commit formally to applying high ethical standards themselves and to ensuring respect for human rights, including standards on modern slavery. The Charter reminds them of the need to promote human rights within their production units and among their subcontractors, and to advise Kering and/or its Houses of any serious difficulties in applying the Charter.

Kering and its Houses require their suppliers to commit to the following fundamental principles: to not use child labour; to proscribe the use of slavery or forced or compulsory labour; to prohibit any type of work liable to compromise health, safety or morals; to prohibit all behaviour contrary to the principle of dignity at work, in particular any practice contrary to labour regulations, including on pay, working hours and conditions; to respect freedom of association of employees; to prohibit discrimination, notably on racial, ethnic or sexual grounds; to forbid sexual or psychological harassment; to respect environmental regulations and, beyond that, to work towards the

implementation of the Global Compact's three principles of environmental protection, including the precautionary principle. The Suppliers' Charter, as an integral part of the Code of Ethics, was revised in 2018 and will be distributed to all of the Group's business partners in 2019.

Human rights assessment of practices

In 2017 Kering analysed its practices by comparing them to the United Nations Guiding Principles on Business and Human Rights. This assessment enabled Kering to identify specific points for progress in areas including public commitment and policy, scope of internal control procedures, grievance and remediation mechanisms, and external communications. Following on from this analysis, Kering took steps to comply with the requirements of French 'Devoir de Vigilance' legislation, and to identify and evaluate risks, especially as regards human rights. We recognise that violations of human rights and fundamental freedoms can occur at all levels of the supply chain and the production process, for third parties as well as persons directly involved in Kering's business.

Labour and modern slavery risk management

No control system, regardless of how mature and tested it is, can guarantee the absence of risk, whether this relates to modern slavery or other labour or human rights issues. Kering Group and its Houses seek to work with suppliers to develop the most efficient collaborative and control systems in order to keep risk to a minimum and implement any corrective action in cases where non-compliance is identified. To meet these challenges, Kering has established a dedicated central body within the Group to control the compliance of Group suppliers. This was established in late 2015 and began operating in January 2016. The process, known as the Hercules system, is based on six key pillars:

1. Sustainability. The sustainability principles established for all the Luxury Houses in 2015 are divided into three areas, one of which is the social aspects related to human rights, labour rights, and health and safety, including the elimination of child labour, forced labour, and human trafficking in all its forms. In addition, aspects related to the supply of raw materials and packaging are considered, including the prohibition of certain substances and/or certain sourcing regions for reasons related to child or forced labour, for instance. These principles are split into two broad categories: those that are mandatory, due to requirements imposed by international and national laws, and those embodying Kering's additional expectations and best practices in the field of sustainability. Each supplier is in turn tasked with passing on these principles to its own subcontractor network, if it has one. The principles are available to the public on the Group's website;
2. Centralized management: Kering has centralized oversight through a team of 18 people (ten auditors specialized in conducting supplier audits and monitoring anomalies, three people dedicated to management, and five planners); depending on needs (locations, workload etc.). This team can be assisted by an external service provider;
3. Uniform procedures: There are clear and uniform procedures for all the Houses, corresponding to the different stages of the supplier relationship, including the activation procedure, monitoring procedure, termination of contract procedure;
4. Risk-based auditing: A risk evaluation used, on the basis of collective data (information in the possession of the relevant House(s) and self-assessment of the supplier prior to activation), to classify suppliers in accordance with three levels of risk (high, medium or low) and to construct an audit plan. Audit plans are updated monthly based on the needs of the various Houses and/or the occurrence of particular events;

5. Standardised audits: A single and comprehensive audit methodology, including not only the key chapters relating to social compliance, but also the essential components relating to health and safety, and environmental management. Containing 88 questions, the comprehensive audit questionnaire is divided into 13 categories (child labour, forced labour, health and safety, freedom of association and right to collective bargaining, discrimination, environment, etc.) and aligned with the best standards in the field, in particular the SA8000 and SMETA standards. The results are shared between the Houses in order to avoid any overlap in the audits. Follow- up audits with a smaller scope focus on the area(s) in which breaches of compliance were identified or observations were made during the first comprehensive audit;
6. Taking action: Supplier Non-compliances are classified into four categories, with standard response for each:
 - a. **breaches by suppliers' subject to zero tolerance** (relating to the most serious situations liable to be encountered, specifically child labour, forced labour, irregular work, undeclared subcontractors, threats, discrimination, serious breaches of regulations, counterfeit, etc.). Identification of a zero- tolerance breach triggers the immediate establishment of a crisis unit bringing together the Kering audit team and the relevant House(s) to decide on the future of the relationship with the supplier: immediate shutdown of the approval process if the supplier is in the process of being activated but has not started working; and discussions about the possibility of remediation and support for the supplier or about the need to terminate the contractual relationship if the supplier is working on one or more orders. The brand is the ultimate decision- maker on the most appropriate response,
 - b. **serious compliance breaches by suppliers.** The supplier is given one month to resolve the serious breach of compliance, and a follow- up audit is scheduled to confirm that the issue has been resolved,
 - c. **moderate compliance breaches by suppliers.** The supplier is given three months to resolve the moderate breach of compliance, and a follow- up audit is scheduled to confirm that the issue has been resolved,
 - d. **observations.** These give rise to a corrective action plan and are the subject of a dedicated checklist at the next audit. The supplier has six months to remedy the observation.

Depending on the results of audits, suppliers are classified as: compliant (no zero- tolerance breaches, no supplier compliance breaches, whether serious or moderate, fewer than five observations); partially compliant (no zero- tolerance breaches, no serious compliance breaches, fewer than five moderate breaches); progress expected (no zero- tolerance breaches, more than five moderate compliance breaches or at least one serious breach); zero tolerance (at least one zero- tolerance breach).

