

ENVIRONMENTAL PROFIT & LOSS (EP&L)

2020 Group Results



KERING



Since 2012 we have been measuring and monitoring our progress in becoming more sustainable as a Group using the Environmental Profit & Loss (EP&L). 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 methodology. As an example, we have added the impact of product use and end of life to the analysis starting from the 2020 Group EP&L. This follows on from Kering's international survey, and the resulting [white paper](#) we published in 2019, to capture consumer care and disposal behaviours towards luxury products. The extended scope of our EP&L now enables us to understand and quantify the full lifecycle of a product from cradle to grave.

We have also made technical advancements through cloud-based analytics and a reporting tool that is now core to the EP&L. There are multiple benefits to this new approach, including reduced lead time in producing the results and forecasting capacity. Our ambition at Kering 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 methodology, while reporting on our progress.

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 entire supply chain.

In doing so it helps us:

- Translate environmental impacts into a language business understands;
- Compare between different types of impact; and,
- Facilitates comparison between brands and business units.

As a result we can:

- Analyze luxury products from cradle to grave;
- 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; and,
- Be transparent with our stakeholders.

For more details on our EP&L methodology, see the [Methodology paper](#)

UNDERSTANDING UPDATES TO THE METHODOLOGY FOR 2020

Each year, improvements are made to the EP&L methodology, whether to the quality of the data that underpins it, or to reflect the latest studies around materials and processes. The valuation coefficients are also reviewed every 3 years. They have been updated for the 2020 EP&L to include the latest developments on natural capital accounting and to follow accounting best practices. For example, by adjusting for changes in currency exchange rates and price levels.

As a result, the valuation coefficients have increased on average, by 15-17% across each environmental impact categories between 2019 and 2020. For example, the cost of carbon previously used was € 73,48 / Tonnes CO₂e. It is now € 86,40 / Tonnes CO₂e.

These methodological improvements are of course applied retrospectively to the previous years starting from the 2015 baseline to ensure comparability between years.

OUR 2020 GROUP EP&L RESULTS

Within our sustainability 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 2020 Group EP&L is estimated to be € 516M. For the first time this includes the impact of product use and end of life, which represents € 62M.

On a *pro forma* basis, Kering's 2020 Group EP&L amounted to € 454M, decreasing it by 23.7% in absolute terms compared to 2019. The COVID-19 crisis, which led to temporary and/or partial closure of production facilities, logistics platforms and store networks in 2020 has of course also impacted the EP&L figures, especially as production volumes have been consequently reduced. The Group turnover was obviously affected by the pandemic also, with a decline of 17.5% compared to 2019.

Despite the pandemic, our sustainability efforts are still driving the reduction of our environmental impacts. **On a *pro forma* basis, the EP&L intensity (€ EP&L per 1000€ revenue) decreased by 7% between 2019 and 2020.**

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 more than on track on our reduction pathway to our 40% EP&L 2025 target in our own operations and across the supply chain, **achieving a 33% reduction in our EP&L intensity between 2015 and 2020.**

SPOTLIGHT: PRODUCT USE AND END-OF-LIFE

Historically the Environmental Profit & Loss (EP&L) account measures and quantifies the environmental impacts from all Kering's business activities from raw material production to stores. In order to tackle the measurement of the consumer use phase and the environmental impacts from end of life, Kering launched the first major survey of its kind to capture the behaviour patterns of more than 3000 luxury fashion consumers across France, United Kingdom, Italy, China, the USA and Japan in October 2019. Participants answered wide-ranging questions representative of the products they had purchased including: frequency of use, product care and the product's length of life and disposal behaviours.

