



**BEYOND OUR LIMITS**

2012 – 2016

SUSTAINABILITY TARGETS

FINAL REPORT



KERING

The background of the page is a grayscale image of marbled paper. The marbling consists of irregular, dark, vein-like patterns on a lighter, textured surface. The paper is cut diagonally from the top-left and bottom-right corners, creating a triangular shape on the left side of the page. The word "CONTENTS" is printed in a simple, uppercase, sans-serif font in the upper right quadrant of the page.

# CONTENTS

## CHAPTER 1: **RAW MATERIAL TARGETS**

- 09 OVERVIEW
- 11 LEATHER
- 17 PVC
- 23 PRECIOUS SKINS & FURS
- 29 GOLD & DIAMONDS
- 35 PAPER & PACKAGING
- 40 BEYOND 2016

## CHAPTER 2: **EFFICIENCY TARGETS**

- 47 OVERVIEW
- 49 CARBON EMISSIONS, WATER & WASTE
- 63 HAZARDOUS CHEMICALS

## CHAPTER 3: **SUPPLIER TARGET**

- 73 OVERVIEW
- 74 SUPPLIER AUDITING

A black and white photograph of water splashing, with several droplets captured in mid-air, set against a light background. The image is partially obscured by a diagonal grey triangle that points towards the top right corner of the page.

## CARBON EMISSIONS, WASTE & WATER

**Reducing our carbon emissions, waste and water usage resulting from the production of products and services by 25%, while accounting for the growth of our business. All remaining emissions from scope 1 and scope 2 of the Greenhouse Gas Protocol will be offset annually. Kering will continue to partner with offset programs that contribute to the welfare of the community and the conservation of biodiversity in its regions of operations.**



At Kering, we have been looking forward. Forward to a future that is more sustainable, with the continued success of our business built on a foundation of resilience and responsibility. To fulfil this vision, we recognise the critical importance that the environment, or natural capital, plays in our business, as well as the need to tackle climate change, which is already causing significant upheaval in nature, society and business. Now, particularly since COP21 in Paris, there is an increased focus on companies being accountable for the environmental and social impacts associated with their business activities and their responsibility to contribute to mitigating climate change.

Kering embraces this responsibility to act. It has been our business imperative for several years to become a more sustainable company. Our reliance on high quality raw materials is an area where we clearly see the significant links between nature and business. A recent report "Climate Change Implications & Strategies for the Luxury Sector", which we co-published with Business for Social Responsibility (BSR), highlights how a changing climate will lead to volatile weather patterns, increased temperatures and water scarcity. This will have serious consequences for our sector through reduced quality and availability of strategic raw materials. This is just one important example of why we need to build robust and responsible approaches in the face of these global challenges. Our sustainability strategy and the Targets we committed to in 2012 have guided us to do this and I am convinced that they have also helped us build a strong foundation across our Group to go further in the future. This is one of the reasons why we have come out one year early on our 2016 Target achievements; to continue to accelerate change in our own business and within our industry. We have also done so because we will be announcing the next phase of our sustainability strategy, including the redefinition of our Sustainability Targets, at the end of 2016.

I am pleased to be able to present our achievements over the last four years to meet our current set of self-imposed Sustainability Targets in this report, as well as the challenges we have faced and the overall industry issues we have been up against to implement the transformational change many of our Targets require. Combined with our pioneering Environmental Profit & Loss accounting, our Targets have guided us in our approach and we have since integrated them into our business practices. In 2012, these Targets were already forward thinking, particularly with regards to

their focus on raw materials and traceability. And in my view they still remain audacious and ambitious in our industry, and beyond. We are a leader at the forefront of addressing sustainability as an opportunity across our entire supply chain. We set our Targets to be challenging in order to drive rapid change. And working to attain them required changes in our own approaches and our suppliers' practices, but also, significantly, it required change across our industry. For example, reducing impacts from the way that our agricultural and mineral raw materials are produced is something we can demand but will only be successful through collaboration with other stakeholders in the industry to improve standards and practices.

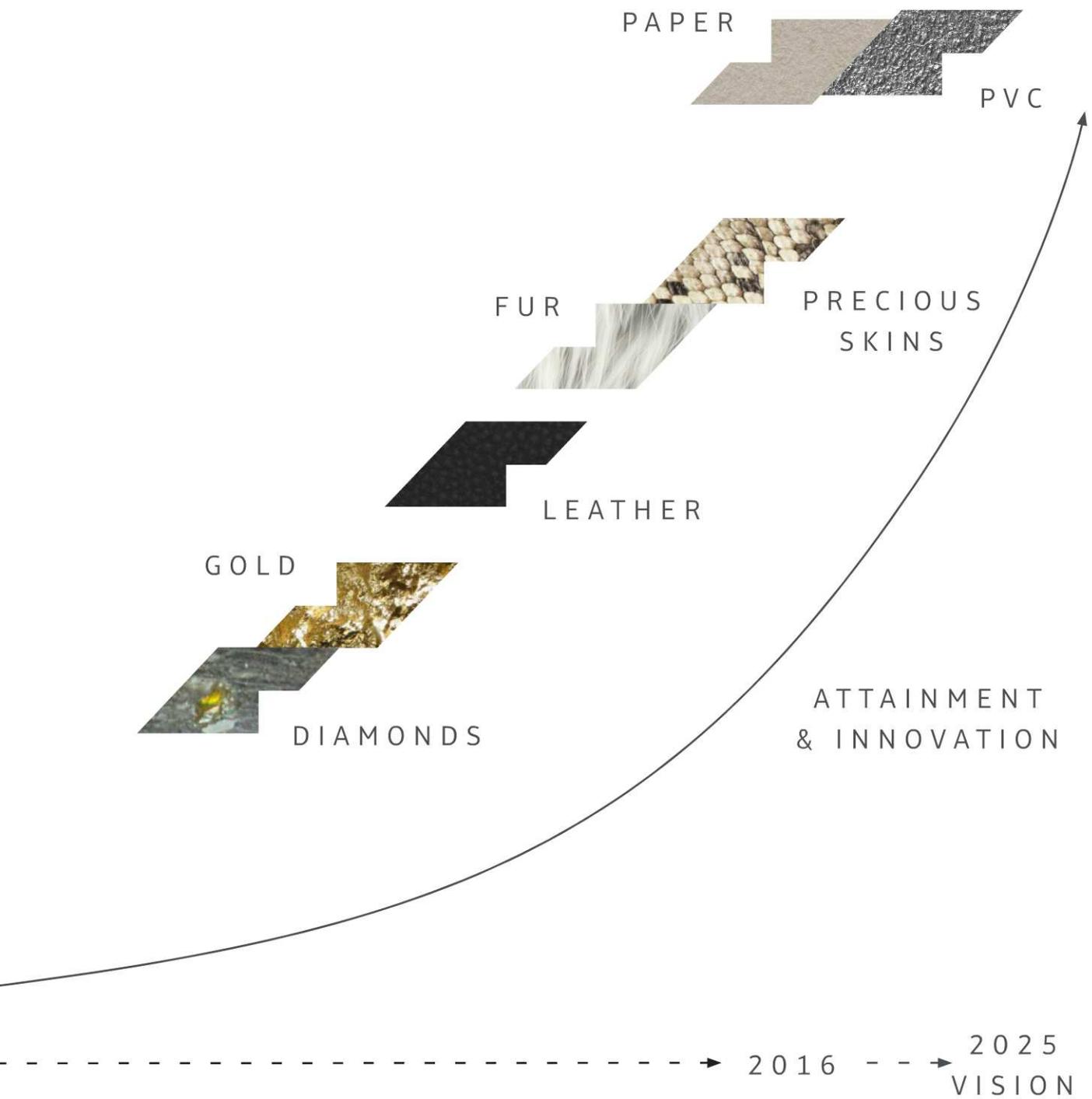
While navigating these challenges we have learnt a great deal. After four years, we have made significant progress but we also now have deeper knowledge of our supply chains, practical tools, and closer relationships with our stakeholders that will enable us to be even more nimble and effective in our commitment to become a more sustainable business and catalyse positive change more broadly, which we have supported by our open-sourcing philosophy. Fundamental to this will also be our promotion of innovation and testing new business models. While we are inherently masters of creativity, establishing sustainable innovation in materials and processes is a new frontier for us and also for the entire fashion industry.

During these last few years, I have also been pleased to see that our efforts have not gone unnoticed. We have earned extensive recognition for our achievements from external stakeholders such as our inclusion in the Dow Jones Sustainability Indices (DJSI) World & Europe, where we have been an industry leader two years in a row, Corporate Knights' Global 100 index, 'The A List: The CDP Climate Performance Leadership Index 2014' (CPLI), Newsweek Magazine's Green Rankings for the last two years, and Fast Company's 'World's 50 Most Innovative Companies'. Although we have been acknowledged as a leader in our industry, which is a responsibility that I take very seriously, we will not rest on our laurels. We will enhance and expand our sustainability efforts and strive to create broader environmental and social value. We will be proactive in our contribution to solving global challenges and helping catalyse change across our industry.



**FRANÇOIS-HENRI PINAULT**

Chairman & CEO



DEVELOPING SOLUTIONS

EMBEDDING & IMPLEMENTING

ACCELERATING, SCALING & REDEFINING

# CHAPTER 1: RAW MATERIALS

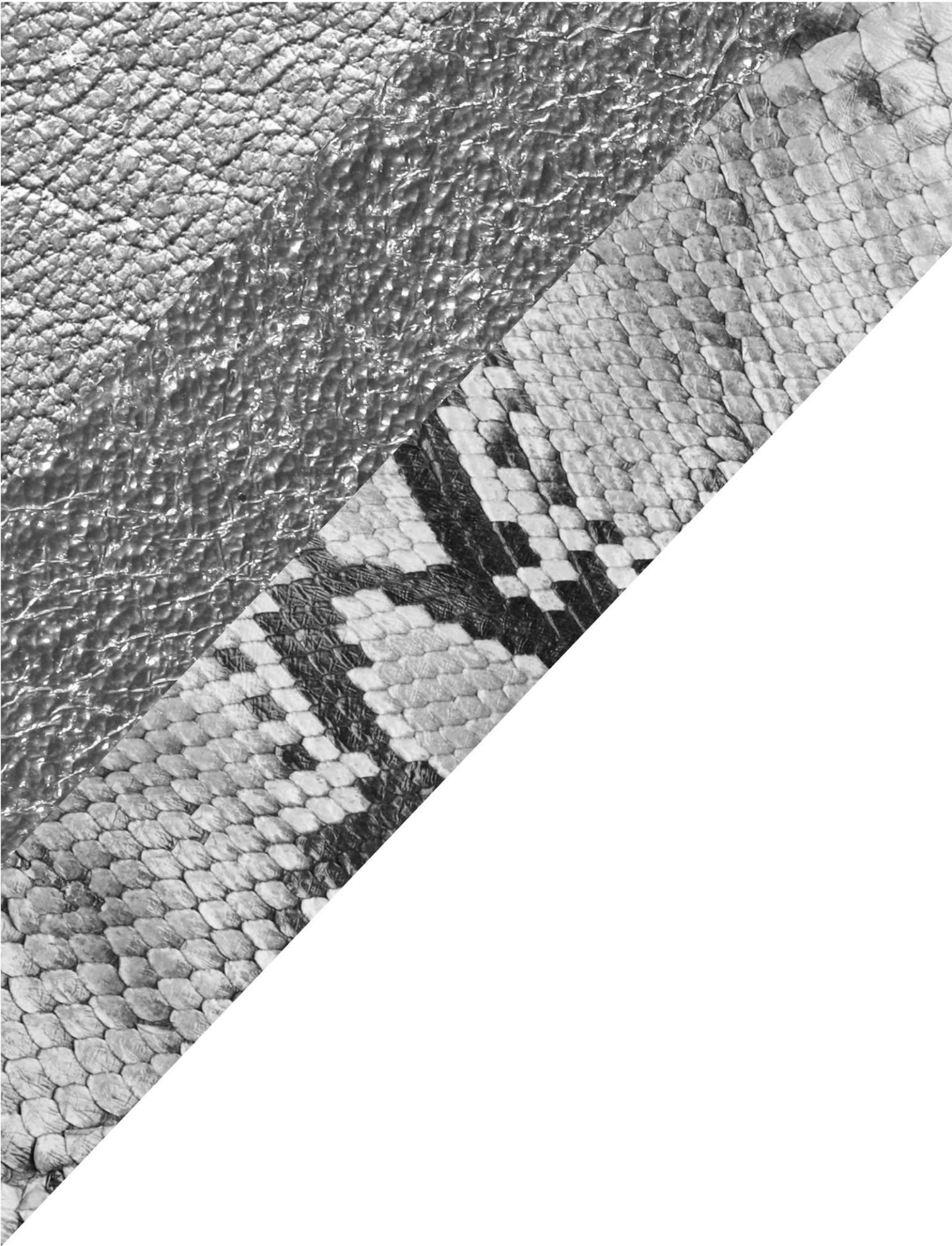
## TARGETS TRAJECTORY

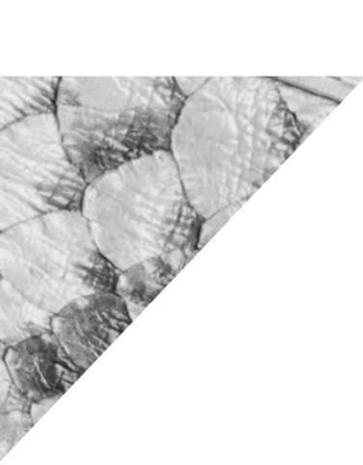
2011

SETTING FRAMEWORK  
& TARGETS

BUILDING KNOWLEDGE  
& TOOLS

MEASURING  
IMPACT





# OVERVIEW

Progress towards meeting our Targets on raw materials can be viewed as a trajectory of change, with each Target at a different stage of attainment along this trajectory. The level of attainment is dependant on Target-specific challenges, the subsequent development of our customised approach to overcome these challenges, and the timeline required for strategic implementation and scaling. When our Group's raw material Targets were originally defined they were based on a prediction of the environmental impacts of our key materials, with the goal of sourcing these materials more responsibly, humanely and sustainably. In 2012, our priority materials were considered to be leather, precious skins and fur, gold and diamonds, paper and packaging, and PVC. The essential first step to developing approaches to meet our Targets was a deeper understanding of our supply chain. In short, where do our raw materials come from and how are they produced. Our Environmental Profit and Loss (EP&L) analysis was integral to this process and the results of our 2013 Group EP&L provided us with a map of the hotspots and impacts from different raw materials. This then enabled us to be strategic in our actions, focusing our attention on materials with a high impact, which are driven by the type of production systems used and the geographic locations these materials are sourced in. It became clear from the EP&L analysis that we needed to not only consider our Target raw materials but also the other raw materials that have a relatively high EP&L impact, particularly cotton, cashmere, silk

and wool fibres. As such, our strategy for sustainable and responsible sourcing of raw materials goes beyond the original Targets. Significantly, our EP&L analysis identified that over 50% of our Group's environmental impacts occur around the production of raw materials, with an additional 25% of the impact generated by the processing of these materials. Clearly, a comprehensive strategy to enhance the sustainability of sourcing has been paramount to reducing our impact. As such, our strategy includes both finding alternative new materials and supporting new approaches for the production of traditional materials. Our approach involves working within our own supply chains, collaborating with external stakeholders and catalysing industry-level change to ensure the long-term sustainability of our raw materials. To complement this, we also looked into future risks to key raw materials particularly in respect to the impacts of climate change, which will ultimately drive change in raw material productivity. This multi-layered approach has improved our own sourcing and created opportunities for our brands to access responsible, traceable and high quality materials. In turn, we have enhanced the sustainability of our business through a reduction in negative environmental impacts, improvement in animal welfare standards and creation of benefits to small-scale producers and their communities.



