# **CLIMATE STRATEGY**

2023

KERING

# **KERING CLIMATE STRATEGY**

# **INTRODUCTION**

The climate emergency, a subject of consensus among scientists, poses an increasing threat to business viability. Kering firmly believes that companies can play a decisive role in the fight against climate change, and has drawn up a holistic strategy with a clear commitment to a 1.5°C pathway and net zero by 2050 underlining its ambitions in sustainability, circularity and biodiversity.

For Kering, implementing this strategy is a means to secure its long-term future. Of course, contributing to the global goals for GHG emissions reductions could not be more critical, as we all want and need to do business in a 'safe operating space' for humanity. As a global leader in Luxury, the Group is heavily reliant on high-quality raw materials from nature-based sources and agriculture. Protecting and restoring the functionality of natural ecosystems and building resilience in the production of agricultural materials is therefore essential. At the same time, the Luxury sector is an ideal candidate to lead on net-zero approaches and to promote a robust integration of Natural Climate Solutions (NCS) into broader business action on climate.

Expanding the use of renewable energy across supply chains and innovating around energy and material efficiency are priorities for Kering to reduce its emissions in line with the Science Based Targets initiative's 1.5°C pathway. Additional emissions reductions also come from a commitment to expanding regenerative approaches to raw material production and exploring new types of 'low-impact' materials. Kering's engagement to scale regenerative agriculture both within and beyond our supply chains is key to our commitment to pair carbon removals with supporting resilience in nature and communities. This focus on regenerative agriculture, along with other best practices in raw material production and extraction, is vital for our Natural Climate Solutions.

Kering's NCS actions go beyond our direct supply chains and also underpin our offsetting approach. While continuing to prioritize emissions reductions and supporting NCS within our supply chain, Kering has also been offsetting 'hard to abate' emissions through robust REDD+ programs around the world for a decade. Initially, this focused primarily on emissions in Scopes 1 and 2, but now has broadened to include Scope 3. Offsetting will continue with REDD+ at its core, but with a broader portfolio of programs including verified carbon credits through 'blue carbon' and 'agriculture-based carbon'.

Kering's Climate Strategy endeavors to achieve net-zero emissions by 2050 in accordance with our SBTi commitment and ongoing support of Natural Climate Solutions. Key highlights of our Climate Strategy include:

- Achieving a 1.5°C pathway and net zero by 2050
- Reaching a 90% absolute reduction of Scopes 1&2 GHG emissions by 2030 from a 2015 baseline
- 70% reduction (per unit value added) of Scope 3 GHG emissions by 2030, from a 2015 baseline
- Increasing direct sourcing of renewable electricity to reach 100% by 2022
- Strategic and appropriate offsetting through NCS for 'hard to abate' emissions

In alignment with the Group's long term vision to help drive luxury and fashion's sustainability agenda, Kering committed publicly to reduce its absolute greenhouse gas emission by 40% by 2035, on a 2021 baseline, covering scopes 1, 2 and 3 of the greenhouse gas protocol.

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# **OUR OBJECTIVES**

Kering aims to be a net-zero company by 2050 and, through the development and implementation of this strategy, lead the Luxury sector's response to climate change. Our ambitious Climate Strategy is part of a broader Group focus on sustainability, which recognizes the fundamental interconnectedness of climate, biodiversity and circularity. Taken together, Kering's strategies across these three areas form a cohesive and credible approach, which builds on synergies to drive more powerful outcomes.

As a member of the Science Based Targets initiative since 2016, we intend to realize our net-zero ambition by achieving two objectives, which are aligned with SBTi guidance:

- Reduce emissions across the supply chain in line with the SBTi's 1.5°C reduction pathway;
- Compensate for residual emissions (i.e. emissions that cannot be eliminated) by removing and reducing the equivalent amount from the atmosphere through robust carbon credit & offset mechanisms that also support the protection and conservation of nature.



## Our pathway to Net Zero Emissions

## **BUILDING ON EXISTING MOMENTUM**

The Climate Strategy outlines how these objectives will be achieved, not only by harnessing Kering's longstanding commitment to sustainability, but also by pioneering new approaches, both as a Group and a trusted partner with other stakeholders. Specifically, Kering aims to be a catalyst for change beyond our direct sphere of operations, by providing a key voice to build collective momentum to protect our planet's climate. For this reason, Kering has prioritized involvement in leading climate-related initiatives: along with our involvement in the SBTi, Kering has been a signatory to the Task Force on Climate Related Financial Disclosures (TCFD) since 2017.