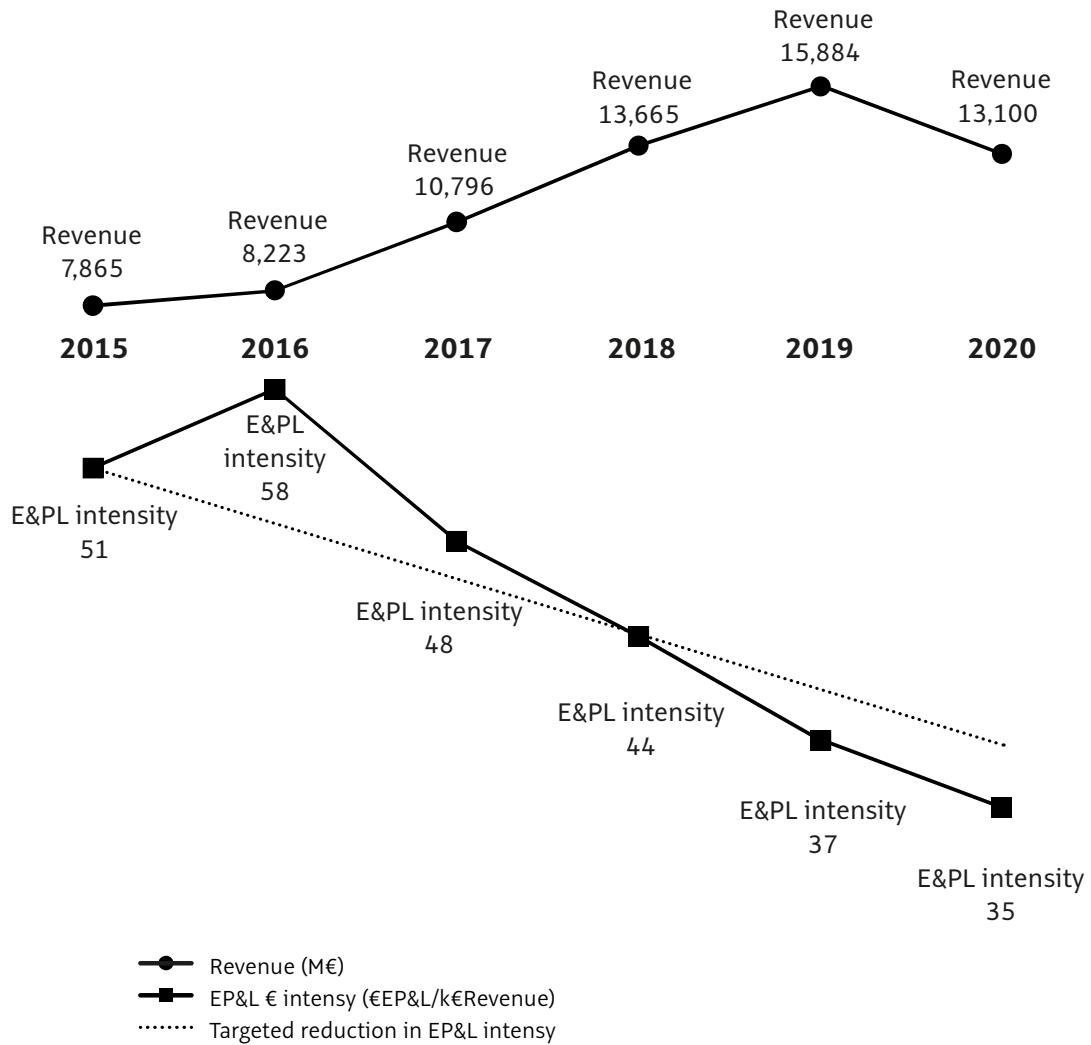
Thanks to this survey, a specific methodology was developed to capture the environmental impact of product consumer use and end-of-life. After a pilot phase, this approach was extended this year to be included in our 2020 Group EP&L⁽²⁾.

The first results have showed that product consumer use and end of life represent 12% of the total environmental impact of a product's lifecycle. The majority of these impacts are focused in the use phase (99%), with the largest environmental impact being greenhouse gas emissions (49%).

Now that these downstream impacts are integrated into the EP&L, Kering intends to explore this further to identify areas of material impact, where targeted interventions would help to reduce the EP&L value. For example, for the ready-to-wear product category the consumer use phase and end of life impacts make up 29% of the total lifecycle impact (compared to 12% as the average across all product categories). Possible interventions could include a customer outreach programme or product care labels to build consumers awareness around how the consumer use phase choices influence the environmental impact of a product.