## LEATHER

**100% of leather from domestic livestock within our brands' products will be from responsible and verified sources that do not result in converting sensitive ecosystems into grazing lands or agricultural lands for food production for livestock.**



## PROJECTS

As a first step towards meeting our Target, we outlined our standards through an internal Leather Sourcing Policy, our Sourcing Guidelines and Animal Sourcing Principles. These address a broad range of issues such as non-conversion of natural ecosystems (deforestation-free), traceability, certification, origin of livestock feed, ecological sustainability and animal welfare. Next, we set up an Idea Lab on leather with our brands as a way to share knowledge, build awareness and promote more sustainable sourcing and traceability solutions. This Idea Lab also focuses on solutions to other important environmental issues in the leather supply chain such as tannery performance, recycling offcuts and tanning without metals. Individual brands often took the lead on initiatives around recycling, traceability and sustainable tanning and the results from these were shared to create synergies across our Group.

From our work with Origem, further guidance and tools on lower environmental impact leather sourcing were developed for our Group's brands by Kering Corporate. Additionally, to support our efforts for traceable and sustainable leather supply chains we have been partnering with key external organisations such as the Business for Social Responsibility's (BSR) Sustainable Luxury Working Group (SLWG) and have been participating in multi-stakeholder platforms such as the Global Roundtable for Sustainable Beef. Through Kering's Smart Sourcing programme, we identified new sources for leather with verified and certified production that ensure the highest standards of animal welfare, as well as reduced environmental impact through pasture management and biodiversity conservation.

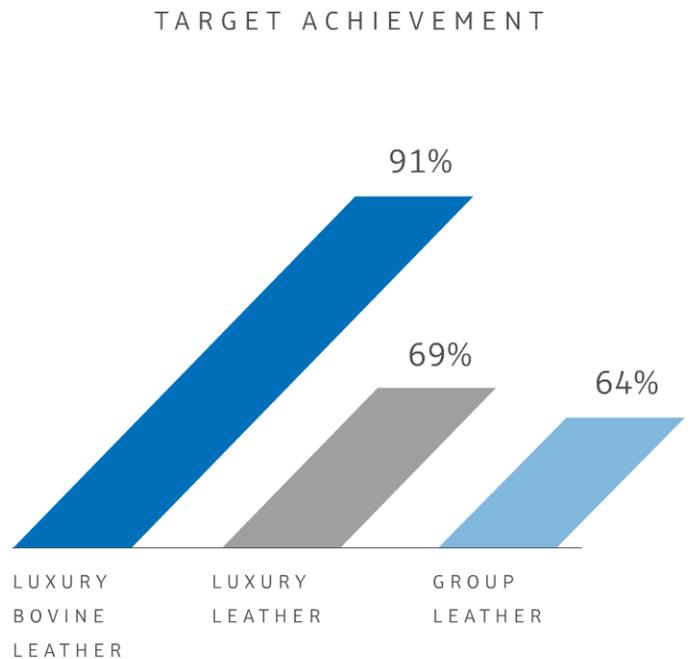
Our brands are also members of industry collaborations that work to improve sustainability and traceability in leather supply chains. For a number of years, PUMA has been an active member in the Leather Working Group (LWG), which focuses on the certification of both tanneries and traceable supply chains

for bovine leather. PUMA mainly works with tanneries that meet LWG standards, and over 90% of the leather PUMA uses originates from LWG-certified tanneries. Already in 2011 Gucci was doing innovative work around traceability and launched an initiative with MADE BY to ensure the traceability of bovine leather from the farm or country of origin through to the leather tannery. An IT tool linking three different databases and storing information at various points along the supply chain was a result of this work, which enables complete traceability of hides and leather from source to the Kering-owned Blutonic tannery. Bottega Veneta committed to traceability for its iconic Cabat bag, focusing on a selection of styles in Nappa leather and starting from its Cruise 2014/15 collection. In this case, traceability implies that all leathers used in the production come from tanneries that have obtained a traceability certification by ICEC, the Italian Institute of Quality Certification for the Tanning Industry. In regards to the Cabat in Nappa, the tannery is able to assess through certified documentation the leather's country of origin, up to the breeding farm, and consequently verify responsible sourcing. In compliance with the highest requirements set by ICEC's reference standard, Bottega Veneta achieved traceability certification as well, attesting to the traceability through the manufacturing process and the transparency of information from the leather's origin to the distribution of the Cabat. Another example of industry leadership is Gucci's Zero Deforestation Handbag. Although the brand sources most of its beef leather from Europe, Gucci embarked on a project with EcoAge's Green Carpet Challenge and NGO partners, National Wildlife Federation and Rainforest Alliance, to show how beef leather can be sourced from Brazil using sustainable ranching practices. Certified as zero-deforestation leather, each bag carried a passport that details the precise history of the product's supply chain and provided full traceability.

## PERFORMANCE

Globally, the beef industry has a significant environmental impact, primarily driven by greenhouse gas emissions but also by the conversion of natural ecosystems to pastureland in some parts of the world. Kering acknowledges that some of these impacts are attributable to the meat industry as leather is a co-product. As such, we established our leather Target to help drive change within the business to limit the environmental impacts of leather in our products. Our Group EP&L results further demonstrate that leather is one of the most important drivers of our environmental impact, representing 24% of our overall impact, which provided additional rationale for having a leather Target and prioritising more sustainable sourcing. The focus of our Target has been entirely upstream in the supply chain, primarily livestock production, and our approach encompassed three main work streams: building traceability and knowledge of our supply chains; identification of more sustainable sourcing options; and working across our industry to improve sustainability and traceability in leather more broadly. We were well positioned to do so in regards to Luxury as the majority of leather used by our Luxury brands is from the beef and dairy industry in the European Union. Furthermore, most of our Luxury leather products are made in the EU, particularly “Made in Italy” and much of this leather is sourced through two Kering-owned tanneries, which support traceable and sustainable sourcing. For sheep and goat leather, we evaluated our sourcing and identified new sustainable sources that could meet our Target. Our Luxury brands also expanded the initial evaluation of their supply chains with the implementation of internal traceability systems in collaboration with their suppliers. For further support, external experts from Origem worked closely with us to conduct a deep analysis of environmental impacts from different types of production systems for leather around the world. In line with our open-sourcing philosophy, Kering is

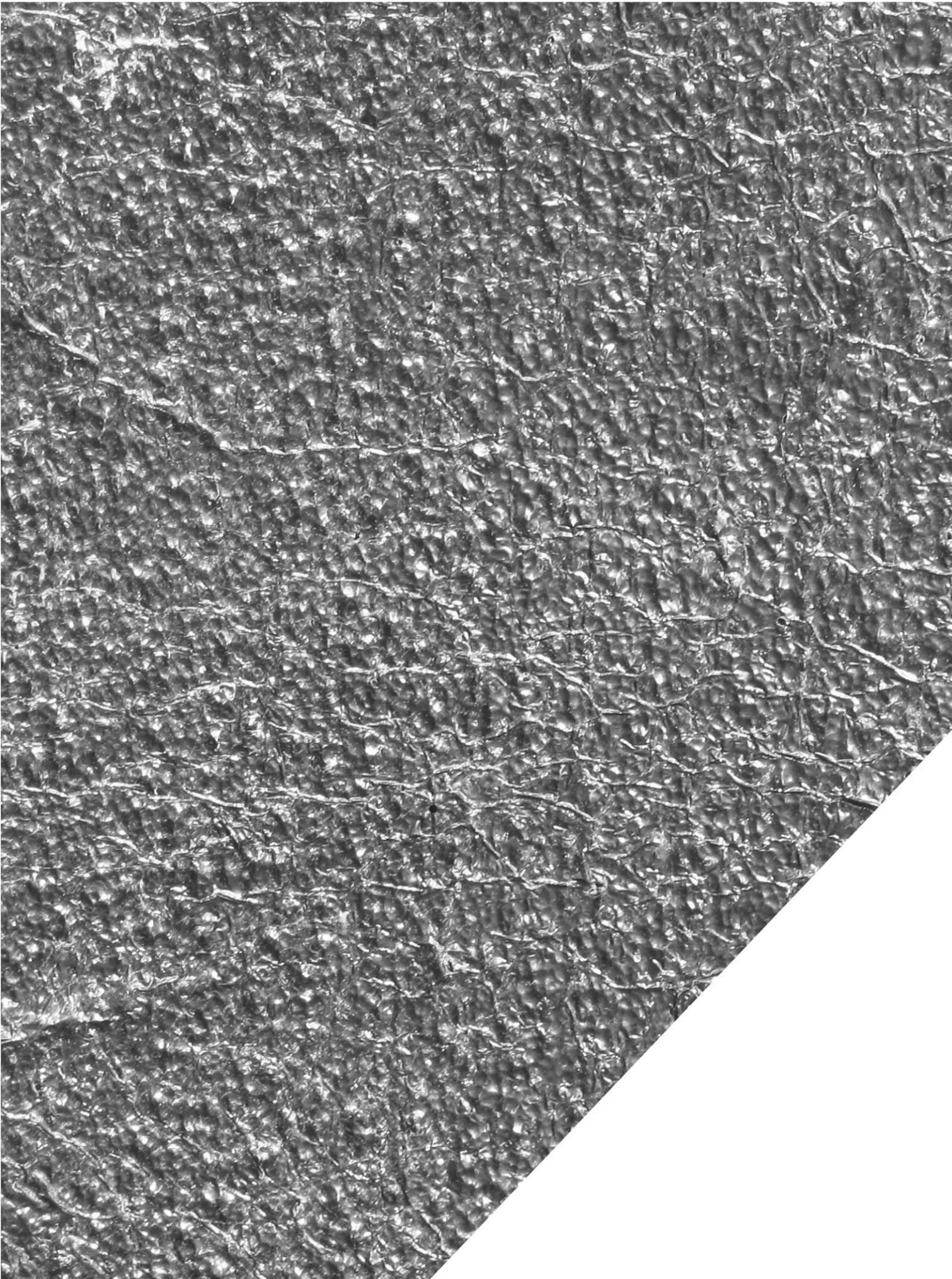
sharing the data and recommendations from this extensive work and we are continuing our efforts to catalyse industry improvement and greater awareness around environmental impacts of leather production through our partnership with the Nicolas Hulot Foundation and cross-sector industries associated with food and agriculture.



\* CONSOLIDATED FIGURES AS OF  
31 DECEMBER 2015

## PERSPECTIVE

The beef industry and, in particular, cattle rearing has significant environmental impacts. How much of these impacts can be attributed to leather is an ongoing debate, and Kering follows the principle that based on the market value of beef and its various co-products, one can attribute 8-10% of the impacts of beef production to leather. This is similar to the attribution in other leathers such as sheep and lamb. Building sustainable leather supply chains presents significant challenges, especially in regards to traceability. Upstream in the supply chain where livestock ranching and farming occurs, and where our EP&L analysis has shown us that the largest impact occur, suppliers can be shared by hundreds, if not thousands, of companies. Any traceability of leather and hides back to the farm is often lost at the processing facilities, and confounding this is the massive global movement of hides and leather products. This complexity, in addition to the relatively small value that leather represents in the meat supply chains, means that it is difficult to track leather back to farm but also it is challenging to influence ranching and rearing practices. However, there are important initiatives underway to remedy this. A further challenge occurs whereby the environmental impacts of livestock production in Europe are linked to types of animal feed from other regions, a notable example being soya from South America. As such, efforts to promote local livestock feed production and to only source certified sustainable soya is critical. Meeting our ambitious Leather Target has progressed however it is challenging since end-users of leather, such as Kering, have limited leverage to change farming practices. There are initiatives underway to explore possibilities and a greater collaboration across sectors and industries is needed to build traceability in leather supply chains and also to promote more sustainable agricultural production.



GUCCI

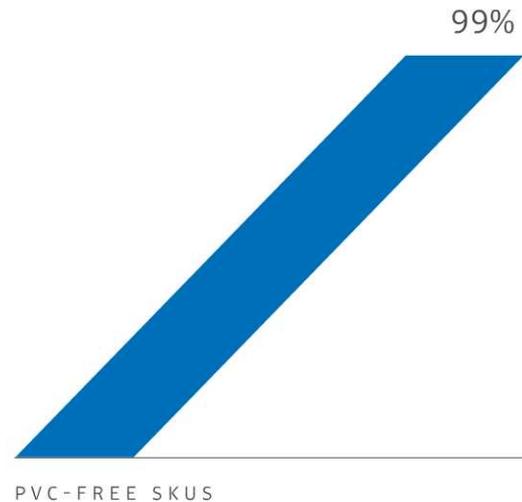


Cruise collection 2016 leather Bamboo bag with blooms motif and bamboo handle.

## PERFORMANCE

PVC is a ubiquitous material across many industries and it is relatively common in the fashion industry, particularly as a substitute for leather and rubber. It can however pose environmental and health risks throughout its lifecycle, from the production of feedstock chemicals to the final disposal of products made with PVC. Given these risks, Kering set a target to go PVC-free by 2016. Since 2012 our brands have worked diligently to avoid using PVC in their products, with the majority of our brands eliminating PVC from their collections altogether. We have also gone beyond our original Target to evaluate the full scope of our plastic use. Our focus has been on identifying and using the most sustainable plastic options including plastics manufactured from renewable, natural raw materials and recycled plastic. We have worked with our supply chain partners to source alternative plastics and we have also developed R&D with key plastics suppliers with the goal of providing a range of high quality alternatives. To support this R&D we developed an innovative tool to rate the environmental performance of plastics.

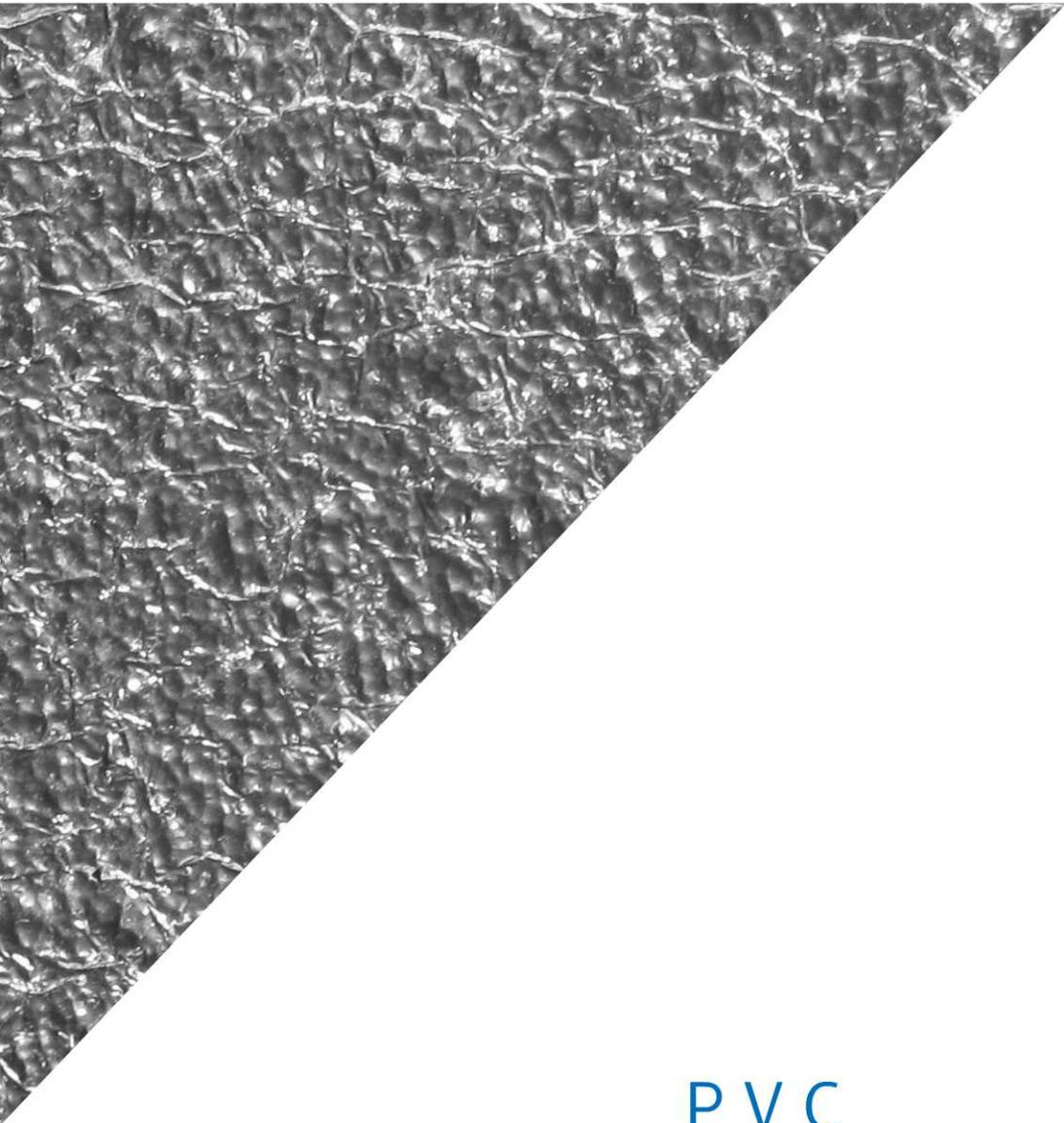
### TARGET ACHIEVEMENT



PVC-FREE SKUS

\*CONSOLIDATED FIGURES AS OF  
31 DECEMBER 2015





## P V C

**All of our brands' collections will  
be PVC-free by 2016.**

## PERSPECTIVE

PVC poses important environmental and health risks due to its carcinogenic contents such as chlorine and chlorine by-products. The risks are particularly pertinent in the production and disposal phases of a product's lifecycle. However, because of its versatility, PVC can be found in a large variety of products across many industries and eliminating it completely is a challenge. Finding alternatives is also a considerable challenge. Although there is a growing field of research in the development of more sustainable plastics there is still debate about what makes a plastic more or less sustainable and a universally agreed upon international standard is essential. Another challenge we face, and especially in Luxury, is the lack of high quality and durable materials options. As compared to industries such as the automotive industry and the food and beverage industry we are not in a competitive position to influence plastics suppliers to develop new solutions. To address this challenge we need our industry peers to recognise the necessity for alternative plastics and collaborate jointly to help influence a shift towards viable alternative plastics options.