One of the driving forces behind Kering's sustainability work is the Environmental Profit & Loss (EP&L) tool. It not only provides transparency, but also triggers behavioral change, including where emissions are concerned. Deployed by the Group in 2012, it provides a detailed analysis of the environmental impacts of the company's activities, covering its own operations and extending across the entire supply chain. By using the EP&L, Kering is able to make science-based decisions that optimize actions and outcomes for the climate. The EP&L tracks impacts on the climate (GHG emissions) and ecosystems, including land use change, water consumptions, waste, and water and air pollution. By doing so, it enables the careful consideration of where to prioritize actions that can deliver multiple benefits for nature and livelihoods, in addition to climate.

## A ROADMAP FOR THE CLIMATE

As shown in the diagram below, Kering's Climate Strategy looks first within our own supply chain, combining innovation and efficiency in technology, materials and processes, and pairs them with a series of Natural Climate Solutions (NCS), also known as Nature- Based Solutions. NCS are widely recognized as having the potential to mitigate more than 30% of climate impacts<sup>1</sup>, and for Kering, there is tremendous opportunity to realize via raw material sourcing pairing them with strategies and investments in regenerative agricultural projects in our supply chain.

To achieve our climate goals, Kering's 'Roadmap for the Climate' also looks beyond the direct supply chain. Kering has invested in offsetting projects for over a decade, helping to protect ecosystems and critical global carbon sinks. While these investments initially focused on Scopes 1 and 2, Kering was one of the first companies in fashion to fully account for Scope 3 emissions. This renewed commitment to reducing greenhouse gas emissions will not only strengthen the Group's resilience, but also help build resilience more broadly to the increasing climate risks and impacts that we now all face.



# Putting it Together : Our Climate Strategy

<sup>1</sup>Griscom et al 2017, https://www.pnas.org/content/114/44/11645

# GOVERNANCE FOR CLIMATE CHANGE & STRATEGY

The Sustainability Committee of Kering's Board of Directors oversees this Climate Strategy. Its role is to review the progress of ongoing projects and initiatives, along with the outcomes already achieved in terms of climate-related targets and goals. The Committee also supports the Group in establishing, implementing and monitoring good corporate governance, in line with:

- the aim of the Board of Directors and Executive Management to maintain a high level of sustainability in economic, social and environmental terms;
- the Group's clear ambitions in terms of ethics;
- the corporate citizenship policies and practices (which include climate management) to be upheld by the Group, its senior executives and employees.

Along with its progress reviews, the Committee also meets regularly to consider topics such as the Group's carbon offsetting approach, along with the transitional and physical risks related to climate change. The Chair of the Remuneration Committee sets and reviews, pursuant to the proposal put forth by the Sustainability Committee, the objectives for the Group's executive corporate officers in terms of non-financial targets. The annual variable remuneration and multi-annual variable remuneration for the Chairman and Chief Executive Officer and the Group Managing Director are partly linked to non-financial criteria. Specifically, sustainability accounts for 10% of the annual variable remuneration criteria.

# UNDERSTANDING & ASSESSING OUR RISKS

Climate-relate risks can be physical (e.g. from extreme weather) and transitional (e.g. changing regulations and consumer expectations). If left unaddressed, both types of risk can produce significant operational, strategic, financial, legal impacts, along with impacts in terms of human capital, customers, projects, health & safety and reputation.

Kering's Sustainability Strategy, including its Climate Strategy as well as the related risks and opportunities for the business, is reviewed by the Board of Directors and its Sustainability Committee whose members include Kering's Chairman and CEO, François-Henri Pinault and the Group's Managing Director, Jean-François Palus.

In line with the Group's commitments in terms of climate action, the role of Climate Change Lead was created within the Board of Directors in 2022. In coordination with the Chair of the Sustainability Committee and the Lead Independent Director, the Climate Change Lead's role includes ensuring that climate issues are taken into account by the Board and that they are factored into all of the Group's decisions. Finally, the Climate Change Lead reports to the Board at least twice a year on the deployment of the Climate Strategy within the Group and on the implementation and results of the climate change mitigation and adaptation action plans. The duties of the Climate Change Lead are detailed in the Governance Chapter of Kering Universal Registration Document.