In 2018 54.4% of suppliers were rated compliant, 34.3% partially compliant, 9.4% progress expected and 1.9% were classified as having a zero-tolerance item. One hundred suppliers saw their business relationship terminated in 2018 due to unsatisfactory audit results. Robust corrective action plans were put together following the audits, wherever breaches of compliance, and particularly serious breaches, were identified. Follow- up audits were then conducted to verify the resolution of the problem. The zero- tolerance breaches found during the audits were the subject of immediate attention in accordance with established rules and in coordination with the relevant Houses.

As an example of remediation, the Group Audit teams conducted a supplier audit in 2018 during which a zero- tolerance breach of employment conditions was recorded. This supplier had made accommodation available to its employees without a lease. In accordance with the procedure in place for this type of anomaly, a response unit was immediately set up with the relevant House. After analysing the case, the supplier corrected the situation by providing proof that leases had been established.

Collaboration on modern slavery and labour issues

No matter how robust and efficient, a social auditing system is never sufficient to ensure that there are no risks in the complex supply chains of a global Group.

As a major player in the luxury goods industry and aware of its social responsibility in respect of a wide range of suppliers, subcontractors and raw material production chains, Kering engages in continuous and collaborative dialogue on human rights and modern slavery? with key stakeholders in its supply chains and beyond. This collaboration includes:

- sector- based initiatives such as membership of the Sustainable Apparel Coalition, Textile Exchange and the BSR- coordinated Business Action for Women initiative designed to drive progress for women in supply chains;
- programs specifically designed by the Kering group for its suppliers and subcontractors, such as the project on equal access to professional opportunities for women in the luxury industry in Italy, coordinated by Bottega Veneta with Gucci, Pomellato and Kering Eyewear and, outside the Group, with the Camera Nazionale della Moda Italiana and NGO Valore D;
- capacity building programs to support suppliers in human resources and human rights management with their own subcontractors and stakeholders, following the example of Gucci and Bottega Veneta as part of their SA8000 certification.
- Kering participates in the Global Business Coalition Against Human Trafficking (GBCAT), formed by major private groups and NGOs to combat modern slavery, primarily by detecting and eradicating it from companies' complex supply chains;
- As a member of the Mekong Club, Kering also takes part in the discussions run by the organization and is looking into the possibility of applying the Club's risk metrics to the Group's supply chains; the network set up by UNICEF and Norges Bank Investment Management on children's rights in the textile and footwear sector;
- Kering is a signatory to the Pledge Against Forced Child Labour in Uzbekistan Cotton.

Kering also initiates or is involved in many projects that seek not only a positive environmental impact but also a strong social impact and enhanced human rights in the Group's key raw materials supply chains. Such initiatives include Cotton Connect , and the Kering Responsible Gold Fund. Kering also works in partnership with BSR and the Fair Wage Network on expanding one of the main global databases on decent wages, for use as an operational decision- making tool in the industry. In December 2018, Kering shared its experiences by contributing to discussions on the assessment of human rights in the textile sector through the Human Rights Benchmarking in the Apparel Sector webinar run by the Corporate Human Rights Benchmark (CHRB) and Know the Chain. At a personal level, François- Henri Pinault, Chairman and Chief Executive Officer of Kering, is involved in B Team, whose Tactical Guide to CEOs on Modern Slavery was released in 2018.

Training and communication

In 2018, Kering's teams worked on the communication of the Kering Standards, first for the staff within its Houses. Each House held one or more sessions internally, sometimes with support from

the Materials Innovation Lab (MIL) or teams from headquarters. The MIL team trained the Brioni, Balenciaga and Alexander McQueen teams in a series of half- day meetings in each House, each attracting between 10 and 40 participants from the creative, product and other departments. The Kering Standards have been shared with all of the Group’s key suppliers. A number of explanatory and training sessions were also held in 2018, particularly for suppliers of the Leather Goods, Fashion and Watches activities.

Kering’s Sustainability Department worked in 2018 to develop an e- learning program presenting all of the Kering Standards. It is designed to adapt to the learner’s profile (design, merchandising, material research, product development, purchasing, production/series production, quality, etc.). For each material or process, it explains the related environmental and social challenges, and then sets out the measures to be taken to ensure responsible sourcing. Scheduled for initial roll- out in the Kering Fundamentals section of the Group’s e- learning platform in 2019, the new module will then be offered to all suppliers. These initiatives all contain elements related to modern slavery.

KPIs

Kering has a system for identifying and collecting Key Performance Indicators (KPIs) on environmental performance. During the coming years we will try to develop further KPIs related to social impact and human rights more broadly and modern slavery in particular. Current examples of KPIs are set out below.

	Kering group operations	Kering group supply chains
Human rights and fundamental freedoms	Indicators	Indicators
	Reach of training on the Code of Ethics (2018: 84.9%)	Number of third-party due diligence procedures in 2018: more than 10,000
	Number of complaints received by Ethics Committees (on all subjects, including human rights and fundamental freedoms) in 2018: 38	Supplier compliance monitoring in 2018: 88.7% of suppliers audited wholly or partially compliant 11.3% non-compliant or progress expected
	Examples of implementation	Examples of implementation
	Gap analysis between Kering practices and the United Nations Guiding Principles on Business and Human Rights, to determine specific focuses for progress and action plan	Inclusion of Sustainability Principles and Group Suppliers’ Charter in contractual relationship with suppliers
	SA8000 certification for internal and outsourced production processes (e.g., Gucci and Bottega Veneta)	Centralized supplier management and common audit methodology Roll-out of Kering Standards on raw materials, including requirements on human rights



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