## PROJECTS

Our brands use plastic in a diverse range of products from shoes to packaging. As such, we have been finding ways to reduce our overall plastic use, and replace it with more sustainable and lower impact alternatives. To support these efforts, Kering set up an Idea Lab on alternative plastics so that our brands could pool their research, share sustainable plastic needs and understand new innovations coming to the market. Further, we developed Alternative Plastics Guidelines to enable our brands' teams to make informed decisions about which plastics are better in terms of sustainability. However, an important industry-level piece missing was the ability to compare environmental performances between different plastics. To overcome this challenge, Kering worked with the Fraunhofer Institute to develop a methodology for rating plastics. Our SAM Plastic tool is based on a simplified life cycle analysis of the environmental impacts from different plastics, which is consistent with the methodology applied in our EP&L. Additionally, it focuses on specific challenges inherent to plastic such as food competition and end of life.

The integration of alternative, low impact plastics has been increasing across our brands and a number of products were launched utilising bio-plastic, biodegradable and recycled plastics. As an example, Stella McCartney launched a number of shoe collections with soles made from the biodegradable bio-plastic APINAT and all of the brand's BINX shoes, representing on average 15% of shoe sales, are made with Bio TPU. Furthermore, all Stella McCartney eyewear is made from innovative plastics containing over 50% natural materials, such as castor oil and citric acid. Stella McCartney has also been committed to finding non-leather materials for shoes and bags that do not rely on petroleum as their base and, as such, introduced Eco Alter Nappa which is a coating composed of 50% vegetable oil and comes from non-food plants material. In 2012, Gucci also introduced 100% biodegradable shoes made out of APINAT and began encouraging the use of recycled plastic for shoe heels, as well as introducing ABS soles

and TPU material. Additionally, Gucci developed a range of eyeglass frames made from natural materials such as castor seeds and bio-acetate, and introduced the first-ever sunglasses made with "liquid wood" made from a combination of wood fibres from sustainably managed forests, lignin from the paper-manufacturing process, and natural wax. Bottega Veneta also committed to using alternative plastics, incorporating TPU Bio in the soles of a variety of sneaker styles and a biodegradable rubber material used in their rain boots. In 2015, within the brand's shoes category, this process resulted in more than 40% of soles made with alternative plastics in the overall production.



STELLA McCARTNEY



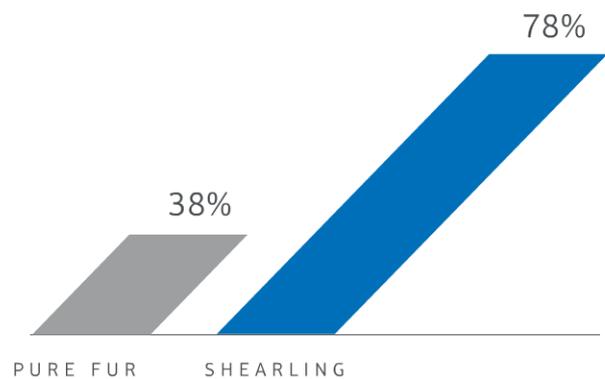
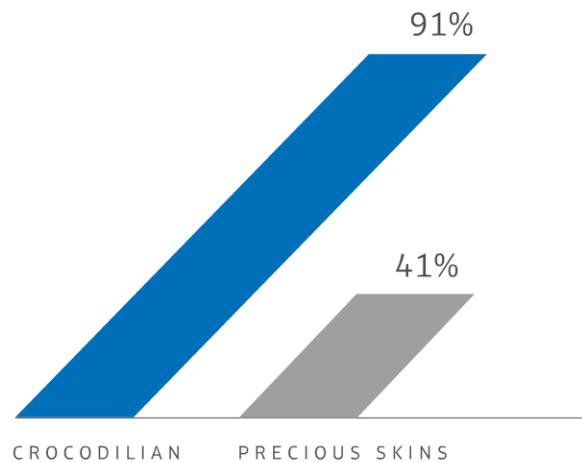
Spring 2016 collection featuring a BioTPU sole and an upper made from recycled micro-fibres.

## PERFORMANCE

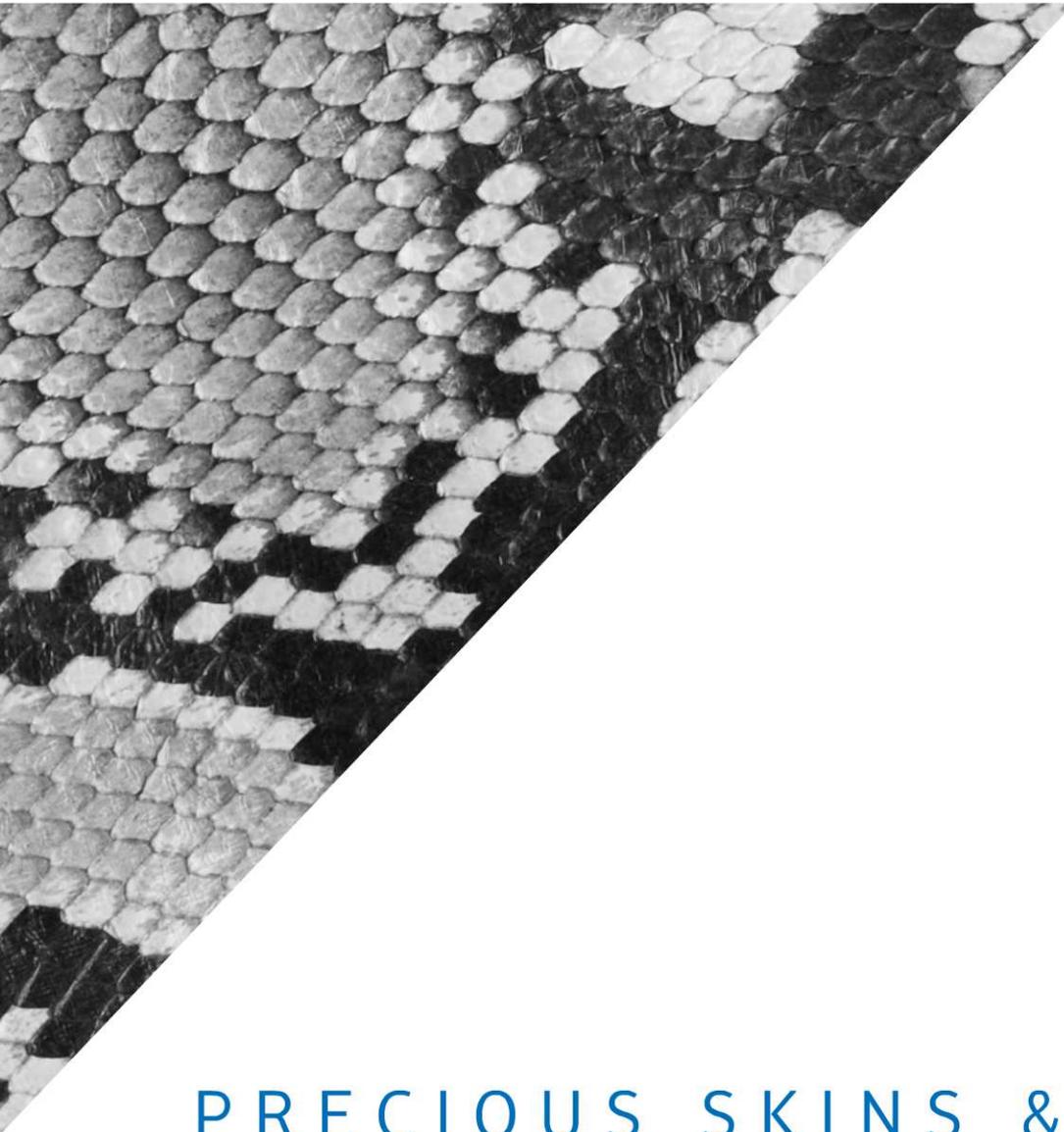
As a fundamental commitment, Kering adheres to all national and international regulations on the trade in animal products, particularly for those species of animals listed under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). Kering is also committed to ensuring that any use of animals, whether CITES or not, meet additional standards of sustainability and welfare. This underpins our precious skins & fur Target which recognises that extra effort needs to be made to ensure the traceability, sustainability and humane treatment of animals in the precious skins and fur supply chains.

Progress towards this Target has required a suite of important actions and initiatives since 2012, aimed at meeting the challenges in our own supply chain whilst also contributing to industry-wide improvement through open-sourcing our research. As such, we have taken a 360° approach and have been working with key stakeholders to research and implement new standards and practices to improve all aspects of sustainability and management. In order to tackle the challenges we face at a macro level, we have created partnerships with experts and conservation NGOs on the ground. In parallel we have been incorporating a vertical integration strategy for our Group, as well as sourcing Principles & Requirements which we are implementing across our supply chains in close collaboration with our suppliers. Overall, Kering has improved standards and contributed to science-based solutions for sustainable trade across the precious skins and fur industries.

### TARGET ACHIEVEMENT



\* CONSOLIDATED FIGURES AS OF  
31 DECEMBER 2015



## PRECIOUS SKINS & FURS

**100% of precious skins and furs in our brands' products will come from verified captive breeding operations or from wild, sustainable managed populations. Additionally, suppliers will employ the upmost animal welfare and humane treatment practices in sourcing.**

## P E R S P E C T I V E

Precious skins are significant for the luxury sector and as such, there are important contributions that companies can make to ensure the best practices for animal welfare, ecological sustainability and local economic development. However, sustainable trade in wildlife is complex and improvements on traceability and verification are dependant not only on companies own actions but also on industry-level engagement. Successfully meeting trade challenges will come through collaboration between the private sector, NGOs, IGOs and government agencies, and the support of capacity development, systems improvement and research to underpin a robust sustainable trade so that it can deliver conservation and livelihood benefits. This takes time and Kering's programmes, such as the PCP and the MCCSUP, along with ongoing work of CITES, IUCN Species Specialist Groups and conservation organisations, are leading the way for precious skins and showing how the private sector can support the work needed to ensure a well-managed and transparent sustainable trade. For Kering, the results of our precious skins Target have positively increased over the last four years but there are still very few sources that are transparent enough and up to our standards in the market place.

One of major challenges in the fur industry has been transparency and verification on animal welfare standards. While there are standards in place mandated by national laws and additional voluntary standards, monitoring and verifying these standards by third parties has been limited. Now, through initiatives launched by Kering and other companies, NGOs and industry collaborations, standards for verification are being improved. Additional work that Kering is doing along our own supply chains is contributing to a new framework for traceability, third party verification and the highest standards of animal welfare in EU fur farming.

## PROJECTS

Kering launched a number of programmes aimed at creating robust sustainable trade, improving supply chains and delivering positive benefits to local communities and the conservation of species. A flagship amongst these programmes is the Python Conservation Partnership (PCP) which is a private-public collaboration between Kering, the International Trade Centre (ITC) and the International Union for Conservation of Nature's (IUCN) Boa and Python Specialist Group focused on improving the python skin trade in SE Asia. Since its inception in 2013, the PCP has provided essential science-based data and recommendations around verifying the captive breeding of pythons, best practices and standards for animal welfare in python farms and processing facilities, monitoring the sustainability of wild harvest and traceability techniques for skins. We have complimented this work with local capacity building including training python farmers on implementing these recommendations.

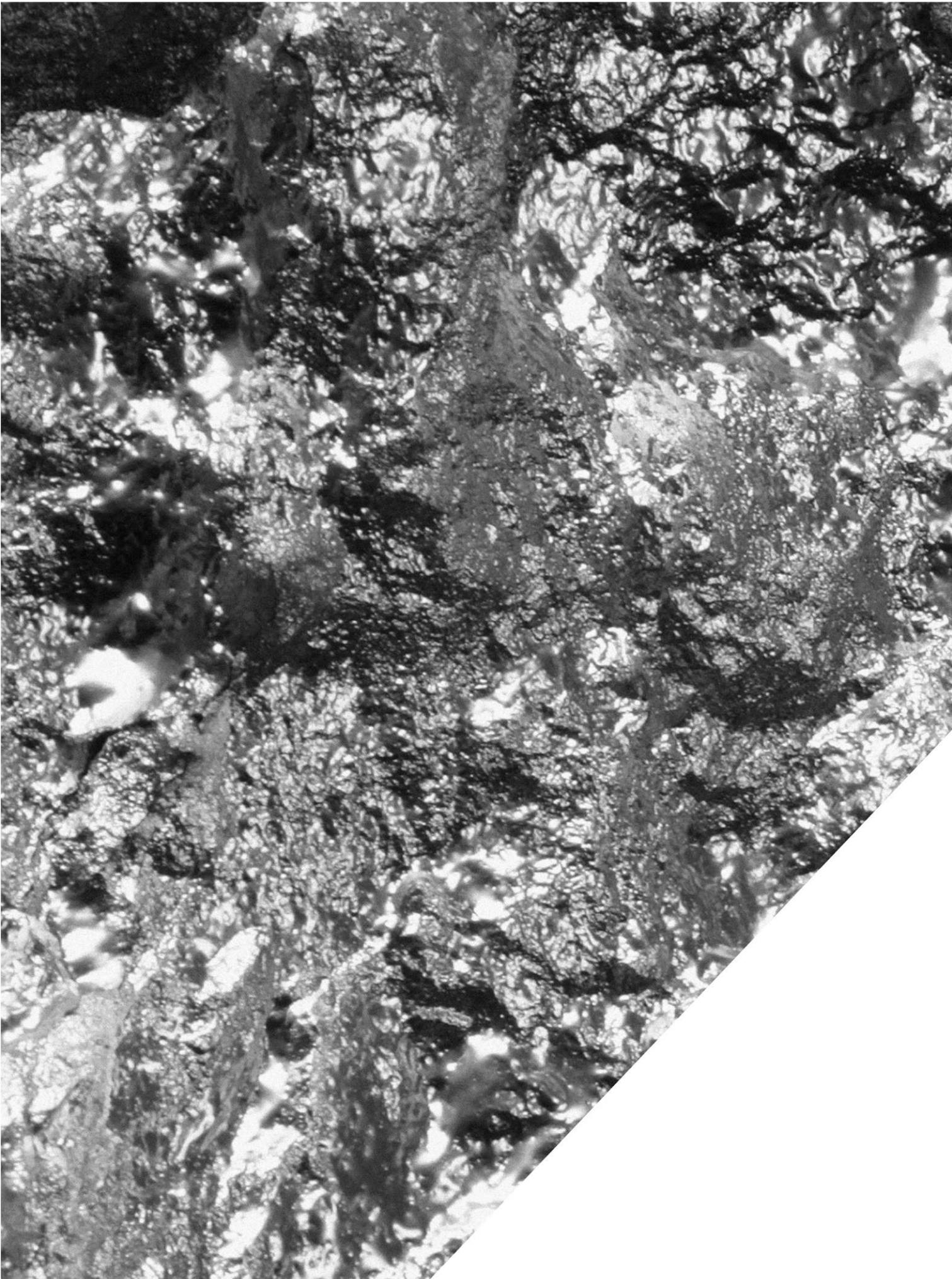
Based on this successful model, in 2014 Kering established the Madagascar Crocodile Conservation and Sustainable Use Programme (MCCSUP) with the ITC and the IUCN Crocodile Specialist Group, under the umbrella of the Madagascar government. Aimed at improving management of the sustainable trade in Nile crocodile skins from Madagascar, this programme includes a range of research and capacity building activities. The MCCSUP has resulted in the creation of a National Crocodile Management Unit in Madagascar, which is focused on monitoring the trade, particularly the improvement of wild crocodile populations and egg collection monitoring. The MCCSUP is also identifying and implementing ways that the trade can deliver more benefits to local people in Madagascar.