Together, the Board of Directors and the Sustainability Committee support the implementation of the Climate Strategy within the Group and its Houses, which put it into action every day under the guidance of dedicated experts and in consultation with a wide range of internal and external stakeholders.

Kering's Chief Sustainability and International Affairs Officer (CSO), a member of the Executive Committee and directly reporting to Kering's Chairman and CEO, is in charge of the definition and implementation of the Climate Strategy. The CSO identifies opportunities to present to the Sustainability Committee of the Board by combining sustainability expertise with a strategic sustainability vision and the priorities for risk mitigation.

Whilst climate-related risks are included in the Group's global risk assessment process, they are also very specific and require dedicated attention. As such, Kering is undertaking a scenario analysis of climate risks and opportunities in order to deepen its understanding of the implications of climate change for the Group and its supply chain. This will also support ongoing decisions on priority actions plans across the business.

At the same time, Kering is also committed to understanding and addressing the potential financial implications of physical and transitional climate risks on operations. Action plans are in place to manage potential impacts that have yet to materialize, in line with the TCFD recommendations, as diagrammed:



Climate risks are also integrated into the annual Group risk assessment, and assessed on the basis of three criteria: their impact, their probability of occurrence and their level of control. The Group risk mapping is discussed during the Group Risk Committee meetings and presented to the Audit Committee and to the Board of Directors. The Risk Committee reviews the risk maps drawn up by the Group Internal Audit Department, and monitors the progress of the specific action plans.

Kering is monitoring and mitigating its most significant Climate-related risks and opportunities, with a view of preventing or minimizing the impacts and potential damage, through initiatives for achieving 'net-zero', which include collaboration across its supply chain.

The <u>EP&L tool</u> also offers a powerful and practical means to monitor this fisk. Through the EP&L, Kering assesses the environmental impacts of sourced materials, and shares this information with its Maisons and supply-chain partners, providing practical guidance when coupled with the Kering Standards for Sustainable Production. It is clear that, by following recommendations on sustainable sourcing, there will be opportunities for suppliers to build in resilience and access to materials over the longer term.

# MAPPING & MEASURING OUR CLIMATE FOOTPRINT

Measuring our carbon footprint is a critical first step in understanding impacts and charting a course towards a 1.5°C pathway. It is important to understand the quantification of GHG emissions across the full supply chain, so that we can identify the main impact areas and prioritize our actions accordingly. The EP&L tool plays a pivotal role and provides a comprehensive overview of Kering's emissions. Scope 3 emissions are highest at the level of raw material production, representing 84% of the total Scope 3 emissions.

In addition to GHG emissions, the EP&L covers air pollution and water pollution, land use change, waste production and water consumption. This enables a view of where there are opportunities for preferred actions that produce multiple outcomes or where a focus on a single environmental variable may demand a trade-off in terms of other outcomes.

#### CLIMATE STRATEGY

	End of life	Use phase	TIER 0 Stores, warehouses, offices	TIER 1 Assembly	TIER 2 Manufacturing	TIER 3 Raw material processing	TIER 4 Raw material production	TOTAL IN MILLIONS	
			•	٠	•	•	•	8% €44,4	A
GHGE	0							38% €209,1	
			-	٠	•	•		31% €170,7	
		•	•	•	•			<b>4%</b> €23,8	
		٠	•	٠			•	<b>4%</b> €19,4	
		•	•		$\mathcal{O}$			15% €81,1	
TOTALIN	0,1% €0,5	8,3% €45,7	5,8% €31,7	5,7% €31,4	9,6% €52,6	9,2% €50,5	61,3% €336,2	100% €548,6	

GHGs represent 38% of Kering's total environmental impact as measured by the EP&L and is the biggest driver of impact. A close second is land use. While GHG emissions are spread across all 'tiers' in the supply chain, they are most significant upstream in the supply chain at Tier 4, where raw materials are extracted and produced. The same is also true for land use, water consumption and pollution, and air emissions. This analysis clearly underlines the need to focus on both our own operations and our supply chain, with a clear prioritization on the primary production of raw materials. The EP&L findings also highlight the opportunity to target actions that have a dual benefit in terms of carbon reduction and reducing impacts on biodiversity (both aquatic and land-based).