(2) Excluding Watches and Jewellery and Eyewear divisions

FIGURE 1:
evolution of the EP&L impacts relative to revenue

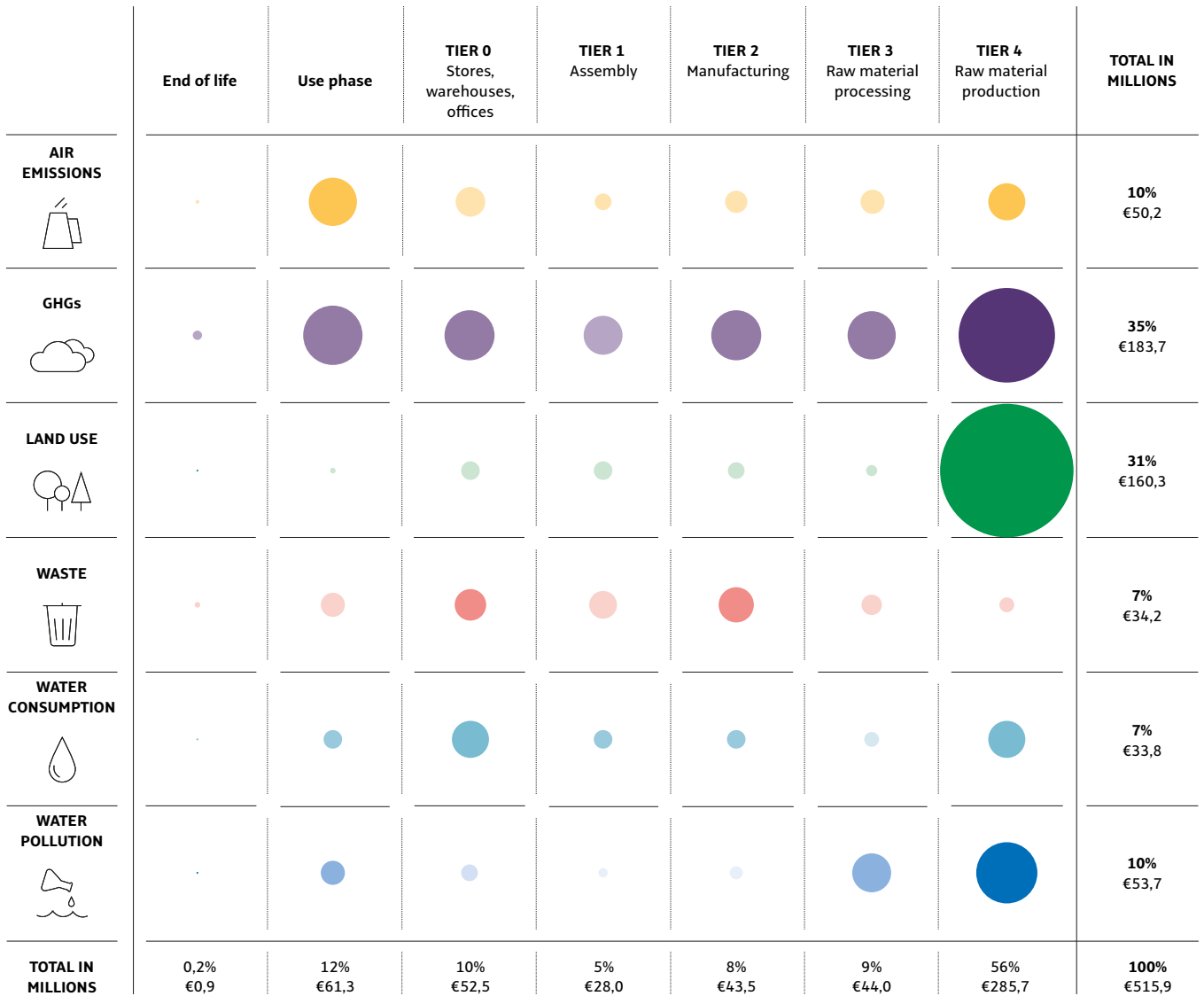


Revenue: € million

EP&L Intensity: EP&L € per €1,000 revenue (Intensities based on EP&L results calculated using the 2020 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 in dotted line and leads to an EP&L intensity of 31 (€EP&L/k€CA) in 2025. This reflects we are on track and even in advance to reach our reduction ambitions.

FIGURE 2:
EP&L impacts across the tiers split by impact area



DISTRIBUTION OF IMPACTS ACROSS THE SUPPLY CHAIN

Figure 2 shows how Kering’s impacts across our supply chain are distributed. We see that the most significant impacts are generated in the supply chain (78%), and in particular from the production and processing of raw materials that together represent 65% of the total EP&L. The inclusion of downstream impacts has shown that product consumer use and end-of-life account for 12% of our total impact, and similar to our own operations, which represent 10% of the Group’s environmental 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 fibres, 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

