

# ENVIRONMENTAL PROFIT & LOSS (EP&L)

2019 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 its own operations and entire supply chain.

In doing so it helps us:

- Translate environmental impacts into a language business understands;
- Compare between different types of impact;
- Facilitate comparisons 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 sourcing material choices, or around the development of new manufacturing processes;
- 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 the methodology paper<sup>1</sup>.

## OUR 2019 EP&L RESULTS

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

Another aspect of adaptation has been a shift to focus our EP&L analysis and results as related to our luxury brands. This was mainly due to the natural alignment of our EP&L use with the new profile of the Group and our sustainability strategy. We launched the next phase of our sustainability strategy in 2017. It is a 360° approach within our own operations and throughout the supply chain, whereby we are reducing our environmental impacts, advocating social welfare inside and outside the Group, and creating innovative, game-changing platforms. Within this 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.

**KERING'S 2019 GROUP EP&L, IS ESTIMATED TO BE € 524M. IN ABSOLUTE TERMS, THE 2019 EP&L IS STABLE COMPARED TO 2018, WHICH IS AN EXCELLENT PERFORMANCE CONSIDERING THE STEEP INCREASE OF REVENUE. ON A PRO-FORMA BASIS, THE EP&L INTENSITY (€ EP&L PER 1000€ REVENUE) DECREASED BY 14% BETWEEN 2018 AND 2019.**

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 2025 reduction pathway to attain our 40% EP&L target in our own operations and across the supply chain, achieving a 29% reduction in our EP&L intensity between 2015 and 2019 for the Group.**

<sup>1</sup> Kering EP&L methodology paper  
<https://keringcorporate.dam.kering.com/m/624d74ea5d6ea3cc/original/Document-Kering-Environmental-Profit-and-Loss-methodology.pdf>

## UNDERSTANDING UPDATES TO THE METHODOLOGY FOR 2019

For our 2019 EP&L we have made improvements to our methodology and the quality of the data that underpins it, such as including data that reflects regenerative farming practices and better land management practices in general. We have also harmonized the way recycled materials were modeled in the EP&L, and based on the difference in EP&L impacts as compared to the conventional materials.

These improvements in the EP&L methodology better translate and embed the criteria defined by the Kering Standards<sup>2</sup> that we follow as a Group and are applied retrospectively to the 2015, 2016, 2017 and 2018 Group EP&L results. These results are also adapted to reflect the focus on our luxury brands to ensure comparability between years and our shift to becoming a luxury only proposition.

## LAND USE AND BIODIVERSITY

Kering endeavors to ensure that its activities minimize negative impacts on biodiversity, and aims to create positive impacts, particularly in terms of soil regeneration and the preservation of endangered animal and plant species. Kering is committed to improving the way it accounts for biodiversity and ecosystem services in its EP&L methodology and to improving the data and knowledge underlying these evaluations.

In this context, 2019 saw the creation of a biodiversity indicator in collaboration with Kering, the Cambridge Institute for Sustainability Leadership (CISL) and the Natural Capital Impact Group (NCIG). This indicator, known as the Biodiversity Impact Metric (BIM)<sup>3</sup>, measures the relative impact of a business's operations on biodiversity across particular material choices and geographies. It is particularly focused on biodiversity impacts at the level of raw material production (Tier 4). It is therefore an important tool which can guide actions to reduce impacts. In 2019, the BIM was tested on a number of raw materials supply chains for the Group's brands, in particular for textile fibers including cotton and viscose.

We are in the process of integrating this information, which will help improve the way biodiversity is modelled in the EP&L methodology in subsequent years.

Technology can also play a key role, as demonstrated by our partnership with Stanford University's Natural Capital Project and NASA to explore opportunities for using ecosystem modeling data to track changes and progress in ecosystem services generated by the implementation of sustainable pastoral practices by nomadic cashmere breeders in the Gobi region of Mongolia. This partnership is part of a multi-year program aimed at demonstrating that ecosystem models can be used to create decision-support tools, as well as inform the development of low-impact and biodiversity-friendly farming methods. When it comes to the EP&L, we are working with Stanford to integrate their findings in order to improve the precision of our measurement, which will pave the way for greater update of cashmere produced using sustainable pastoral practices.