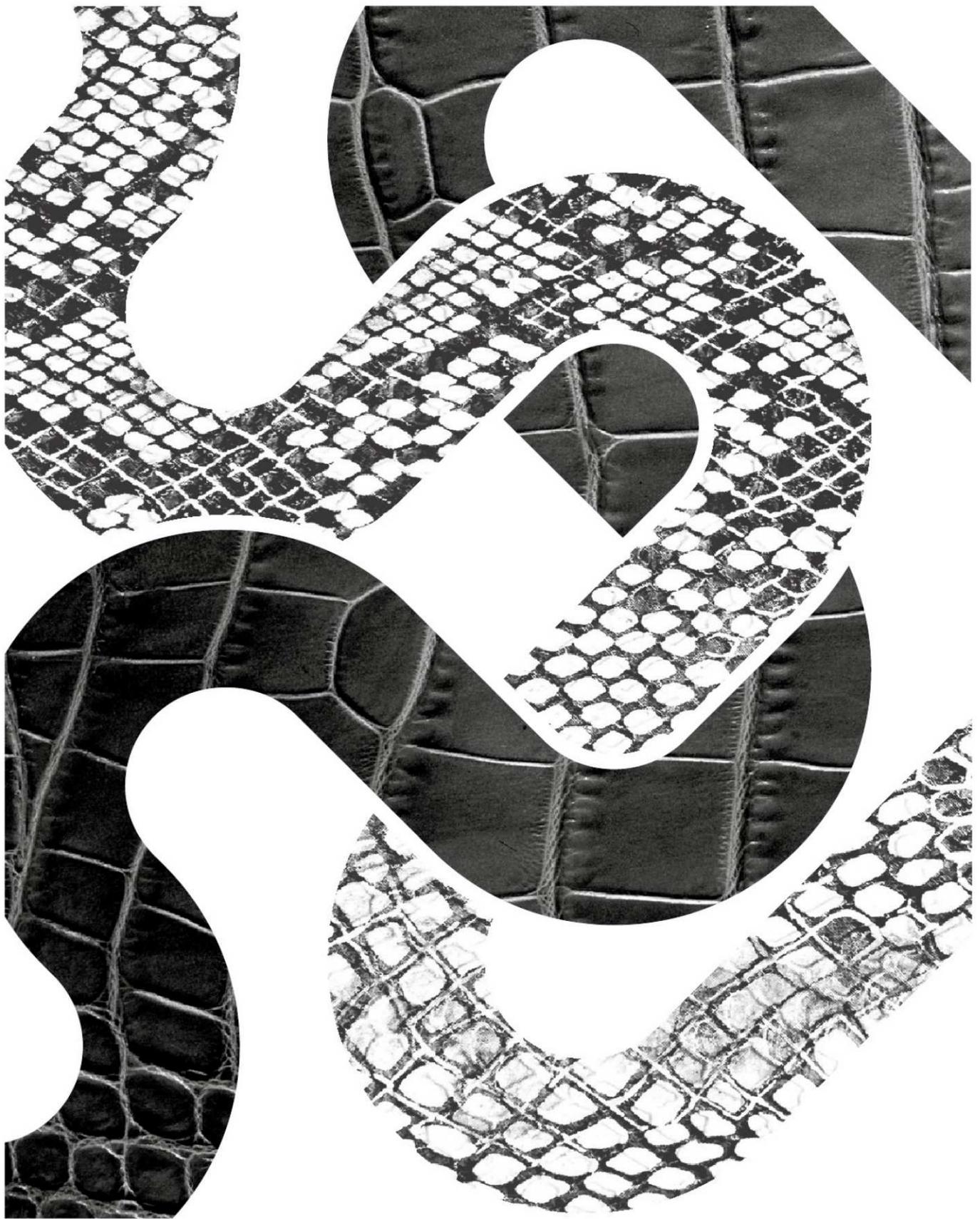
Similarly, Kering has been supporting work in Cambodia for a sustainable trade in wild Siamese crocodiles that delivers conservation benefits. The programme will be expanded in the coming years to support ways for the trade in captive-bred crocodiles to benefit from these efforts. Also,

to ensure that crocodile farming in Cambodia incorporates best practices for sustainability, Kering has funded local scientists in Cambodia to understand any impacts that crocodile farms may have on the Tonle Sap Wetland ecosystem.

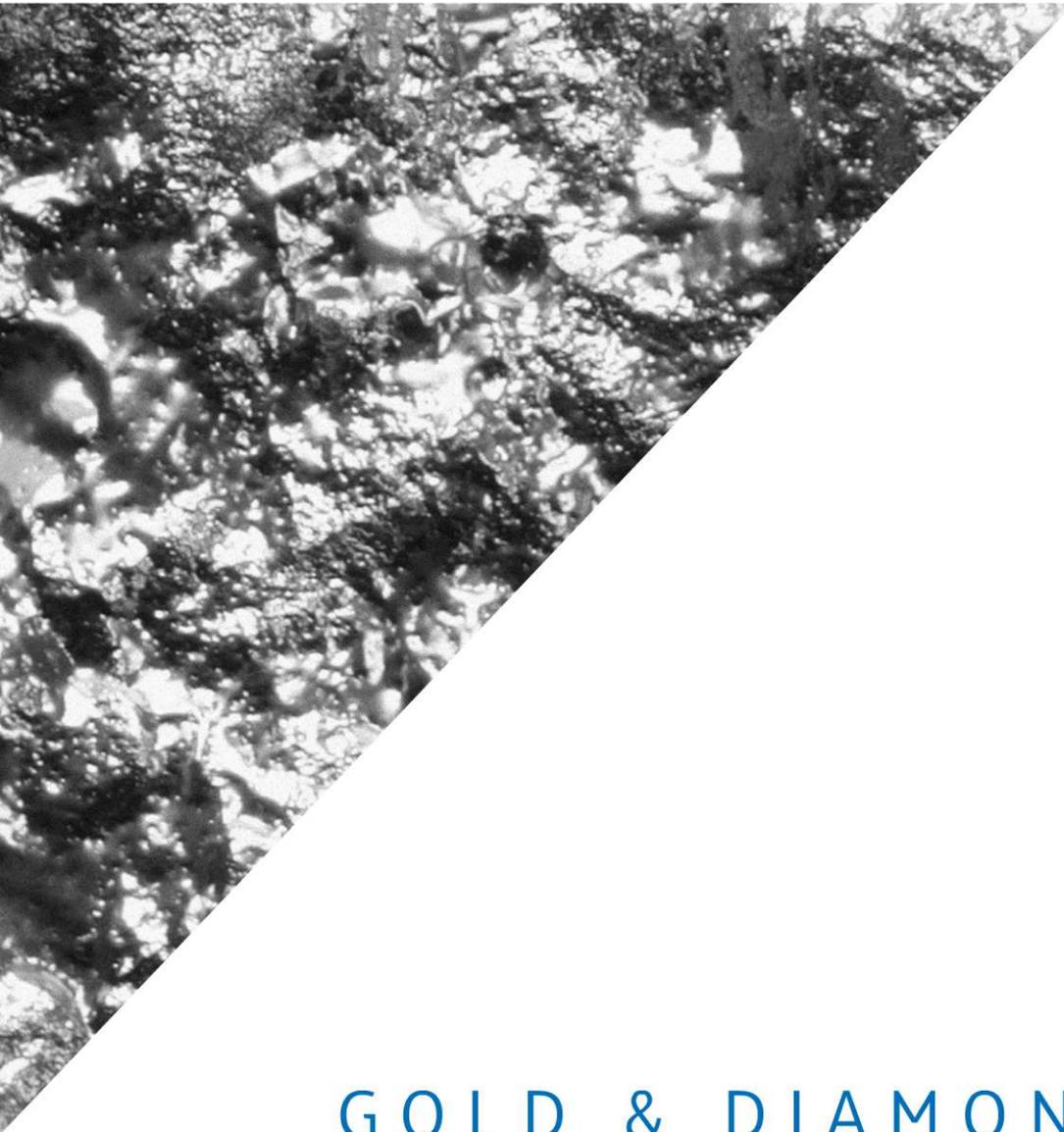
One of the important aspects of sustainable trade in precious skins is that it can provide significant benefits to local livelihoods. The work of the PCP has shown this is the case for both python farms in Vietnam, and wild harvest in Indonesia and Malaysia. Another example is the sustainable wild harvest programme for caiman by indigenous people, the Takana, in Bolivia. Bottega Veneta sourced caiman skins from this programme and in doing so helped support the local communities in their management and conservation of forests and wetlands. These skins were successfully used to create and realise both a Women's and a Men's sandal in part of the brand's collections in 2015.

A necessary element of all sustainable sourcing and supply chains is clarity on best practices and standards. As such, Kering has been helping facilitate improvement in international standards across the precious skins and fur industries. Already in 2011, Gucci was engaged with the BSR Sustainable Luxury Working Group (SLWG), which developed broad principles for animal welfare. Since then, there has been considerable work done along with BSR and other brands to update the Animal Sourcing Principles but also to look into species-specific standards. These are now incorporated into Kering's internal Principles & Requirements that help guide and verify our approach to the sustainable sourcing of precious skins and fur. In addition to BSR's SWLG, Kering is a founding member of the BSR coordinated Luxury Fur Roundtable. As a multi-stakeholder group, it brings brands and the industry together to chart a way forward on establishing the highest standards of welfare and traceability in European fur farms. Throughout our own supply chains, Kering is implementing a new programme of auditing to ensure standards are being met.





Kering joined forces with the International Union for the Conservation of Nature and the International Trade Centre in 2013 to launch the Python Conservation Partnership.



## GOLD & DIAMONDS

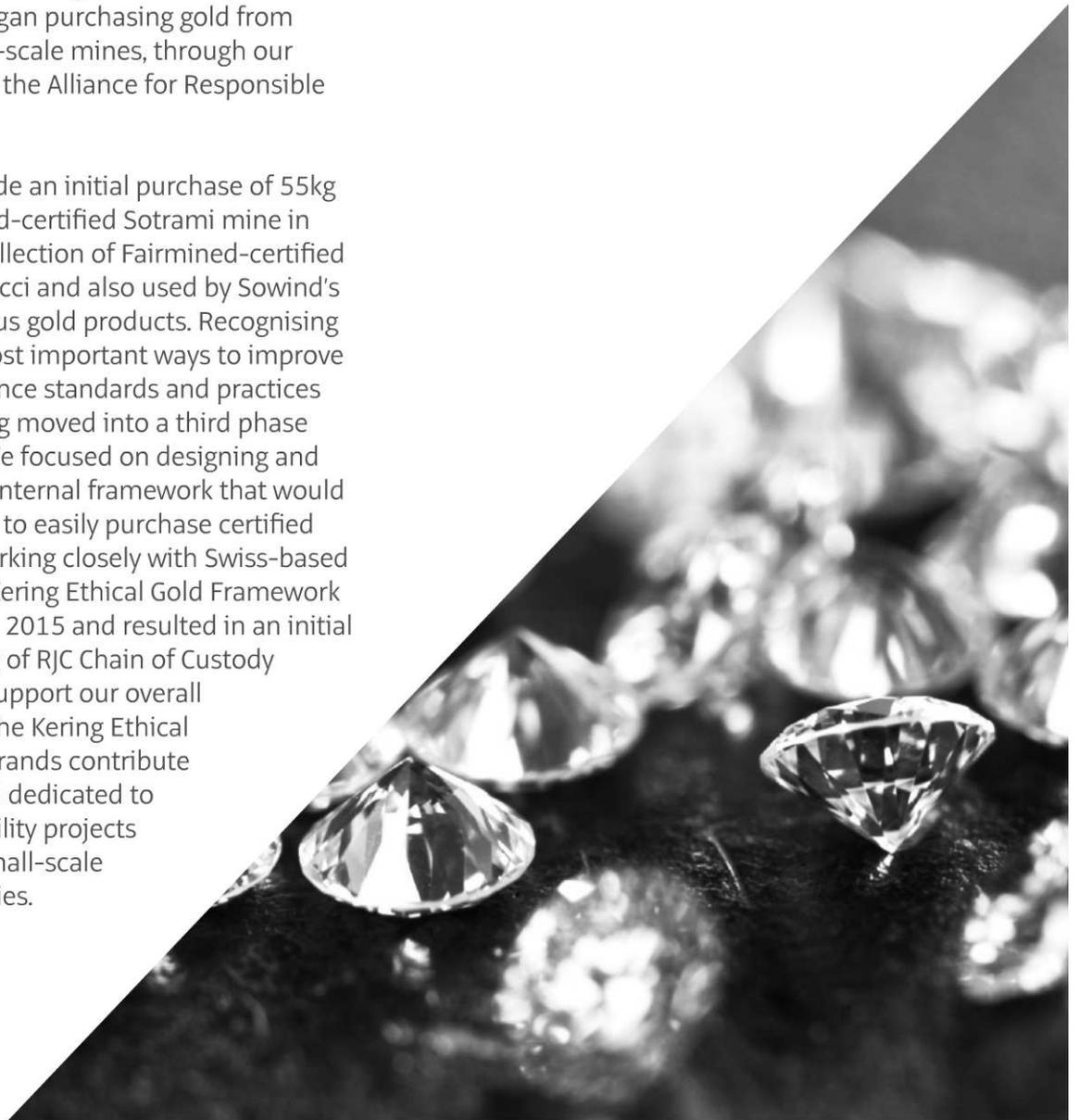
**100% of gold and diamonds in our brands' products will be sourced from verified operations that do not have a harmful impact on local communities, wildlife or the ecosystems which support them.**

## PROJECTS

For gold, progress towards our Target since 2012 followed a three-step approach. Initially, we focused on identifying gold sources that could meet our standards and worked with key external stakeholders and global experts to do so. Given that artisanal mining delivers around 20% of mined gold each year and supports the livelihoods of up to 200 million people globally, a significant focus has been on ways to improve certification and verification practices in these communities. Kering joined forces with the international NGO Solidaridad, who provided our Group with added expertise and guidance on gold sourcing in order to maximise the benefits to communities around small and medium scale mining operations. During the second phase of this work we began purchasing gold from key certified small-scale mines, through our collaboration with the Alliance for Responsible Mining (ARM).

As a result, we made an initial purchase of 55kg from the Fairmined-certified Sotrami mine in Peru, used for a collection of Fairmined-certified gold rings from Gucci and also used by Sowind's suppliers for various gold products. Recognising that one of the most important ways to improve mining is to influence standards and practices more widely, Kering moved into a third phase of work in 2014. We focused on designing and implementing an internal framework that would enable our brands to easily purchase certified traceable gold. Working closely with Swiss-based gold refiners, the Kering Ethical Gold Framework was established in 2015 and resulted in an initial purchase of 220kg of RJC Chain of Custody certified gold. To support our overall strategy, through the Kering Ethical Gold Framework brands contribute to an internal fund dedicated to support sustainability projects in artisanal and small-scale mining communities.