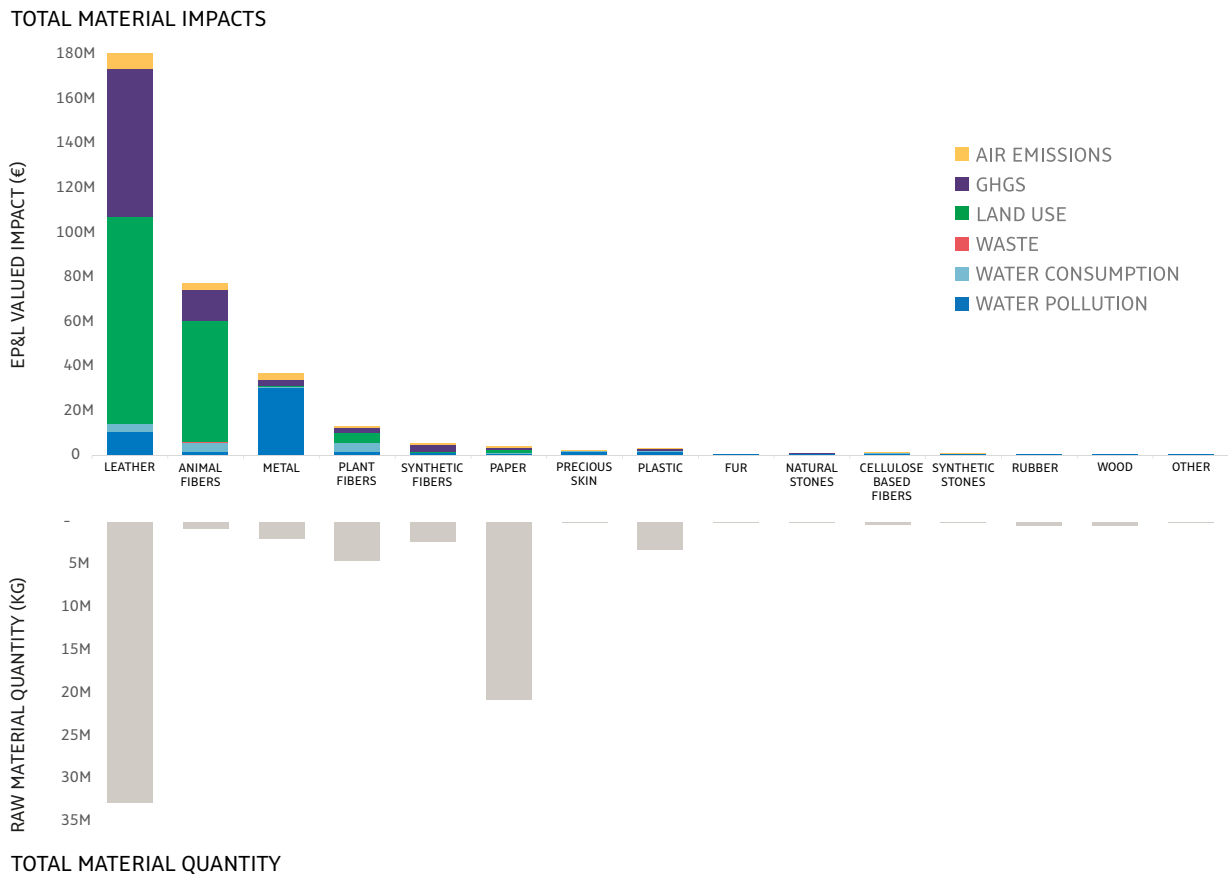
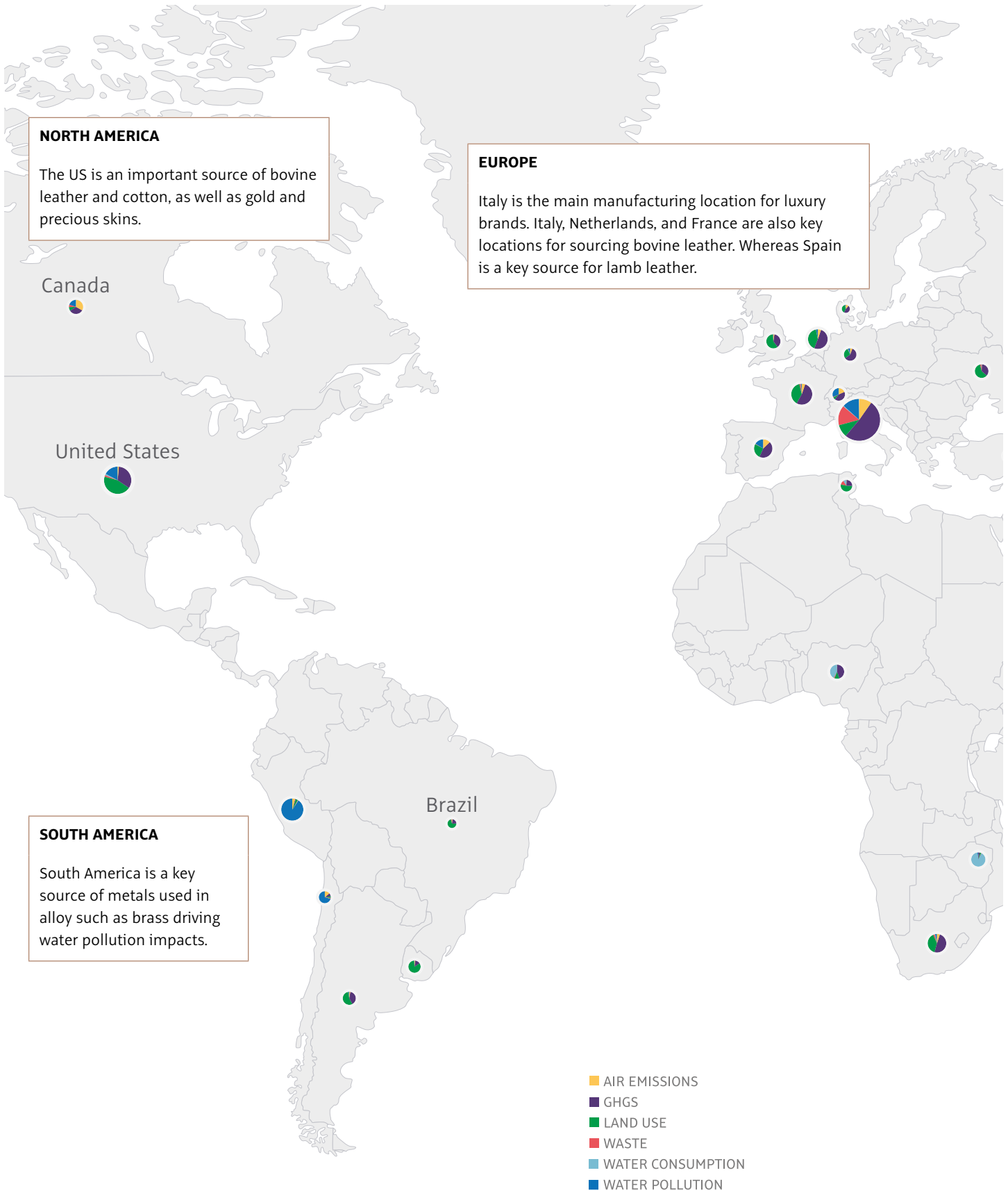