2 Kering Standards for Raw Materials and Manufacturing Processes <https://keringcorporate.dam.kering.com/m/2b0fd1f253475285/original/Document-Kering-Standards-for-raw-materials-and-manufacturing-processes-EN-.pdf>

3 Biodiversity Impact Metric public report: <https://www.cisl.cam.ac.uk/resources/natural-resource-security-publications/measuring-business-impacts-on-nature>

## SPOTLIGHT: OPEN SOURCE PLATFORM AND HACKATHON

When publishing its first Group EP&L results in 2015, Kering committed to continue to open source its methodology and influence other stakeholders towards natural capital accounting practices. Last year, Kering made a major step forward on open sourcing its approach and the EP&L underlying data thanks to its Digital EP&L. To continue these efforts, Kering is releasing its 2019 EP&L data through this open source platform available at: <https://kering-group.opendatasoft.com> The Digital EP&L allows access to an interactive version of our Group EP&L results while also providing dynamic comparisons to understand the evolution of the Group's environmental impact between 2018 and 2019.

Through the Digital EP&L, the set of coefficients that Kering has used to build its Group EP&L are also accessible, helping stakeholders to progress on their natural capital accounting journey. Open sourcing these datasets is a concrete example of Kering's contribution to the **Fashion Pact**<sup>4</sup>.

The Fashion Pact is a global coalition of companies in the fashion and textile industry (ready-to-wear, sport, lifestyle and luxury) including their suppliers and distributors, all committed to a common core of key environmental goals in three areas: stopping global warming, restoring biodiversity and protecting the oceans. Launched as a mission given to Kering Chairman and CEO, François-Henri Pinault, by French President, Emmanuel Macron, the Fashion Pact was presented to Heads of State at the G7 Summit in Biarritz. As of May 2020, there are 67 signatories representing over 250 brands to date, which equals around 35% of the industry.

Kering is actively involved in discussions with Fashion Pact members and supporting those who are interested in implementing a natural capital accounting approach using Kering's EP&L methodology and datasets. The EP&L can be used as a key enabler for achieving the Fashion Pact targets, especially around measuring and managing impacts related to climate and biodiversity.

Thanks to its open source platform, Kering also leveraged its EP&L datasets by organizing a Hackathon in October 2019. Kering's **"Hack to Act"**<sup>5</sup> gathered 80 developers and experts selected from around 250 candidates, with a 70% professional and 30% student participant ratio. Competitors had 48 hours to leverage Kering's EP&L datasets to create a new generation of Apps or digital solutions to help close the gap in understanding the link between luxury fashion and its impact on the environment.

From the challenge launch until the final Jury selection, participants were coached by Kering sustainability mentors, as well as by specialists from Kering's brands and external experts.

Under the leadership of Marie-Claire Daveu, Chief Sustainability Officer and Head of International Institutional Affairs at Kering, the jury members included: Patrick Pruniaux, CEO of Girard-Perregaux and Ulysse Nardin; Antonella Centra, EVP General Counsel, Corporate Affairs & Sustainability at Gucci; Nicolas Polaillon, Data, CRM & AI Director at Kering; Pavan Sukhdev, President of WWF International; Toby Heaps, CEO of Corporate Knights; Omer Mahmood, Customer Engineer, Google Cloud at Google.