While Kering and our brands have worked together to design and implement our gold and diamond strategies, our brands also engaged in their own initiatives. Gucci, in addition to its RJC code of practice certification, implemented the new, robust RJC Chain of Custody Certification to complement our sustainable sourcing efforts from certified mines and additionally Bottega Veneta, Boucheron and Sowind are RJC-certified for their gold and diamonds.



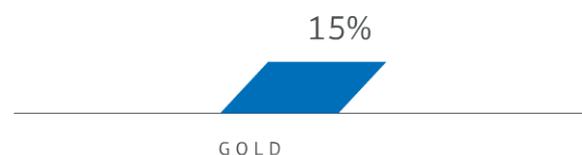
## PERFORMANCE

It is important that the Luxury industry, as leaders and trend-setters, set the highest standards of best practices for the gold and diamonds trades. We must go beyond compliance with regulations and contribute to improvements across supply chains. Kering's gold & diamonds Target was set as a response to the issues in these extractive industries, and the potential impacts of mining on biodiversity and the surrounding communities. Over the last four years we have had the dual goals of catalysing change within our supply chains and showing business model approaches for improving the industry more broadly. To ensure mining operations do not result in negative impacts is dependent on having traceability through our supply chain. As such, we developed an internal strategy to rapidly scale up gold from verified and certified sources that have the highest standards of social and environmental conditions. For gold, this strategy included the establishment of the Kering Gold Code for our Group's suppliers and an internal framework for our brands, to access traceable gold from certified sources (Fairmined, Fairtrade, the Responsible Jewelry Council); Furthermore our strategy focused on supporting certified recycled gold; the improvement of small-scale mining; and engaging with stakeholders across our supply chain in order to develop a new approach to traceable gold. Consequently, several of our brands began sourcing certified Fairmined gold, with Gucci, Sowind and Boucheron purchasing a total of 55kg in 2014. Over the following two years, we focused on developing approaches to scale up our traceable gold purchases, and in 2015 220kg of RJC Chain of Custody certified gold was purchased by our brands. During 2016 at minimum two times this amount is projected to be acquired in part through a collaboration with NGOs which, beyond the purchasing of certified gold, will support the capacity development within small-scale mining companies in several

countries. To compliment our own work to drive change, we have been participating in international forums and discussions on responsible gold sourcing, with a focus on the role of public-private collaborations and how to catalyse investment in small-scale mining. Additionally, Kering is represented on the RJC Standards Committee.

Our groups approach to diamond sourcing has also been to ensure best practices and traceability throughout the supply chain. As a basic principle, our brands adhere to international standards for diamond sourcing and certification by the Kimberley Process (KPCS). KPCS certification focuses primarily on ensuring 'conflict free' diamonds, however, we recognise that additional effort needs to be made to ensure that all social and environmental impacts are monitored and reduced. As such, we created the Kering Diamond Code for our Group's suppliers and worked with external experts to design an approach to sourcing that focuses on ensuring broader and higher standards of sustainability across our diamond supply chains.

### TARGET ACHIEVEMENT



\* CONSOLIDATED FIGURES AS OF  
31 DECEMBER 2015

BOUCHERON



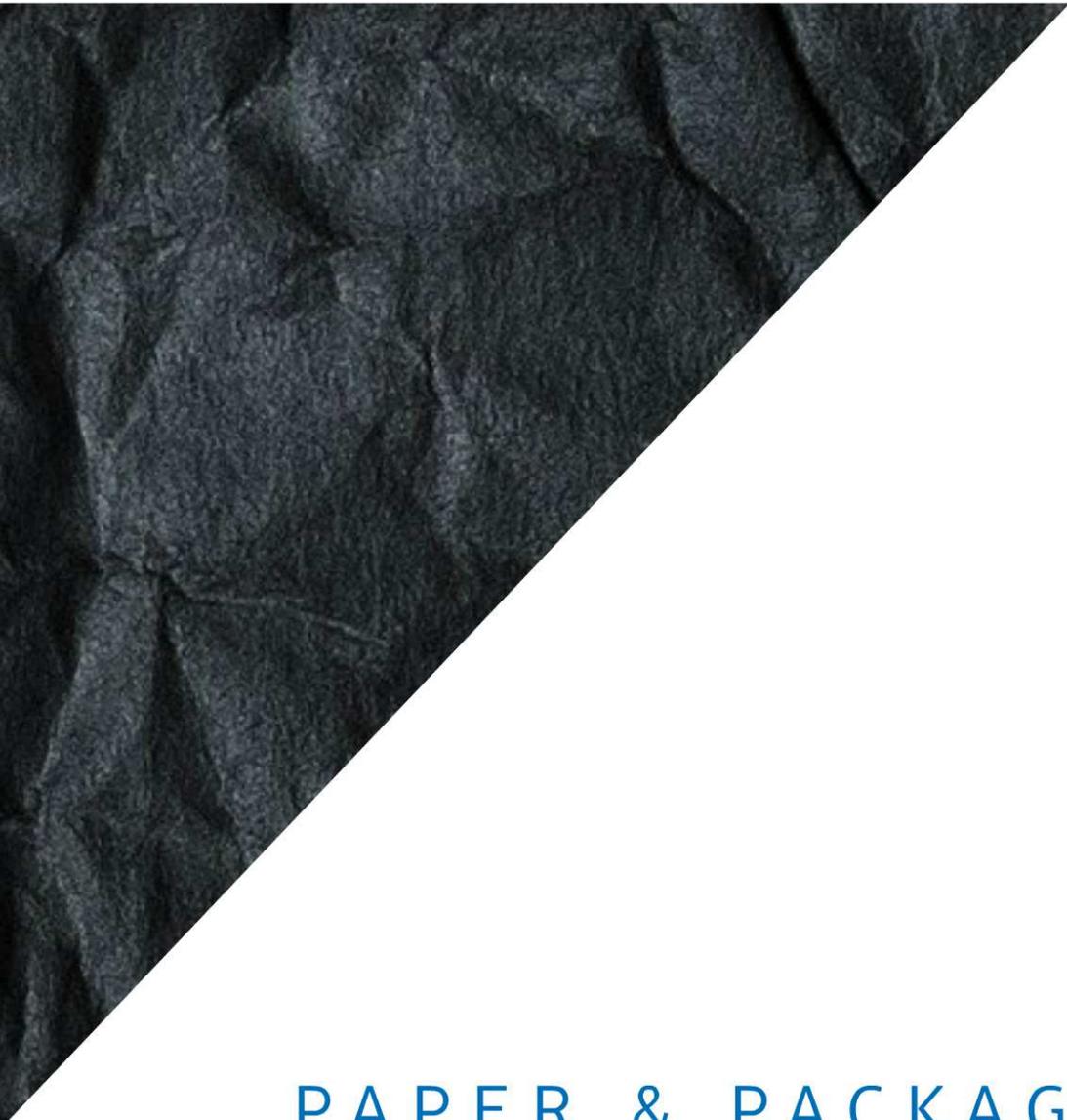
Responsible Jewelry Council certified diamonds.

## PERSPECTIVE

The gold and diamond mining industries have been historically controversial and often linked to extreme environmental pollution and degradation, support of armed conflict and human rights violations. Consequently, traceability, transparency and responsibility across these supply chains is a fundamental challenge. Progress is being made through a range of mandatory and voluntary standards and certifications and companies have increasingly focused on developing transparent and traceable supply chains for gold. While there is certainly an improved level of awareness for these issues and a number of frameworks in place, it is critical that brands and their suppliers commit to purchasing significant quantities of gold from certified sources to drive the real change that is required. In addition, there needs to be an increased effort to ensure that small-scale mining and processing receives the support to implement and maintain the highest social and environmental practices. Simultaneously, improvement in standards and practices for industrial level mining needs to continue.

Where diamonds are concerned, there are both artisanal and large-scale mining. Each of these present different challenges in terms of the way the mines operate and the way diamonds move through the supply chain. Over the last years, work has been done across the diamond industry to implement and monitor certain standards. In particular, this can be seen in industrial mining by multi-nationals where there are limited supply chain issues due to the production process, as well as diamond certification based on relatively advanced environmental and ethical standards such as the KPCS. Due to this initiative, an estimated 99% of internationally traded diamonds are 'conflict free'. However, challenges remain in the industry and more needs to be done to set clear guidelines on practices for social and environmental conditions across diamond supply chains.

Clearly there are actions that companies can drive independently for gold and diamond mining but significant efforts are needed by the industry, investors and governments to ensure responsible mineral extraction, along with traceability and verifiability. Only with this type of synergy will mining be able to deliver social and environmental benefits alongside economic development.



## PAPER & PACKAGING

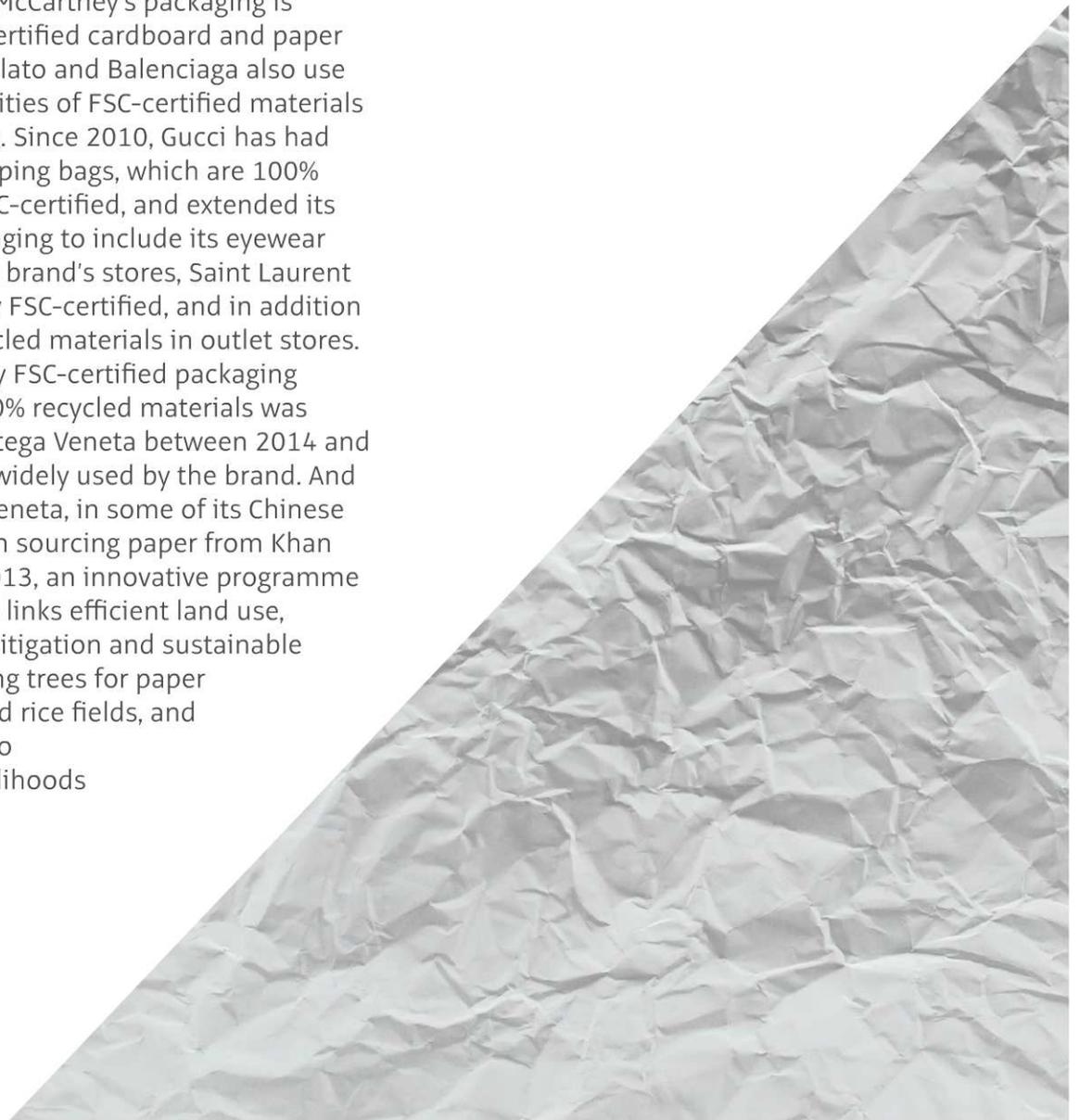
**100% of our Group's paper and packaging will be sourced from certified sustainably managed forests with a minimum of 50% recycled content.**



## PROJECTS

To set up a framework to embed our paper and packaging goals, we created guidelines for our brands to follow. As such, our brands have been working to ensure that their paper and packaging comes from sustainably managed forests that are certified by reputable third parties, such as the Forest Stewardship Council (FSC), while also relieving the burden on natural resources by sourcing certified recycled materials. To do so, various sourcing initiatives have been implemented across our brands including Volcom's B2B catalogues and B2C holiday catalogues, which have been printed on FSC paper, and Boucheron using FSC or PEFC certified paper for all of its office purposes and internal publications. Our brands also promoted the use of certified or recycled materials for packaging. Stella McCartney's packaging is made from FSC-certified cardboard and paper and Brioni, Pomellato and Balenciaga also use substantial quantities of FSC-certified materials in their packaging. Since 2010, Gucci has had eco-friendly shopping bags, which are 100% recyclable and FSC-certified, and extended its sustainable packaging to include its eyewear collections. In the brand's stores, Saint Laurent bags are also fully FSC-certified, and in addition contain 65% recycled materials in outlet stores. A new type of fully FSC-certified packaging and containing 50% recycled materials was developed by Bottega Veneta between 2014 and 2015 and is now widely used by the brand. And further, Bottega Veneta, in some of its Chinese facilities, has been sourcing paper from Khan Na paper since 2013, an innovative programme in Thailand which links efficient land use, climate change mitigation and sustainable forestry by planting trees for paper production around rice fields, and also contributes to the improved livelihoods of local farmers.

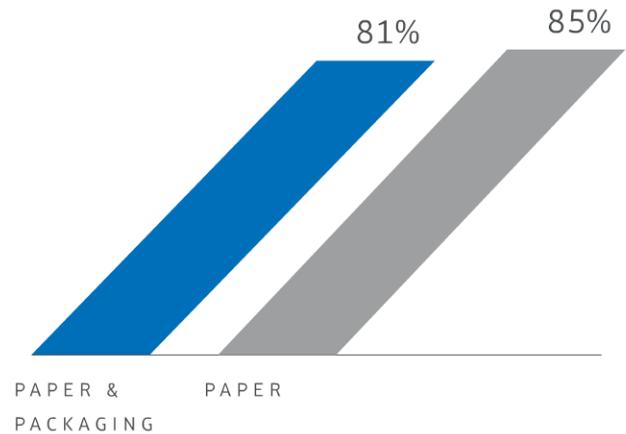
In 2014, PUMA redesigned its shoeboxes, opting for a more conventional format, that still meets the highest environmental standards. This fully FSC-certified packaging represented 70% of all boxes sold in 2015. Additionally, Volcom's "Bring Your Own Bag" campaign launched in 2011 encouraging customers to bring their own bags or buy a recyclable, reusable bag in exchange for a 10% discount on purchases.



## PERFORMANCE

Global deforestation is a serious environmental concern that is driven by expanding industrial-scale agriculture and small-scale slash and burn agriculture, unsustainable forestry and logging practices. One clear way of helping address the challenge of deforestation is by ensuring that a company's paper & packaging come from sustainably managed forests and that, specifically, sourcing is not from forestry operations that lead to deforestation in tropical countries. With this in mind, we set our paper & packaging Target based on several objectives: protecting forest ecosystems and biodiversity and ensuring that there is zero deforestation in our supply chains; supporting the expansion of sustainable forestry and the benefits derived by local communities; and promoting recycling and minimising the amount of virgin wood used in our paper and packaging. Since 2012, Kering has integrated an approach to balance the support of sustainable forestry with the support for recycling. We have developed programmes and made decisions across all areas of our business to scale up our use of sustainable paper and packaging, including implementing standards, requiring certification, and participating in supplier engagement for responsible sourcing. As external acknowledgement for our efforts, Kering was ranked 8th in the PAP50 in 2013 which is a Riposte verte and World Wildlife Fund (WWF) initiative every 3 years, targeting 50 of the largest French companies and assessing their approach on paper in areas such as buying policy, paper consumption and paper recycling. We have been in the top 10 since its launch in 2010.