The EP&L is not only a powerful risk management tool, but also plays an invaluable role in mapping and measuring our climate footprint. The annual analyses are used at corporate and brand level, and guide strategic planning of the Group's operations and budget.

As part of its commitment to transparency and creating useful tools for the industry, Kering has open-sourced the <u>EP&L Results</u>, <u>Methodology and Data</u> for public use. The Group is playing an active role in standard setting and the broader application of natural capital accounting at international levels, including Europe.

# SETTING OUR TARGETS & TAKING ACTION: Mitigation – emissions reductions

## EMISSIONS REDUCTIONS: OUR SBTi COMMITMENT

In 2016, Kering was the first luxury company to set objectives approved by the Science-Based Targets initiative (SBT) initiative. To keep pace with the latest scientific developments, the Group's emission reduction ambitions were strengthened in 2021. Kering's climate goal is to ensure that the GHG emissions align within the 1.5°C scenario. To do so, Kering has made the following commitments:







## Absolute reductions trajectory for Scopes 1&2 emissions



# Priorities for Scopes 1&2 emissions reductions

Our priority actions for emissions reductions across Scopes 1 and 2 are focused on energy efficiency, and energy strategy and supply.

Specific actions underway are summarized in the table below.

FOCUS AREAS	SCOPES 1&2
ENERGY EFFICIENCY PROGRAMS	<ul> <li>Standards for Stores (2020) – sets out measures and expected performance levels in energy management, lighting, renewable energy, water use and waste treatment. It covers all phases in a store's lifecycle, namely site selection and relations with the landlord, design, construction or renovation, and dismantling operations. The Standards were developed so that a new store fully following them uses 70 to 80% less energy than an average Kering store of 2015, mostly due more efficient lighting and HVAC, better insulation, and smart equipment control. Electrification of all energy uses is one of the key features of these standards.</li> <li>Guidelines for Offices, Warehouses and Industrial sites (2018, 2021 updates) – refer to sustainability certifications and to minimum performance levels, along with preferred technological solutions in new or renovated sites, including the electrification of all energy requirements and on-site production of electricity from solar panels on roofs.</li> </ul>
ENERGY STRATEGY AND SUPPLY	<b>Energy strategy</b> (2020) – aims at achieving 100% renewable electricity by 2022 through on-site (mostly solar) electricity production, green electricity contracts and the purchase of Energy Attribute Certificates. To increase additionality, Kering will enter into Power Purchase Agreements with new solar and wind power plants to cover most of its electricity needs in all the geographies where this is possible. We are also working on the phase-out of on-site residual fuels use, substituting boilers with heat pumps, and electrification of company cars. By 2030, the residual fuel use will be gas only and will be compensated by green gas certificates.

# Reductions trajectory for Scope 3 emissions



## Priorities for Scope 3 emissions reductions

Our priority actions for emissions reductions across Scope 3 focus on:

### • Transportation

- Optimizing transportation routes and minimizing trips,
- Electrifying transportation as much as technologically possible,
- Opting for the most efficient transportation means.

### Purchased Goods & Services

- Promoting energy efficiency programs across our manufacturing sites will continue to be a priority, with dyeing and finishing processes being particular hotspots for emissions.

- Material efficiency. Promoting positive outcomes for the climate across our supply chain is enshrined in our Kering Standards for Raw Material Sourcing and Processing.