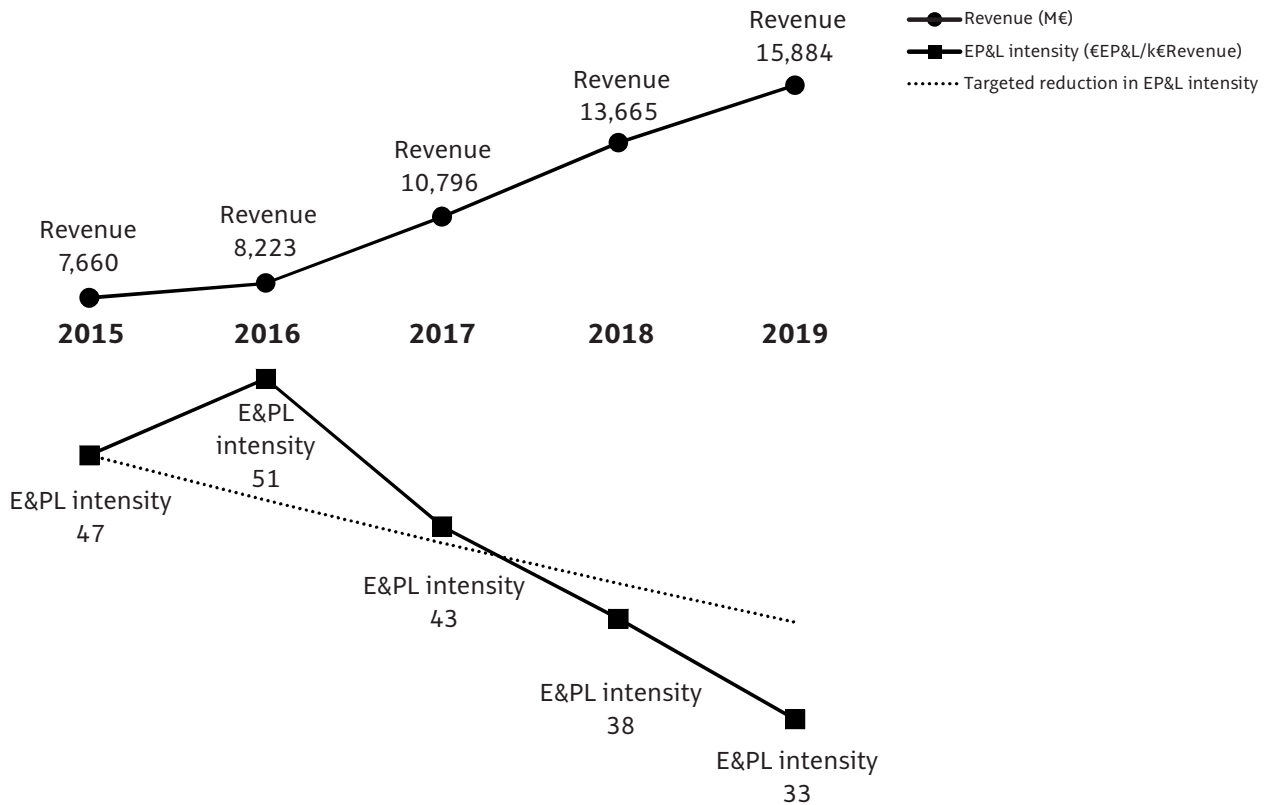
The jury selected the top 3 initiatives amongst 12 short-listed digital solutions based on four criteria: innovation, challenge matching, feasibility and user experience. The winners received €10,000 for their "Core" project, a prediction and recommendation platform aimed at the creative teams, the product managers and the clients. Innovation is a key enabler to achieve the Group's sustainability targets and Kering will continue to explore the potential implementation and feasibility of the concepts developed during its hackathon.

<sup>4</sup> Fashion Pact <https://thefashionpact.org/>

<sup>5</sup> Kering has organized a 48-hour hackathon dedicated to Luxury fashion and sustainability on October 4-6th. Entitled "Hack to Act", this first of its kind edition recognized three solutions for their ground-breaking creativity addressing sustainability challenges. <https://www.kering.com/en/news/kering-organizes-the-first-hackathon-for-sustainable-luxury>

## UNDERSTANDING OUR 2019 EP&L RESULTS

FIGURE 1: EVOLUTION OF THE EP&L IMPACTS RELATIVE TO REVENUE<sup>6</sup>


























Revenue: € million

EP&L Intensity: Group EP&L € per €1,000 revenue (Intensities based on Group EP&L results calculated using the 2019 methodology)

Targeted reduction in EP&L intensity: Kering has targeted a 40% reduction in its Group EP&L intensity by 2025, with a 2015 baseline. This trajectory is shown in the chart in dotted line and leads to a Group EP&L intensity of 28 (€EP&L/k€Revenue) in 2025. This reflects that we are on track and ahead of the timeline trajectory to our reduction ambitions.