### TARGET ACHIEVEMENT



\*CONSOLIDATED FIGURES AS OF  
31 DECEMBER 2015

DODO



Packaging in Forest Stewardship Council (FSC) certified paper and cardboard.

## PERSPECTIVE

The impacts of deforestation include the release of carbon, loss of important biodiversity and ecosystems and the displacement of indigenous and local communities from their land. Companies need to ensure they have a paper and packaging strategy in place that is rigorously defined to ensure sustainable sourcing is being employed which eschews the most destructive forestry practices such as illegal logging, natural forest conversion to other land uses, liquidation of high conservation value forests, civil rights violations, and genetic modification of forest species. Certification is quite advanced in this field and, in particular, FSC certification verifies sustainable management and the avoidance of these destructive forestry practices. It is relatively straightforward for a company to procure paper and packaging only from certified sources and mainly an operational choice to implement more responsible and sustainable business practices.

be associated with human rights abuses. Kering put in place detailed guidelines and policies for the sourcing of more sustainable cotton, focusing on improving traceability and promoting certification. Our most significant progress since 2012 has been a shift towards an increased use of organic cotton in our collections. In 2014, Kering, alongside other key industry partners, funded an expert study to evaluate the environmental impacts of organic cotton production. The results clearly showed the dramatic environmental benefits of organic cotton production, with a reduction of nearly 80% on the total environmental impact as compared with conventional cotton cultivation. This "Life Cycle Analysis" was then integrated into our EP&L. The significant social benefits of organic production also contributes to this cotton being a gold standard for our brands. There are other types of cotton production that have sustainability benefits such as Cotton made in Africa, Fairtrade Cotton and Better Cotton and where appropriate, our brands include these in their mix of cotton. To further encourage our brands to increase their use of organic cotton, Kering established an internal mechanism, the Organic Cotton Platform. The Platform was launched in 2015 after a detailed review of cotton use across our brands and an evaluation of the challenges and constraints that our brands face in sourcing organic cotton of different qualities. To support our effort, specialists in the sustainable cotton supply chains produced a comprehensive overview on the potential sources around the world of high quality organic cotton available to our brands.

A focus on improving the sourcing across our Group is just one important facet of Kering's promotion of more sustainable cotton. Another key initiative has been to support the production of organic cotton, with Kering partnering with Cotton Connect to work directly with organic cotton farmers in India. This project focused on the cultivation of different types of long staple cotton, reintroducing a heritage variety of cotton

that had not been widely cultivated for many years. The third facet of Kering's focus was to work at an industry level to contribute to improved traceability and integrity in the organic cotton sector and to increase the supply of and demand for organic cotton. To this end, Kering was a founding member of the brand-led Organic Cotton Accelerator (OCA) and we have also been an active member of Textile Exchange's Organic Cotton Roundtable funding work on building awareness of the benefits of organic cotton. Complementary to this, Kering was an active participant in the Cotton ARC initiative launched by the Cambridge Institute for Sustainability Leadership (CISL) to develop guidance on the linkages between cotton production and natural capital. To illustrate Kering's progress towards reducing our environmental footprint and enhancing social outcomes through sourcing more sustainable cotton, during the last few years PUMA has been recognised as one of the top ten users of organic cotton worldwide, and is committed to scaling its use of Better Cotton from 2016 onwards. Alexander McQueen made a strategic shift to use 100% organic cotton in key products in its men's ready-to-wear collections; at Stella McCartney the use of organic cotton has increased over the years and now represents 65% of all their cotton use; and Bottega Veneta committed to using organic cotton in its men's ready-to-wear collections since 2014.

Silk is another strategic raw material for our brands and over the last four years Kering has worked on initiatives to increase the sustainability of silk sourcing. Initial work involved a collaboration with the supply chain consultants, Pur Projet, to analyse the potential positive and negative environmental and social impacts in different types of silk production around the world. Kering's Materials Innovation Lab then tested these sources for our brands. As a pilot to show that sustainably sourced silk can be used in high-end luxury, Kering Materials Innovation Lab collaborated with EcoAge's Green Carpet

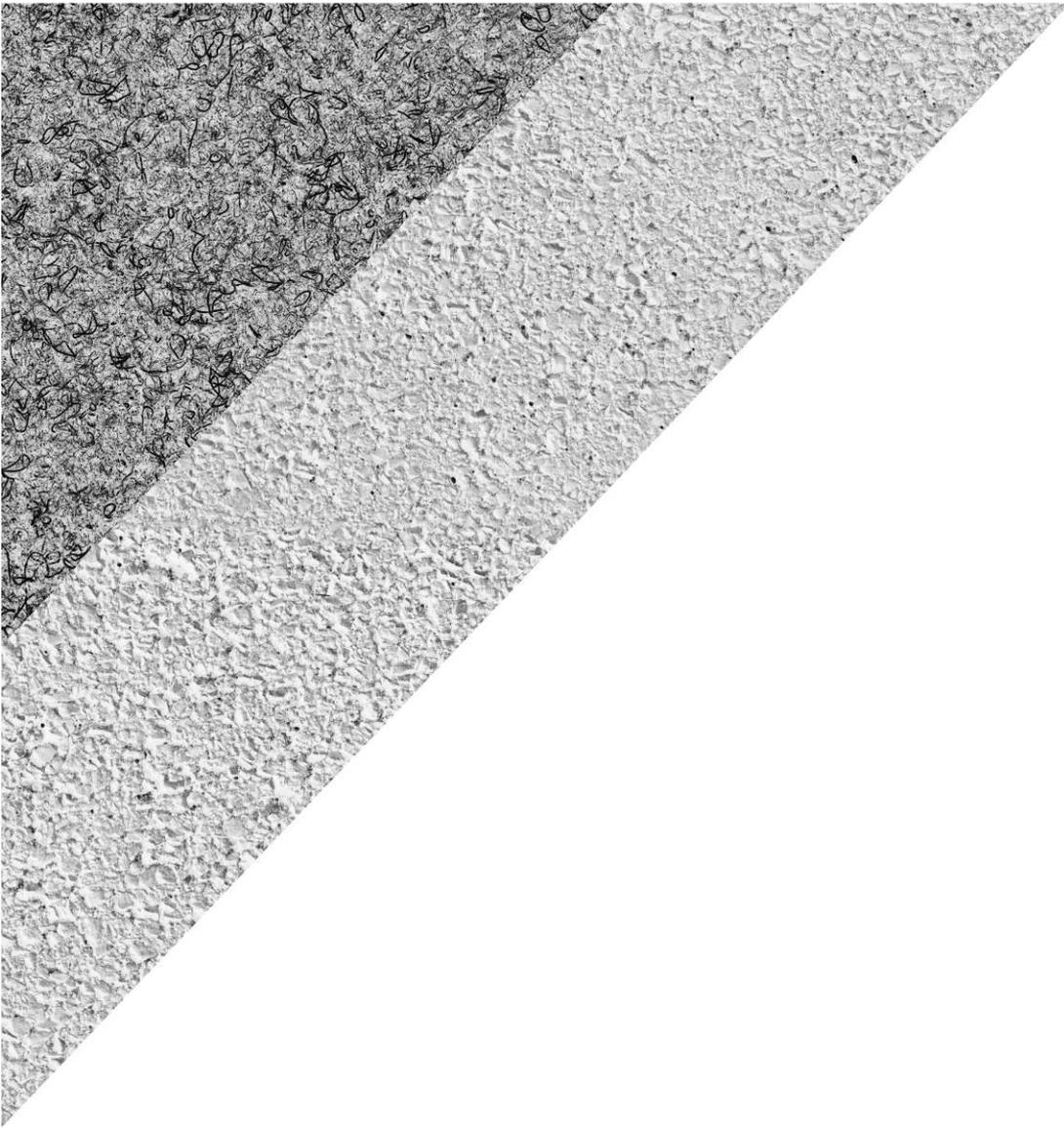
Challenge to launch an exclusive line of sustainable silk evening shoes in 2015.

For wool, one of the most important ongoing activities is the work by Kering and our Materials Innovation Lab (MIL) to identify sources of wool from around the world that match both our brands' quality needs and also our high standards for ecological sustainability and animal welfare. Over the last few years, several sources have been identified and verified and work is ongoing to integrate more wool from these sources into collections across our Group. A prime example of this is Brioni's Sustainable collection for Fall/Winter 2016 crafted from sustainable luxurious Merino fibres, which meet the utmost of standards in terms of traceability, animal welfare and environmental management. Kering is also contributing to the new global standard, the Responsible Wool Standard (RWS), in order to improve industry standards and practices. The same approach has been taken for mohair, camel and vicuna wool.

Cashmere is a fabric synonymous with luxury but over the last two decades the increasing production of cashmere from Central Asia (Mongolia and China) has led to significant environmental and social challenges. Kering recognised early on the need to improve the way that cashmere was being produced, and in 2013 we launched a feasibility study in Mongolia exploring how to build a programme for sustainable cashmere production. Based on this report, Kering is supporting the Wildlife Conservation Society in the South Gobi region of Mongolia in a programme to work with nomadic communities to improve grazing practices, welfare and husbandry standards, wildlife management along with improved cashmere quality. This represents the first time that a luxury company has established such a comprehensive and long-term initiative to support sustainable cashmere production and generate benefits for traditional herding communities. To strengthen the promotion

and development of responsible cashmere in Mongolia across the sector, Kering is a founding member of the Sustainable Fibre Alliance (SFA), a non-profit international organisation working with the extended cashmere supply chain, from herders to retailers, to promote a global sustainability standard for cashmere in order to restore grasslands, ensure animal welfare and secure livelihoods.

Another approach to reducing environmental impacts is through improving material efficiency. This has been particularly effective in the case of regenerated cashmere, which is an innovative approach to turn fibres from offcuts back into high quality yarn without the use of harmful chemicals and dyes. As such, in 2014 and 2015 Gucci introduced regenerated cashmere into its ready-to-wear collections and Stella McCartney's Fall 2016 cashmere knitwear will include regenerated cashmere products from Italy.



## RAW MATERIALS: BEYOND 2016

Responsible and sustainable sourcing of raw materials underpins many of our 2016 Sustainability Targets. Kering is committed to reducing any negative impacts associated with the production of our raw materials and to find ways to enhance positive impacts and benefits for people and nature. We initially focused on raw materials that are central to our product categories such as leather, precious skins and gold when we set our Targets. However, over the last four years, in recognition of the importance of sustainable sourcing more

broadly and in response to our EP&L results, we have focused on additional strategic raw materials: silk, wool, cashmere and cotton. Kering has been taking a leadership role by promoting regenerative approaches to the agricultural production to encompass social and environmental benefits.

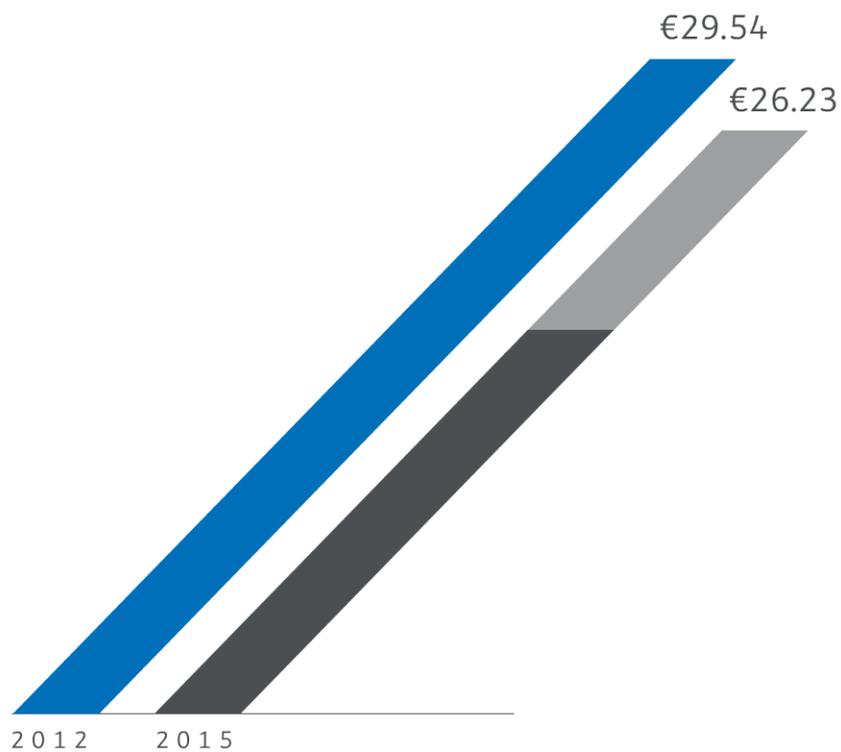
Cotton is an important material for all of our brands. However, when it is not cultivated in a responsible manner cotton can cause significant environmental impacts and can

# CHAPTER 2: EFFICIENCY

## TARGETS TRAJECTORY

### CARBON EMISSIONS

44% TARGET ACHIEVEMENT, EQUALING  
11% REDUCTION IN CARBON EMISSIONS



€ EP&L IMPACTS PER €1000  
TURNOVER ON TIERS 1-4

BRIONI



Sustainable Merino Wool Collection.



Kering's efficiency targets were originally designed to focus on reducing carbon emissions, water use and waste generated by of our business activities. Our Target is particularly important as it drives efficiency in energy and the mitigation of climate change. Climate change will continue to have significant, and likely increasing, consequences for business and society in the years to come. These will manifest both directly and indirectly in impacts that will be driven by water scarcity, rising temperature, changing ocean conditions, catastrophic climatic events and dramatic social shifts. Business is already experiencing volatility across its operations, resource scarcity and evolving regulatory environments. The COP21 in Paris made it clear that business has a role to play in mitigating climate impacts and building a more resilient society. And only in this way will business be able to succeed into the future.