FIGURE 4:
map of impacts and key drivers





ASIA

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

India is an important source of cotton driving land and water use.

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 so does Nigeria.

AUSTRALIA AND NEW ZEALAND

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

UNDERSTANDING 2020 VS 2019

Figure 5 shows the main drivers of change between 2020 and 2019.

FIGURE 5:
2020 EP&L results, showing relative influences of changes since 2019 *pro forma* results



TYPE OF ACTIVITY	CHANGE	REASON FOR CHANGE
OPERATIONS	-€11.7MILLION	The COVID-19 crisis led to temporary and/or partial closure of production facilities, logistics platforms and store networks in 2020. The energy efficiency and renewable electricity procurement programs continue to contribute to environmental stewardship. As an example, 90.6% of the electricity use in 2020 was generated using renewable resources.
MANUFACTURING	-€15.2MILLION	Reduction of production volumes to adapt to a reduced demand because of the pandemic. Our programs to support suppliers in transitioning to low impact solutions, such as Clean by Design or the coalition with the Apparel Impact Institutes, are also contributing to the reduction of manufacturing impacts.
RAW MATERIALS PRODUCTION AND PROCESSING	-€110.2MILLION	Reduction of raw material used in order to adapt to a reduced demand because of the pandemic. Our continued efforts around sourcing strategies and sustainable material procurement are also contributing to reduce the environmental footprint of raw material production and processing.

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, basic principles and guidelines on responsible sourcing, known as the Kering Standards, were set out in 2012. These principles were revisited in depth and extended in 2017 to give fuller details of the Group's raw material sourcing and manufacturing process requirements. A first in the luxury industry, the Kering Standards were published in January 2018 and can be downloaded in English, Italian and French from the Group's website. We continue to update and extend these standards regularly.