<sup>6</sup> 2015 EP&L intensity of €47 per €1,000 of revenue has been calculated using a revenue of €7,660 million. This revenue figure adjusts for the significant fluctuations in currency exchange rates seen in 2015 and Kering's luxury brands that are not consolidated anymore in 2019. 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 						7% €34.9
GHGs 						36% €186.0
LAND USE 						32% €169.8
WASTE 						6% €32.3
WATER CONSUMPTION 						6% €33.3
WATER POLLUTION 						13% €68.0
TOTAL IN MILLIONS:	8% €41.7	6% €33.3	10% €53.7	11% €55.8	65% €339.8	100% €524.3

## DISTRIBUTION OF IMPACTS ACROSS THE SUPPLY CHAIN

Figure 2 shows how the Group's environmental impacts across the supply chain are distributed. We see that the Group's most significant impacts are generated in the supply chain (92%), and in particular from the production and processing of raw materials that together represent 76% of the total. Kering's own operations represent only 8% of the impacts. Indeed, leveraging changes across the supply chain is a long-term process and in many cases will not yield immediate results. However, with this knowledge gained from the EP&L we have shifted our efforts and we are creating programs to promote sustainable best practices and innovating in our supply chain.

Furthermore, since the supply chain is difficult to influence as one Group alone, we are collaborating with our peers, and across sectors, to drive positive change.