## WASTE

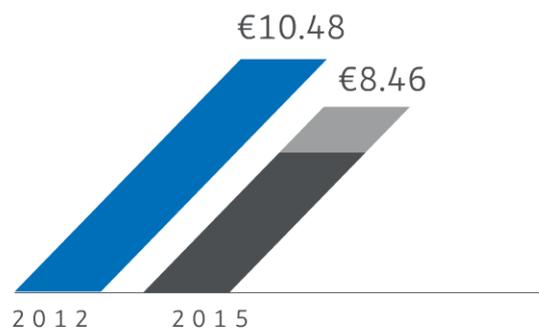
64% TARGET ACHIEVEMENT,  
EQUALING 16% REDUCTION IN WASTE



€ EP&L IMPACTS PER €1000  
TURNOVER ON TIERS 1-4

## WATER USE

76% TARGET ACHIEVEMENT, EQUALING  
19% REDUCTION IN WATER USE

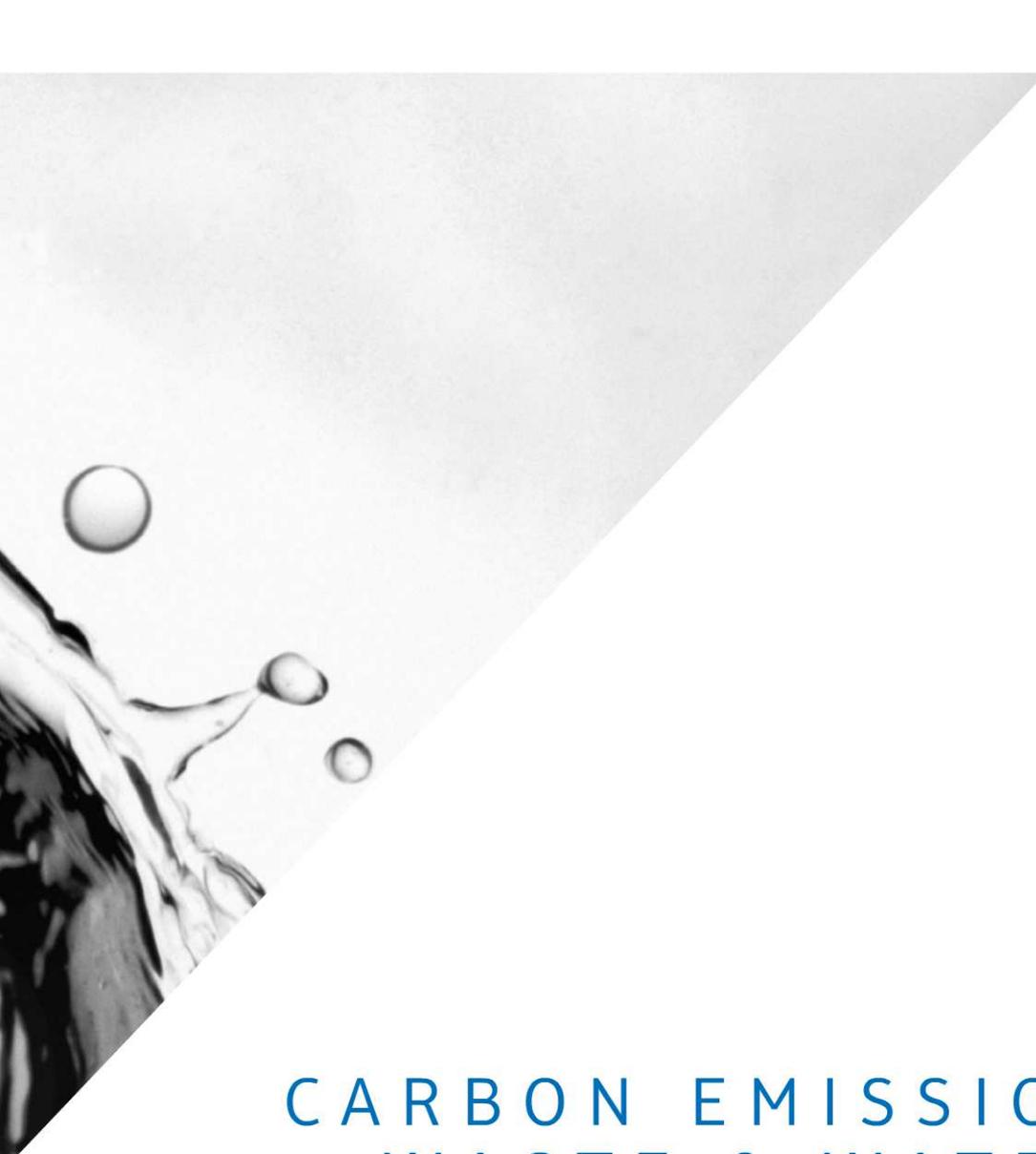


€ EP&L IMPACTS PER €1000  
TURNOVER ON TIERS 1-4

# OVERVIEW

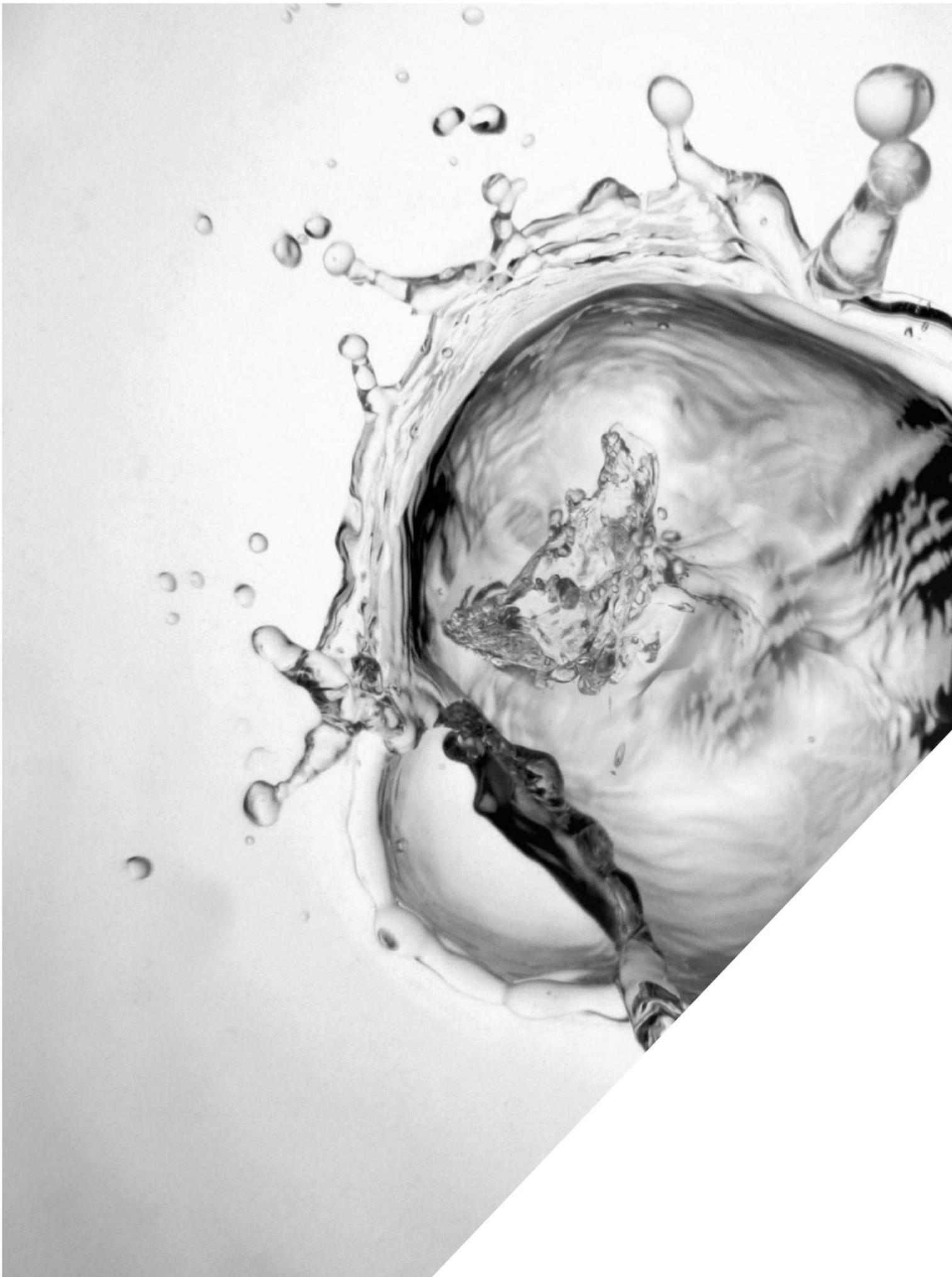
Kering has, especially over the last few years, taken on this responsibility and we have focused our efforts on mitigation, adaptation and resilience in our business. As a first and fundamental step, Kering has done an in-depth accounting of our impacts on climate change across our supply chains. Beyond conventional practice which sees corporations take account for carbon emissions generated by their own operations, Kering's Environmental Profit and Loss (EP&L) measures and monitors carbon emissions of both our own operations and those of our entire supply chain, right up to raw material production. Additionally, our EP&L measures impacts such as land use change that has indirect impacts on climate change. Mapping out impacts across our complex global supply chains also enables us to identify where our business activities are vulnerable to risks from climate change, as well as the prioritisation and monitoring of actions. The supply chain impacts from production and processing of raw materials highlight the critical importance of driving innovation around material and process efficiency more broadly than carbon emissions. Consequently, a specific example is our focus on water efficiency and reduction of our water footprint. The EP&L analysis not only shows where water is consumed in our supply chain but also gives us an indication of the risk associated with this consumption based on scarcity or the "value" of water in a specific geographic location. It has also shown us that the majority of our carbon emissions (67%) occur upstream in the supply chain where raw materials production and initial processing are located. Of course, identifying impacts and risks is just the first step towards sustainability. The next is designing and implementing actions to avoid and/or mitigate these. Therein lies a tremendous challenge in leveraging change and improvement in the operations of suppliers that are far from Kering's own operations and embedded in global, complex supply chains.

For Kering, the attainment of our 25% Target reduction in carbon emissions, water and waste translates to working on our own operations but also reinventing supply chains, changing raw materials production systems and influencing the many different suppliers we rely upon including the agricultural industry, the mining industry and the energy sector. Kering has been crafting innovative approaches to meet these challenges. In particular, the work of our Smart Sourcing and Smart Supplier programmes to improve raw material production and sourcing and manufacturing processes have been successful. The programmes that have been launched over the last four years are providing a solid foundation for Kering and our brands to further reduce our Carbon emissions, water and waste in the coming years. Recognising the importance of mitigating our impact on climate change and that a responsible approach goes beyond avoidance and reduction, we also offset our remaining Scope 1 and Scope 2 emissions of the Greenhouse Gas Protocol annually. Core to our offsetting strategy is our commitment to find ways of supporting positive outcomes for climate, biodiversity and vulnerable local communities and, as such, our offsetting projects are certified, gold standards REDD+ projects.

A black and white photograph of water splashing, with several droplets captured in mid-air, set against a light background. The image is partially obscured by a diagonal grey triangle that points towards the top right corner of the page.

## CARBON EMISSIONS, WASTE & WATER

**Reducing our carbon emissions, waste and water usage resulting from the production of products and services by 25%, while accounting for the growth of our business. All remaining emissions from scope 1 and scope 2 of the Greenhouse Gas Protocol will be offset annually. Kering will continue to partner with offset programs that contribute to the welfare of the community and the conservation of biodiversity in its regions of operations.**



## CARBON EMISSIONS PROJECTS

Kering continued to expand the energy management programme we launched in 2011 and introduced a monitoring system on a monthly basis with NUS that gives us better visibility of energy consumption and costs in our offices, shops and facilities. In 2015, this system was reinforced worldwide through the extension of the tracking system totalling 496 sites in Europe, the United States and Asia. The project streamlines the energy procurement process by pooling and consolidating energy consumption, increasing the use of renewable energy and centralising energy procurement management which has subsequently led to energy savings and cost reductions for our Group. We also evolved this project by sub-metering different types of energy consumption in real time and piloted it with Schneider Electric in several brands' Parisian stores and will continue to rollout it out with our brands. The project highlighted the most energy intensive units and areas, and identified a potential 5% to 20% reduction in energy costs and store management best practices to optimise energy performance and comfort. To compliment these approaches, and in compliance with the European Directive on energy efficiency, we performed 51 energy audits on a selection of European sites in 2015. Going beyond the minimum requirements in terms of scope covered, the audits identified potential to reduce energy consumption by between 15% and 20% for stores, offices and warehouses, and often just by adjusting lighting and air conditioning systems. Similar or better potential savings were identified for the industrial sites audited in Italy. We will continue to embed these new insights from our various initiatives into our overall strategy.

Since we set our Target in 2012 we multiplied the amount of renewable energy we purchase in the world by 4.5 times, which translates to 24.5% of our energy being from renewable resources in 2015. To compliment this, we have also set up key projects at our facilities to generate renewable energy. A number of our brands and suppliers have installed solar panels and PUMA's headquarters as well as Bottega Veneta's offices in Milan and its

Atelier in Montebello Vicentin, and a warehouse operated by the Luxury activities in the United States have done so, as have the Volcom Surf Team houses in Hawaii. Overall, 21 of our premises have produced more than 10,600 MWh between 2012 and 2015, and generated cumulative savings of 5,200 tonnes of Carbon emissions.

As a part Kering's Smart Sustainable Store guidebook to reduce energy use in stores, the use of LED lighting has shown up to 90% energy savings on lighting and our brands have increasingly switched over to LED. As just a few brand examples, Gucci continued to rolled out its LED lighting programme and invested €2.4 million in 2015 earmarked towards the replacement of lighting in its stores with LED fixtures (within this total investment the portion spent in terms of sustainability is 20%, €483,000). Saint Laurent has followed the same approach and all its new or renovated stores are 100% LED-lit, which has led to the decrease of energy consumption by an average of more than 30%. At the end of 2015, more than 70% of Saint Laurent's directly owned stores were 100% LED-lit. Further in 2015, Balenciaga equipped all of its new stores with LED lighting and LED installation also continued Bottega Veneta stores whereby the brand has been mapping the use of LED in its facilities worldwide and LED lighting is already used in some new store openings in US and Europe in 2015, resulting in estimated savings between 20% and 25% on energy bills.. Also further analysis on the project's scalability at WW level is ongoing. Meanwhile, Volcom pledged that LEDs would account for at least 75% of lighting in all new stores going forward and in its existing stores and headquarters in Costa Mesa, the brand is continuing to replace more energy-intensive lighting systems with LED systems. At PUMA, 30 new stores are exclusively using LED technology for lighting.

LEED certification is another example of the work done to reduce energy consumption. Based on six evaluation criteria including optimising energy performance and renewable energies use, a number of our brands have achieved

## CARBON EMISSIONS PERFORMANCE

Traditionally, the measurement and monitoring of a company's Carbon emissions is focused on a company's own operations (Scope 1 & Scope 2 of the GHG Protocol). Kering goes beyond this and monitors Carbon emissions across our entire supply chain and upstream to raw material sourcing. From our EP&L analysis' over the last few years, we now know that 12% of our total carbon emissions are generated by our own operations (Tier 0) and 88% fall within the supply chain, with 58% occurring during the manufacturing phase of the supply chain (Tiers 1 to 3), and the remaining 30% due to raw material production at the beginning of our supply chain (Tier 4). This clearly highlights that to mitigate our Carbon footprint, we need to act at many points and in different ways in our supply chain. Our Carbon footprint is mostly due to our fossil fuel use in the different fabrication and distribution processes along our supply chains, but also due to cattle rearing and the agricultural processes that are needed to produce the raw materials we use. Consequently, we have focused our efforts on key "hot spot" areas including the responsible sourcing of raw materials and improved the environmental efficiency of industrial processes. We started by targeting initiatives to decrease energy consumption through solutions that include smarter consumption patterns and enhancing energy efficiency through innovative technology in product development, production processes and facility design. We also adopted a strategy to promote the use of renewable energy alternatives through producing electricity and heat on-site from solar or wind and the purchase of certified electricity from renewable sources. We are committed to reducing our Carbon emissions in many ways but given that we will have a "residual" footprint we are also committed to offsetting our Scope 1 and Scope 2 emissions. Aligned with our sustainability

approach of supporting solutions that create positive outcomes, our offsetting strategy has been implemented annually since 2012 and is achieved through the purchase of verified emissions reduction credits from REDD+ (Reducing Emissions from Deforestation and Forest Degradation) projects. These projects are verified against the highest standards to ensure credible reductions with proven social and biodiversity benefits, and subject to VCS (Verified Carbon Standard) and CCBA (Climate, Community and Biodiversity Award) certification. Our partner, Wildlife Works Carbon, is a leading REDD+ project developer and our offset purchases over the years have supported the conservation of 440,000 hectares of highly valued biodiversity and natural ecosystems and the livelihoods of more than 100,000 local people in Kenya, Brazil, Madagascar and Indonesia.

LEED-certification for their new buildings and renovations. Gucci had 10 LEED-certified stores in late 2015, while Saint Laurent has had four stores certified, three of which are Platinum level, the most demanding level within this certification. Bottega Veneta also obtained LEED in the New Construction and Major Renovation category at the highest level Platinum for its Atelier in Montebello Vicentino located in a restored 18th century villa within a 55,000 sqm park in the heart of the Veneto region, revealing its unconditional commitment to safeguarding the environment and the well-being of artisans and employees. Stella McCartney and Brioni obtained LEED certification for their stores in Dallas and the building in Milan, respectively. Further, Luxury Goods International (LGI), Kering's international distribution and logistics platform for our luxury brands, has also been LEED-certified which was the first distribution hub in the luxury sector to attain Platinum-level.