THEME	SCOPE 3
ENERGY AND RESOURCE EFFICIENCY	Since 2013, <b>Clean By Design</b> has been the main program implemented by Kering to increase material, chemical, water and energy efficiency within the supply chain. To date, the program has focused on the textile supply chain and delivered on average a 20% reduction in GHGs among the factories involved, due to increased technical skills among factory management and technicians, a low upfront cost, and easy-to-implement interventions. Within the next decade, Kering will harness these improved skills to further drive efficiency initiatives, on-site renewable energy production and electrification, and to deploy the program also in the leather sector and the jewelry supply chain.
PROGRAM	<b>The Kering Standards for Logistics</b> covers warehousing, transportation and e-commerce activities. Related to the Standards for Packaging, this standard will address sustainability topics within logistics, aiming for 100% renewable elec- tricity for these activities by 2025, and pushing for last-mile deliveries provided by zero-emission vehicles. Further objectives include minimizing emissions from medium- and long-range transportation through modal shifts (airplane to ship and train), and optimizing routes from goods production to the final user.
RENEWABLE ENERGY AND ELECTRIFICATION IN THE SUPPLY CHAIN	Kering is convinced that <b>renewable energy</b> will provide most of its electricity by 2030, as solar and wind are already the lowest cost forms of energy in most countries of the world. Kering also wants to drive this transition in the supply chain, partly through Clean by Design, and partly by directly converting elec- tricity use in the supply chain to green electricity. The move toward 100% re- newable energy in the supply chain will be pursued by electrification, the on-site generation of solar energy, green energy contracts, Energy Attribute Certificates purchase and future Power Purchase Agreements.

THEME	SCOPE 3
	Kering Standards for Raw Material Sourcing and Processing. These standards underline the priorities for our Maisons and our suppliers, and also highlight the need to establish best practices that mitigate negative impacts on climate and nature. They also reflect our ambition to adopt more 'circular business approaches' and to contribute to a broader circular economy. The standards are coherent with our actions to support the climate, biodiversity strategy) and circularity (as outlined in a new approach released in 2021).
	The <b>Standard for Packaging</b> (2020) aims to eliminate single-use plastic packaging, and to use more circular systems and easily-recyclable materials.
MATERIAL EFFICIENCY	The <b>Standards for Stores and Guidelines for Warehouses and Industrial Sites</b> will provide significant improvements in waste management and recycling during operations. These will include a much more circular use of construction and finishing materials for stores and other buildings, both in the management of construction debris and in the use of materials with higher recycled and renewable content.
	As a priority, the standards also aim to increase the <b>use of raw materials produced</b> in ways that avoid emissions. For instance, this includes avoiding sourcing materials that lead to a conversion of natural ecosystems (including forests). Following a mitigation hierarchy, when impacts are inevitable, the standards provide concrete alternatives that minimize impacts, such as favoring organic over conventional agricultural production systems and eliminating the use of synthetic chemical inputs.
	A more efficient <b>use and management of materials</b> is a critical feature of circularity and emissions reduction. We use high-value materials in our products and there are significant opportunities for increasing supply chain efficiency so that we maximize our use of materials. By tracking these efficiency gains, we can reduce our use of certain virgin materials and their associated climate impacts.

Reducing emissions through a more efficient use of raw materials in our supply chain is an important focus for Kering. Additionally, given the extent of impacts around initial production and extraction of raw materials, both in terms of climate and biodiversity, this part of the supply chain is a priority focus. Significant emissions reductions can be achieved by moving towards regenerative approaches to agriculture and ensuring sustainable forestry, while also ensuring there is no conversion or degradation of natural ecosystems. Kering currently has several initiatives underway that support these aims through the regenerative production of leather, cashmere, cotton and wool, and by increasing the uptake of these materials into supply chains.

Kering is supporting the UN Fashion Charter for Climate and the recommendations being developed for materials with low climate impacts. In synergy with this, Kering is also part of the Fashion Pact that is exploring collective action around materials for reduced climate impacts and optimized co-benefits for people and nature.

It is expected that a 20% reduction in the emissions of the Group and its supply chain can be achieved by 2030 through the increasingly strict adherence to Kering standards and best practices for raw material production.

# OUR COMMITMENT TO NATURAL CLIMATE SOLUTIONS: Removal & resilience

# Natural Climate Solutions are conservation, restoration and improved land management actions that increase carbon storage and/or avoid greenhouse gas emissions.

Consistent in best available science, Kering firmly believes there is no clear path to climate mitigation without investing in nature. Limiting climate change to safe levels requires both the avoidance/reduction of emissions, and the removal/sequestration of carbon dioxide from the atmosphere. NCS play a significant role in avoiding/reducing emissions, for example, by avoiding deforestation and removing/sequestering emissions through practices such as regenerative agriculture. NCS can provide around 30% of global climate mitigation (abatement potential) – or 1/3 of net emissions reductions<sup>2</sup>, Investments in protecting ecosystems with high concentrations of carbon (tropical forests, mangroves and peatlands) are particularly important for the coming decade, as recent studies have shown that if these ecosystems are lost, much of the carbon stored will be 'irrecoverable' by mid-century.<sup>3</sup>

Our strategy is to increasingly promote the protection and scaling of NCS through the way our agricultural and tree-based raw materials are produced. This is based on our commitment to not only reduce emissions, but also to remove carbon by restoring and protecting carbon sinks, while at the same time enhancing biodiversity and the resilience of people's livelihoods. We are also committed to expanding our support for NCS beyond our supply chain. We aim to achieve this through our offsetting strategy and our work to promote broader corporate initiatives that combine climate mitigation and biodiversity conservation.