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

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

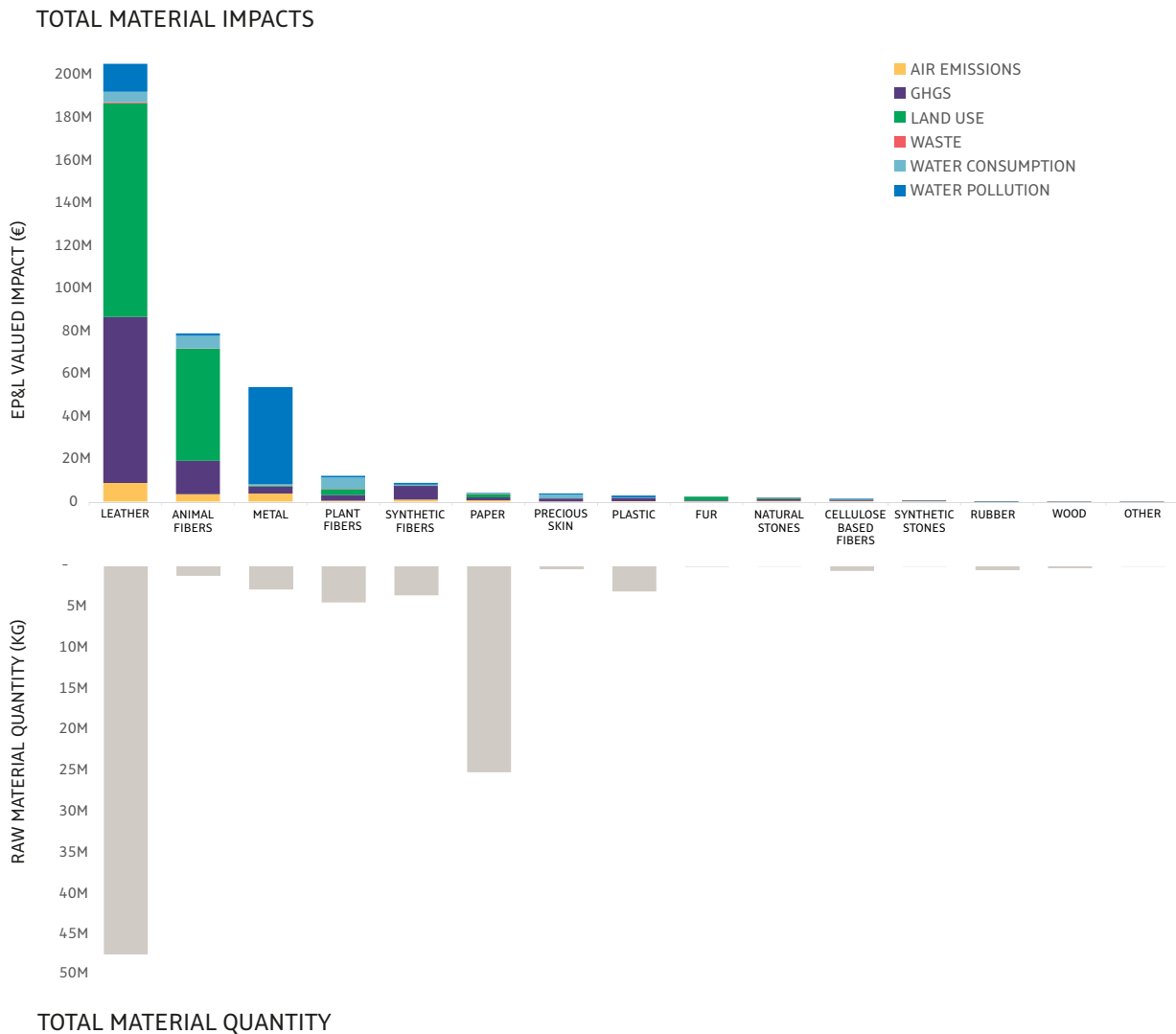
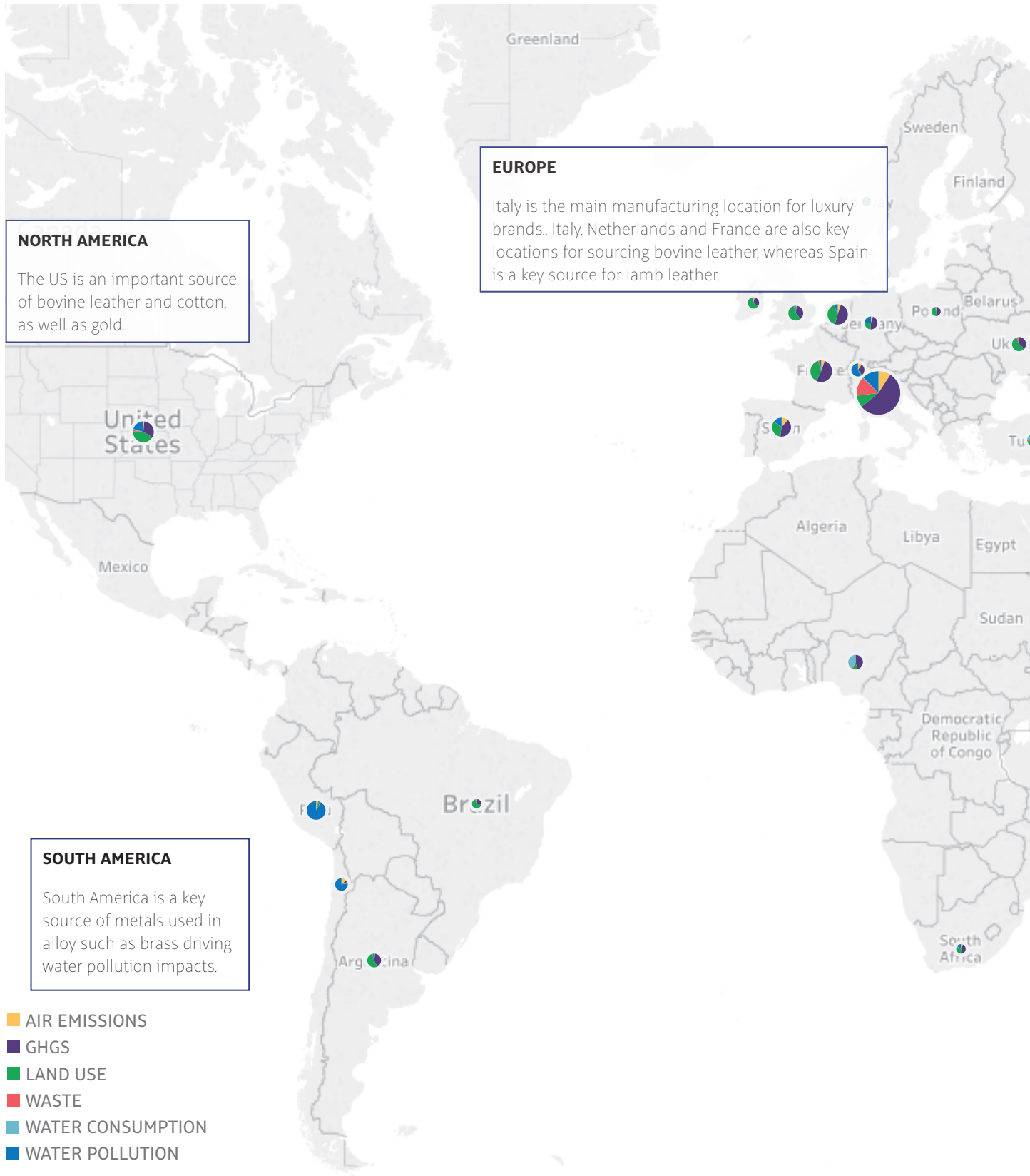
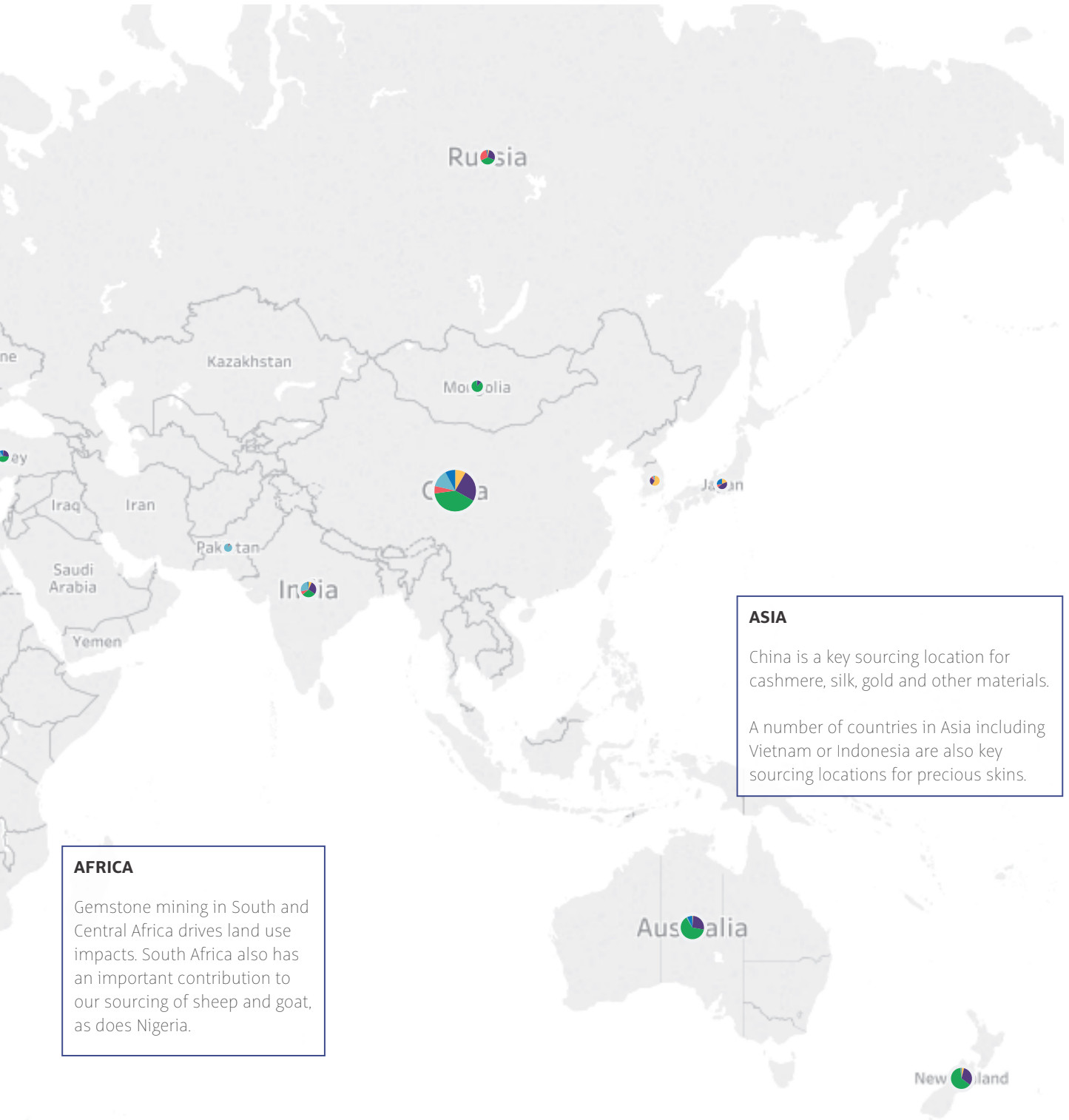