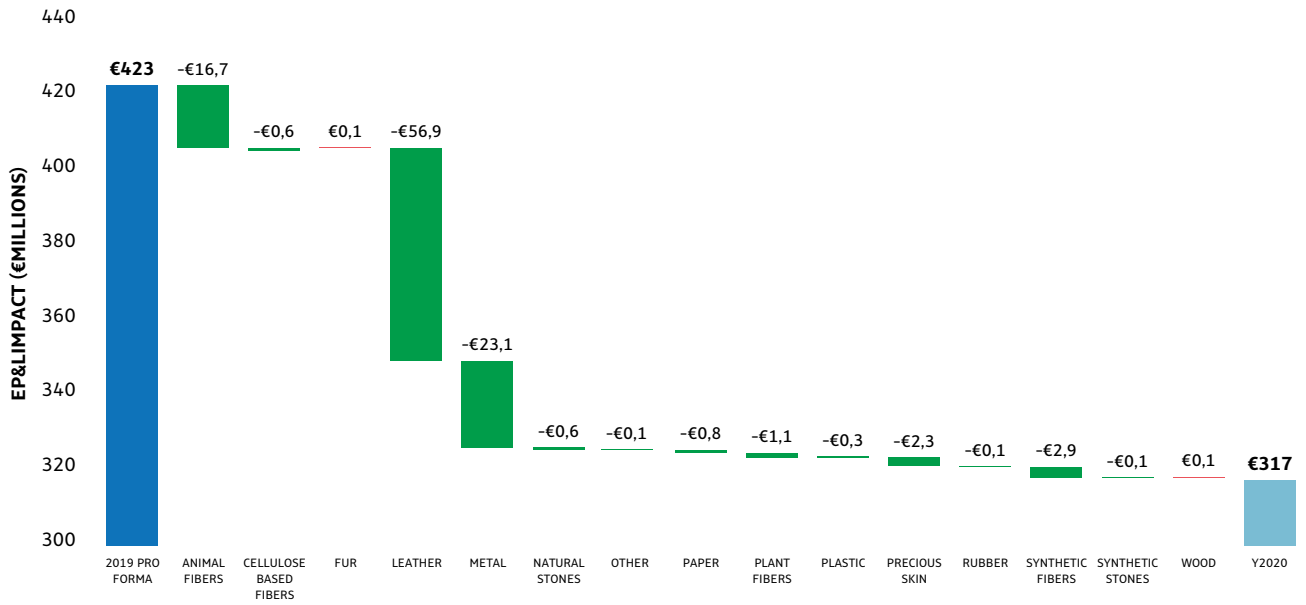
The Kering Standards set out the best practices criteria imposed by the Group and adhered to by our suppliers in five key areas: traceability, use of chemicals, social impact, environmental impact and animal welfare, describing the minimum requirements for Group suppliers in each of these five areas, as well as the more demanding requirements that suppliers will have to meet by 2025. They are based on founding notions of integrity (material traceability, chain of custody certification, etc.), circularity (use of recycled materials where possible, consideration of the recyclability of products, etc.) and the precautionary principle (no GMOs, no nano-materials, etc.).

The Kering Standards cover the key materials used by the Group, representing more than 95% of purchasing volumes, namely leather and precious skins, fur, wool, cotton, silk, synthetic fibers, paper, wood, plastic, feathers and down, cellulosic fibers, gold, diamonds, colored gemstones and silver. The Kering Standards have also been drawn up for the Group's main production processes, namely tanning, the various stages of textile manufacture and leather work. Their coverage will subsequently be extended to include metal refining and precious stone cutting processes. The 2020 update of the Kering Standards included new sections on packaging, visual tools and innovation for sustainable production, and, in 2021, there will be additional standards for end-of-life and logistics (warehouse and transportation).

In May 2019, the Group added to its Kering Standards, and published the Kering Animal Welfare Standards with the aim of ensuring the humane treatment and practices for animals throughout its supply chain. The Kering Animal Welfare Standards were the first ever set of full standards for luxury and fashion and aim to drive positive change in industry practices, and beyond. They 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 mammals bred for their fur. For each of these species, the open-source Kering Standards highlight the specific challenges, laying down breeding and care, transportation and abattoir requirements, and provide the list of existing benchmark certifications. In addition to this multi-species document, Kering has published more detailed individual standards for cattle, calves, sheep and goats, as well as guidelines for abattoirs.

Thanks to our brands' continued efforts to implement the Kering Standards, the environmental impacts linked to raw material use are optimized year-after-year and we are on a pathway to meet our 2025 Group targets.

FIGURE 6:
a closer look at changes in raw material impacts
in the supply chain since 2019 pro forma result



K E R I N G





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

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