# NATURAL CLIMATE SOLUTIONS IN OUR SUPPLY CHAIN

As outlined in the previous section, Kering's standards and best practices for sourcing are designed to drive actions that reduce emissions, mainly through our promotion of materials from agriculture and forestry production that deliver positive climate and biodiversity outcomes. Of course, with the right practices, raw material production can also provide a significant opportunity for carbon sequestration (removal). This is key to the NCS approach, which is primarily to transform the agriculatural production of raw materials. It can provide a pathway to removals (or neutralization) by enhancing soil health and restoring above-ground biodiversity in farming landscapes. This, in turn, will improve the resilience of agricultural production in the face of continuing climate change shocks and will also support improvements in rural livelihoods. NCS create the synergy between Kering's biodiversity, climate and circularity strategies while the climate, biodiversity and livelihood outcomes delivered through NCS will make a major contribution to both natural and business resilience.

Around 60% of Kering's raw materials originate from agriculture e.g. leather, plant fibers and animal fibers, and about 30% from forestry; e.g. wood, cellulose-based fibers and paper/cardboard. As a result, these areas will continue to be a focus of the strategic

<sup>2</sup>Griscom et al 2017, https://www.pnas.org/content/114/44/11645 <sup>3</sup>Goldstein et al 2020 NCS activities. Fundamental to Kering's approach is to avoid conversion or degradation of natural ecosystems for production of raw materials. Key focal areas of action are weighted towards a focus on agricultural production:

- Increasing the sourcing of agricultural raw materials from regenerative agriculture, and/or practices that are transitioning to 'regenerative'. This includes production of a suite of plant fibers (e.g. cotton), animal-based fibers (e.g. cashmere, wool and mohair) and leather (e.g. from cattle, sheep and goats)
- Rebuilding ecosystems and connectivity in agricultural landscapes by restoring natural habitats, river systems and wetlands located in and around our areas of agricultural production
- Building understanding and knowledge about the measurement and tracking of climate benefits and other co-benefits (e.g. biodiversity conservation) of regenerative agricultural practices
- Ensuring that forest-based raw materials are from verified sustainably-managed production systems that also protect wildlife and their habitats

Kering defines regenerative agriculture as a suite of practices that lead to the following outcomes:

- Increase in the ability of soils to sequester carbon, hold water and improve other elements of soil functionality
- Protection and restoration of biodiversity (plant and animal species)
- Elimination of the use of synthetic agrochemical inputs
- Improved livelihoods of farmers
- Enhanced welfare of livestock

Regenerative agricultural practices go beyond simply prioritizing direct outcomes for climate in terms of emissions reductions and sequestration, but rather reflect a commitment to deliver a suite of co-benefits (along with those associated with carbon cycles). Kering is – and will continue to be – guided by the latest science to promote practices that have proven climate benefits, such as cover cropping, improved nutrient management, enhanced tree cover and reforestation. Given the importance of understanding the conditions under which regenerative agricultural delivers particular outcomes in particular geographies and under varied practices, it is equally critical to support experimentation and to improve data and metrics for tracking outcomes.

Our commitment to provide climate benefits through improved agricultural practices will be implemented in three main ways:

- Promoting adherence by suppliers to Kering's raw material standards, and ongoing support and awareness-raising across our supply chains for the uptake of climate-smart and nature-smart materials. This includes updating the EP&L tool to refine the way in which it captures impacts, and presents information back to brands and suppliers about their progress.
- Direct support for new sourcing programs for strategic raw materials. In collaboration with its Maisons, Kering supports initiatives that promote improved agricultural practices. Examples of this include our partnership with the Savory Institute to help source materials from regenerative grazing systems and our

longstanding South Gobi program to support sustainable grazing for cashmere production. Kering will also continue its decade-long support of the transition to regenerative cotton production that includes organic cultivation.