FIGURE 4: MAP OF IMPACTS AND KEY DRIVERS







**ASIA**

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

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

**AFRICA**

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

**AUSTRALIA AND NEW ZEALAND**

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

## UNDERSTANDING 2019 VS 2018

Figure 5 shows the main drivers of change between 2019 and 2018. Despite the growth of the business we can see that the impact related to raw materials purchasing and manufacturing are increasing reasonably. In the Group's own operations, we managed to achieve significant impact reductions, almost offsetting the growth linked to raw materials and supply chain, thanks mainly to renewable energy use and energy efficiency programs across the Group's stores, offices and warehouses.

**FIGURE 5:** 2019 EP&L RESULTS, SHOWING RELATIVE INFLUENCES OF CHANGES SINCE 2018 PRO FORMA RESULTS



**TABLE 2:** DESCRIPTION OF THE MAIN DRIVERS OF CHANGE BETWEEN 2019 AND 2018 PRO FORMA RESULTS

TYPE OF ACTIVITY	CHANGE	REASON FOR CHANGE
<b>OPERATIONS</b>	<b>-€16.9MILLION</b>	Increase in renewable energy use (84.8% green electricity in 2019) and energy efficiency programs across stores, offices and warehouses.
<b>MANUFACTURING</b>	<b>+€9.2MILLION</b>	Increase in production volumes compared to 2018
<b>RAW MATERIALS PRODUCTION AND PROCESSING</b>	<b>+€9.9MILLION</b>	Increase in raw material purchase volumes compared to 2018 despite a significant growth of the business showing the benefits of increased sustainable raw material use, efficiency programs and sustainable sourcing strategies.