• Implementation and growth of the Kering Regenerative Fund for Nature over the next five years.

## **KERING REGENERATIVE FUND FOR NATURE**

Launched in early 2021, the Kering Regenarative Fund for Nature has the goal of transitioning 1 million hectares of farmland and rangeland to regenerative agricultural practices by 2025. The Fund, which is managed jointly with Conservation International, is targeting the improved production of cashmere, wool, leather and cotton across key production areas in 17 countries. By providing grants to farmers, farmer associations and NGOs, the fund will act as a catalyst for the transition to regenerative agriculture. At the same time, it will increase awareness of its importance for the interconnected crises of the natural environment and climate change. Some projects may already fall within Kering's Scope 3, as part of the 'fibershed' of raw material sourcing, while others will be supported with a view to future inclusion into the sourcing portfolio. Importantly, the projects being funded will also increase the available pipeline of raw materials that bring climate benefits for the fashion/luxury sector more broadly.

An important and unique element of the fund will be a detailed research agenda to structure the data being collected from projects, in addition to more standard monitoring and evaluation tracking. By doing this, the Kering Regenarative Fund for Nature will function as a global experiment to better understand, track and measure the climate, nature and livelihood outcomes of regenerative practices in specific geographies. Through collaboration with world experts, Kering will contribute to the science and practice of NCS and will, in turn, be able to promote the transformation of agriculture to proven regenerative approaches that deliver measurable climate outcomes.

# NET ZERO & NCS: Our offsetting strategy

## **GETTING TO NET ZERO**

We aim to lead by example in implementing best practice for net-zero approaches, and our strategy is based on expert guidance in setting net zero targets guided by the Science Based Targets Initiative (SBTi). As the net-zero standard develops, Kering will adapt its approach and strategy as appropriate.

The IPCC definition of net zero, where "anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period," is fundamental. Kering's commitment is to contribute to the global goal of net zero by 2050, but at the same time to ensure that Kering, as a company, reaches net zero by 2050. To do this, Kering recognizes that best practice involves the company:

- Achieving a scale of value-chain emission reductions consistent with the depth of abatement achieved in pathways that limit warming to 1.5°C with no or limited overshoot and;
- Neutralizing the impact of any source of residual emissions that cannot feasibly be eliminated by permanently removing an equivalent amount of atmospheric carbon dioxide.

As Kering designs and adapts its program of action for the climate – both in terms of technological and Natural Climate Solutions – its work will be based on the 'mitigation hierarchy' (sometimes called the conservation hierarchy). This means that priority will be given to actions that initially avoid and reduce emissions within our business operations and supply chain. As a second priority, Kering supports actions that drive removals within our business (neutralization). Our offset program is designed as a final logical step to reach net zero. This strategy encompasses both avoiding or reducing emissions outside our value chain (compensation measures) as well as removing carbon from the atmosphere (neutralization measures) outside our supply chain.

We recognize that it is critical to continuously strive to achieve the decarbonization across our business that is required by our SBTi commitment and our contribution to limiting global warming to 1.5°C. We are currently on a transition to net zero and will continue to work toward a level of decarbonization that is consistent with a 1.5°C pathway. Once we have reached a verifiable objective (against the science-based target for net zero), we will continue to offset our residual emissions (through mainly neutralization) to ensure a demonstrable claim of net zero.

## **OFFSETTING**

Kering has offset emissions for over a decade. Initially, action was focused on offsetting emissions from Scopes 1&2, but since 2019, Kering has committed to offset unabated emissions across all scopes of the business and the entire supply chain (Scope 3). From the beginning, Kering has also been committed to offsetting through NCS, notably forest-based REDD+ offset programs. All offset investments are guided by the highest standards of carbon accounting (VERRA) as well as social and environmental outcomes (CCBA).

To date, offsets have totaled around 4,500,000 tonnes over 8 years and have contributed to the conservation of more than 3 million hectares of forest and natural habitat – home to thousands of species, hundreds of which are endangered. The programs supported over the years have helped to improve the livelihoods of nearly 500,000 people who depend directly on forested landscapes.

Under this new Climate Strategy, Kering's offsetting will continue to focus on NCS. However, Kering will also expand its strategy and take a pioneering role in responding more broadly to the urgent need to protect and restore nature. This will include making investments that will lead to:

- Protection of forests, grasslands, peatlands and mangroves
- Restoration of forests, grasslands and mangroves
- Regenerative agriculture

To do this Kering will support and promote offsetting initiatives that include:

- Robust REDD+ projects including emerging jurisdictional approaches for REDD+ to help build and scale the support and financing across public and private sectors
- Programs that generate carbon credits through the protection and and restoration of mangroves and coastlands
- Programs that support the transition to regenerative agriculture with measurable climate benefits

Our offsetting investment principles are guided by the NCS principles developed by Conservation International. To ensure environmental and social safeguards, offsetting projects must:

- Equitably benefit people. Projects/initiatives should support community and indigenous rights, promote gender inclusion, meet social and environmental quality standards (CCB or equivalent), share benefits based on negotiated agreement with host communities and governments, and apply a carbon price or other investment that meets these needs
- Meet rigorous standards for quality and additionality (Verra/ VCS or equivalent) and deliver results verified by a third party
- Align with national policy and national carbon accounting

Kering recognizes that additional effort is needed to develop new types of NCS that generate carbon credits, particularly with respect to agricultural-based reductions and removals. Kering's Regenerative Fund for Nature will work therefore with existing carbon programs in agricultural landscapes, and will also support new science-based approaches. Ultimately, the aim is to promote greater understanding of how to optimize agricultural practices for climate benefits that can also provide additional support to farmers. Developing the potential for selling carbon credits is just one way that we can support the transition to more regenerative practices in agriculture, both within and beyond our supply chain. The objective will be to help build the knowledge and science that will underpin the measurement and verification of climate outcomes of regenerative approaches, and to build the pipeline of compelling carbon credits for the market.

In 2021, we will develop clear guidelines on the types of offsetting programs and pipeline initiatives that we will support. Through our offsetting program, our goal over the next five years is to help protect at least 1 million hectares of critical ecosystems and enhance the livelihoods of people who depend on these ecosystems around the world.

# TRANSFORMING OUR SECTOR

We know that action on nature, climate and social justice need to go together. We also know that a system change is needed to deliver the right outcomes over the long term. At Kering, we are convinced of the need to be bold in pioneering new approaches ourselves, and equally bold in supporting a shared vision for the climate and nature. We continue to build collaboration across the luxury/fashion sector and beyond, covering other areas of the food and agricultural sectors. Below are three notable ones that will deliver significant contributions to climate mitigation.

## PARTNERSHIPS AND COALITIONS

The Fashion Pact (2019). In preparation for the G7 meeting in 2019, French President Emmanuel Macron tasked Kering's CEO and Chairman of the Board, François-Henri Pinault, with bringing together fashion and textile companies to set ambitious commitments and take practical action on three challenges: halting climate change, protecting and restoring biodiversity, and safeguarding the oceans. Kering is active in all three areas, and in terms of emissions reduction is taking part in a collective initiative for sectoral shift to renewable energy. Additionally, along with other Fashion Pact signatories, Kering is building synergies across its climate and biodiversity activities through collective action on the sourcing of regenerative raw materials.

**Fashion Industry Charter for Climate Action** (2018). An initiative coordinated by UN Climate Change, the Charter unites the world's leading fashion houses, retailers, suppliers and professional associations around the common goal of drastically reducing the industry's carbon footprint, in line with the objectives of the Paris Agreement. Kering is particularly focused on promoting collective action to mitigate climate change through choices and actions with regard to raw materials.

**OP2B** (2019). Kering has been involved since the very start of this business coalition, which brings together 27 agriculture-dependent companies, including those from the food, cosmetics and fashion industries. The coalition is determined to drive transformational, systemic change and to act as a catalyst for action to protect and restore cultivated and natural biodiversity within the value chains. It also aims to engage with institutional and financial decision-makers, and to develop and promote policy recommendations. Its activities are focused on three areas: scaling up regenerative agricultural practices; boosting cultivated biodiversity through product portfolios; and eliminating deforestation/enhancing the management, restoration and protection of high-value natural ecosystems.

sustainability@kering.com www.kering.com/en/sustainability

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