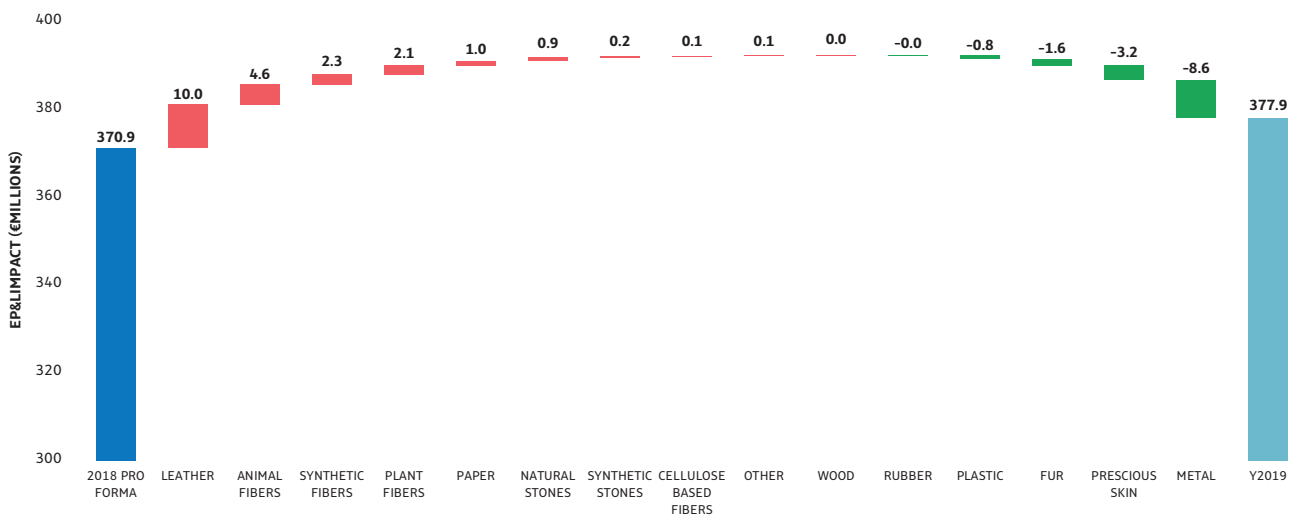
A key priority underlining Kering's 2025 Sustainability Strategy continues to be focused on reducing the impacts of the raw materials used in our brand's products. To support our efforts, we launched our Kering Standards for Raw Materials and Manufacturing Processes<sup>7</sup> in January 2018. An updated and more comprehensive version of the Kering Standards have been released in January 2019 and are publicly available on the Kering website, with a newly updated 2020 version to be published soon. The Kering Standards 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. The Kering Standards are covering the key materials used by the Group: leather and precious skins, fur, wool, cotton, paper, wood, plastics, feathers and down, cellulosic fibers, gold and diamonds, silk, synthetic fibers, colored gemstones and silver.

Thanks to the Group's continued efforts to implement the Kering Standards, we saw a limited increase of impacts linked to the use of leather (Figure 6) in 2019. This was possible especially through improved raw material use efficiency programs, sustainable sourcing strategies and sustainable manufacturing processes, such as metal-free tanning. The impact related to fur continues to decrease as the number of brands using this category of materials decreases within the Group.

We can also highlight the significant decrease of impacts linked to metals, which is directly attributable to the Group's continuous efforts to include more and more recycled metals within our brand's product lines. This is especially true when it comes to brass but is also applicable to precious metals such as gold for which a dedicated buying platform, the Kering Responsible Gold Framework, is encouraging our brands to increase their use of responsible gold (RJC Chain of Custody-certified gold, Fairtrade and Fairmined-certified artisanal gold, recycled gold).

To drive best practices even further, Kering published its Animal Welfare Standards in May 2019<sup>8</sup>, with the aim of ensuring humane treatment for animals throughout the Group's supply chain and to raise awareness for the importance of animal welfare. The Kering Animal Welfare Standards constitute the first body of guidelines addressing animal welfare in the world of luxury and fashion. Kering's chief aim is to help change animal welfare practices across the sector as a whole. The standards cover all the species in the Group's supply chains around the world, namely cattle and calves, sheep, goats, ostriches, crocodiles and alligators, pythons and species raised for their fur. For each of these species, the open-sourced standards highlight the specific challenges and criteria needed around breeding, transportation and abattoirs, as a few examples, and provide best practices as well as a list of existing benchmark certifications. In addition to its multi-species overviews, Kering has published comprehensive individual standards for cattle, calves, sheep and goats, as well as guidelines for abattoirs.

**FIGURE 6:** A CLOSER LOOK AT CHANGES IN RAW MATERIAL IMPACTS IN THE SUPPLY CHAIN SINCE 2018 PRO FORMA RESULT



7 Kering Standards for Raw Materials and Manufacturing Processes <https://keringcorporate.dam.kering.com/m/2b0fd1f253475285/original/Document-Kering-Standards-for-raw-materials-and-manufacturing-processes-EN-.pdf>

8 Kering Animal Welfare Standards <https://keringcorporate.dam.kering.com/m/163ccd09fe07f9ab/original/Document-Kering-Animal-Welfare-Standards.pdf>

K E R I N G



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June 2020

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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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