Transportation also plays a part in our Carbon emissions and particularly, goods transport has a non-negligible impact within our Group. Our brands have been working to reduce the distances covered during delivery, improved truck load factors and the performance of truck fleets, and developed alternative means of transport. The optimisation of deliveries has also been an important focus, especially the pooling of deliveries to our brands' stores in larger cities. As an example, Gucci launched through LGI an "eco-urban delivery" project in 2012, in partnership with TNT, to deliver its products to the stores in major retail districts of key cities using electric and Compressed Natural Gas vehicles. In operational terms, the project merges the collection and delivery processes, which were previously handled by different vehicles at different times of the day. The result is a significant reduction in mileage and in the number of vehicles circulating. Kering extended the project and thus far carbon-free store deliveries are made at 10 stores in Milan including Bottega Veneta, Saint Laurent, Balenciaga, Stella McCartney and Alexander McQueen. A larger-scale rollout has continued in Rome, Florence, Amsterdam and Paris, and then extended to London and New York stores via a partnership with Fedex. Total annual savings across the various cities are estimated to be 44 tonnes of Carbon emissions.

These are just a cross-section of the work we are doing in our own operations and logistic chains. Since we found out that the majority of our Carbon emissions are from supply chain activities via our EP&L analysis, we have implemented a number of projects to promote energy efficiency across the supply chain. Kering's 'Smart Sourcing Programme' has guided us and our brands to implement a range of "low-carbon" solutions for raw material sourcing on Tiers 1-3, which includes the processing of leather and textiles, and the manufacturing of products, and in Tier 4 where carbon emissions are mostly linked to the agricultural production of raw materials. Through our Smart Supplier Programme we have helped to reduce our key suppliers' emissions, as well as water consumption and waste, by supporting the training in best practices for energy management, and audits to highlight priorities for energy management and efficiency in tanneries. Furthermore, we have been integrating our EP&L findings to focus on key 'hot spots' in the supply chain and, as an example, mills are energy intensive and also textile supply chains where the weaving, dyeing and finishing of textiles has significant energy and water use. To help address this issue, and initially piloted by Stella McCartney in four key Italian mills supplying the luxury industry, we have been implementing the 'Clean by Design programme. Developed by the Natural Resources Defense Council (NRDC), we have leveraged this programme aimed at reducing textile manufacturers' environmental footprint. In 2014, under the Group's impetus, Gucci, Alexander McQueen, Saint Laurent, Balenciaga, Bottega Veneta and Brioni also elected to join the programme and a total of 25 suppliers, mostly weaving, printing and dyeing companies based in Italy, have been involved in the programme. Supplier audits have identified simple changes that could reduce their energy costs and greenhouse gas emissions by 15% to 25% without affecting production, and with a return on investment in less than five years.

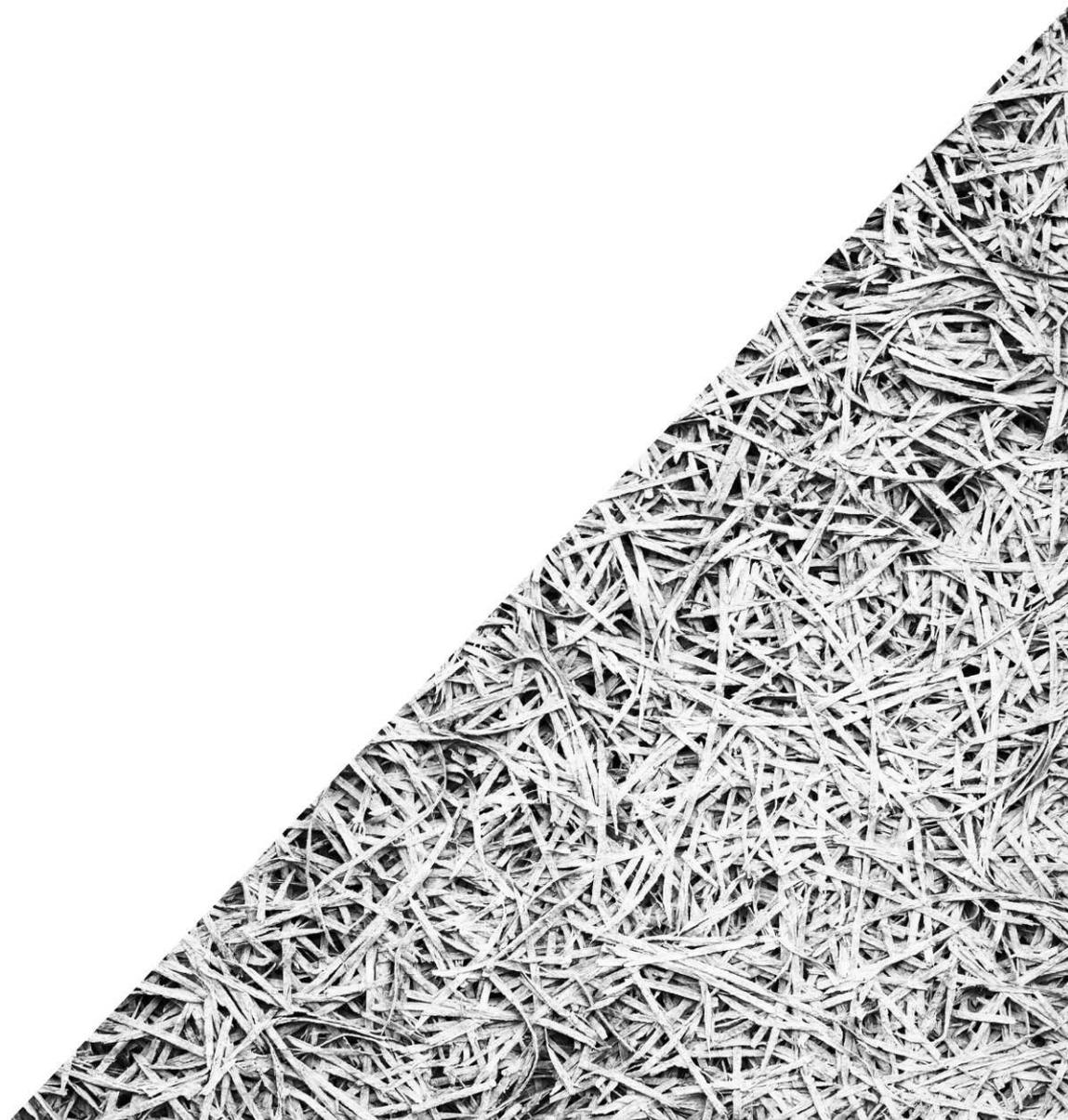
## SAINT LAURENT



The global roll-out of the new store concept allowed to improve the energy efficiency of the network by 37% between 2012 and 2015.

## WASTE PERFORMANCE

An effective waste management and reduction strategy is key for the efficient use of materials that can otherwise result in waste production, and consequently avoid sourcing further raw materials and increased production. Actions including material efficiency, recycling and waste minimisation are just some examples that will reduce negative impacts throughout the supply chain. Kering and our brands have taken this approach over the last years and implemented our waste management guidelines, while leveraging our "Smart Sustainable Store" and "Smart Supplier" programmes.



## WASTE PROJECTS

Kering's waste management guidelines provide direction better decision-making across all areas of the business, including management systems, standards and certification, and supplier engagement for efficient use of materials and waste minimisation. To gain insight on our waste production, we launched a project to improve the measurement of the waste and identification of key areas. Kering initially targeted packaging, which accounts for a significant portion of the waste produced in our retail activities, and our analysis revealed that packaging waste generated in stores mainly came from the central warehouse. We have since worked with LGI to reduce the packaging sent to stores. Packaging size optimisation and a No-Box project have shown some success. The No Box project substitutes the primary shipment packaging for handbags and suitcases, replacing the standard cardboard box with a bag made of recyclable material. During the first phase of Group implementation, and related to Gucci, this translated to a reduction in cartons equalling 268.61 tonnes in 2013 and 395.1 tonnes at the end of 2014. To compliment this approach, LGI has been investigating further packaging projects such as substituting traditional plastic envelope bags for RTW in biodegradable fabric.

Another key area for waste reduction is in recycling opportunities and reuse innovations. As such, PUMA recycles 59% of all waste on a global level and uses recycled cardboard for its shoeboxes and Volcom has had a recycling system in a number of its stores since 2011 that enables customers to deposit their used clothes, shoes or accessories, regardless of the brand, in dedicated recycling bins, to be reused or recycled depending on their state of wear. Furthermore, Volcom has had a corrugated cardboard cycling programme at its headquarters in Costa Mesa and in its distribution centres for some time. The brand also promotes styrofoam recycling through Sustainable Surf's Waste to Wave programme and launched a partnership

with Resurf Europe, which aims to collect more used boards for recycling. At the beginning of 2011, Balenciaga implemented a sorting waste system at its main sites in Paris having partnered with a waste recycling company which sends Balenciaga a set of monthly indicators allowing it to monitor the effectiveness of its recycling measures and communicate with staff on the benefits of daily sorting. Since the programme launch, 11 tonnes of paper, 44 tonnes of cardboard, 3.2 tonnes of plastic and 3.1 tonnes of fabric has been recycled. Balenciaga also launched the innovative "Second Life Fabrics" programme in 2014 to find new uses for its unused fabrics and since then, nearly 3,000 shopping bags and scarves have been produced by workshops employing people in work reintegration programmes and distributed within our Group, resulting in the reuse of almost 1,500 metres of fabric. As part of its rebranding initiative, Saint Laurent rolled out the 'Second Life' project in 2013 to give a new lease of life to products and materials that can no longer be used, such as mannequins, visual merchandising media, and hangers. This resulted in the recycling or reuse of several tonnes of old packaging; the resale of over 580 kg of recyclable metal objects; donations to charities or sales of over 850kg of old Saint Laurent store uniforms; and the resale or donation of almost 100 mannequins to design and fashion institutes or artists' collectives. Our brands have also focused on textile and raw materials cuttings and reuse to reduce waste. In 2013, Bottega Veneta and its partner ILSA transformed leather cuttings into organic fertiliser by applying a process that breaks it down into a new biodegradable product. Since its launch, the five Bottega Veneta directly managed sites participating have generated almost 400 tonnes of leather cuttings, globally over two thirds of which have been transformed into organic fertiliser. In total the project recycled 93% of their leather offcuts in 2015, up from 90% in 2014 and 65% in 2013.

Gucci also set up a similar programme in 2012 to turn leather cuttings into organic fertiliser, with its cuttings then collected, shredded and processed by a specialised company. As a result, 115 tonnes of fertiliser was produced from 230 tonnes of Gucci leather cuttings in 2013, 395 tonnes of scraps in 2014, and in 2015, 244 tonnes of Gucci offcuts produced fertiliser. Gucci has also implemented a process that reuses crocodile skin cuttings left over from bags to make footwear, which resulted in 1,825 pairs of shoes being made from cuttings in 2013. And further, about 11 tonnes of wool scraps have been reused to create regenerated cashmere. As another initiative by our brands, cuttings produced at Stella McCartney's head office are collected, recycled and processed into insulation or plastic through a partnership they established with Soex in 2012. Further, one of the brand's Falabella bag styles features a recycled polyester microfiber. Made from a combination of recycled polyester coming from PET (plastic bottles) and from polyester fibres, each meter of the material contains the plastic from at least 20 plastic bottles. The material is produced using neutral, non-toxic dyes and no solvents are used in the processing, instead it is produced using a water-based system developed in Japan. Additionally, the material is designed to guarantee easy disposal and is 100% recyclable at the end life. And further yet, all Stella McCartney bags with fabric lining are lined with recycled polyester made from recycled plastic water bottles. Saint Laurent also continued its efforts to recycle waste and unused materials and set up partnerships with two French vocational rehabilitation organisations in 2015 to give a second life to fabrics used in old collections. Some of these fabrics are transformed into insulation for buildings or cars by the Relais Emmaus, and others are reused by Tissons la Solidarité to create new clothes. For leather used in

handbags, Saint Laurent found an alternative to landfill for 95% of its scrap leather in 2015 and has implemented an innovative programme enabling the reuse and recycling of leather.

To go beyond recycling, Kering has been doing pioneering work with the innovation company Worn Again on 'closed loop' recycling. This technology can separate and extract polyester and cotton from old clothing and textiles. Once separated, the aim is for the 'recaptured' polyester and cellulose from cotton to be spun into new fabric creating a 'circular resource model'. It is the 'holy grail' of textile recycling and as such, there is little waste production, if any, which is due mainly to avoiding landfills altogether.

# BALENCIAGA



Second Life Fabric Collection.

## WATER PERFORMANCE

A significant amount of water is used in the creation of products from the production processes, like fabric dyeing and finishing in textile mills, all the way to how the consumer cares for the product. Sustainable and efficient water use is a critical step to reducing an environmental footprint. Through Kering's EP&L analysis we know that the majority of water consumption comes from the supply chain at Tier 4 raw material production (irrigation for plant based fibres such as cotton) and Tier 3 material wet processing (such as tanning and dyeing). Leveraging these EP&L learnings we have been able to identify ways to improve water use in the supply chain and also to understand water efficiency in tanneries. We have also been implementing our water management Guidelines, which focus on our own operations in addition to those of our key suppliers.



## WATER PROJECTS

Kering has been assessing NUS for collecting water data at a selection of our sites, in order to then target inefficiencies to decrease water consumption in our own operations. We have also been raising awareness on water efficiency measures through our Smart Sustainable Store guidebook. Similarly, through our Smart Supplier Programme we have been focusing on water efficiency with our suppliers and we have supported projects with our brands to ensure that water efficiency is a key criteria in the sourcing of raw materials, particularly where water use is high in our supply chain. Given the nature of Kering's operations, the bulk of our industrial water consumption is attributable to tanneries and a significant amount of water is also used in fabric dyeing and finishing of products in textile mills where water is used. While none are located in water-stressed zones, our brands have developed innovative tanning processes that eliminate heavy metals and use less water.

Kering has also leveraged our EP&L approach to conduct a review of responsible water management across our entire production chain and our indirect water consumption is linked to the use of agricultural raw materials like cotton. Conventional cotton production results in high levels of water consumption and, as such, we have been focusing on organic cotton and have also been sourcing organic cotton from areas that are rain-fed rather than irrigated, which reduces our water footprint. As an example, Alexander McQueen's organic cotton products uses only a third of the water, avoids chemical fertilisers and needs less than half of the fossil fuel energy that conventional cotton production requires.

Kering's Materials Innovation Lab (MIL) was created to help reduce water use, and the overall footprint of our businesses. The MIL provides support to our brands through a comprehensive library of sustainable materials, and the provision of technical

expertise on sustainable approaches to sourcing and manufacturing fabrics and fibres. Along with the Kering sustainability department, the MIL also provides recommendations and expert feedback on the sustainability of products and processes including the way raw materials are produced, the reduction and management of chemicals, energy and water efficiency, and certifications and standards. We have also look into the entire lifecycle of products and the environmental impact the consumer may have once our products are sold. To this end, Stella McCartney launched the 'Clevercare' initiative with H&M, the Danish Fashion Institute and Ginetex to promote the extension of product life through a symbol on labels for low impact garment care. This project has the potential to change consumer garment care practices and deliver huge savings in water, energy and CO<sub>2</sub>.

## CARBON EMISSIONS, WASTE & WATER PERSPECTIVE

Climate change and water scarcity are perhaps two of the greatest environmental challenges that the world is facing in the coming years. It is not only a responsibility of a business but also a necessity to become as efficient as possible when it comes to reducing carbon emissions and water use across the supply chain. Furthermore, businesses should be aware of how climate change, and the related increasing water scarcity, will impact their supply chains.

Particularly in the fashion industry, companies should strive to understand where their vulnerabilities will arise, such as in supply chain processes like tanning and dyeing, which require a lot of water and whereby execution can be in countries where water scarcity is known to increase in the near future, or on the raw materials where climate change presents a number of associated risks. To become more resilient as a company and to improve sourcing practices, standards can be put in place for suppliers to adhere to but for a significant reduction of water, waste and carbon emissions in the supply chain there are a number of hurdles to overcome. There is a need for the systems and technologies already in place in the supply chain to evolve.

Working within a complex supply chain and also collaborating with suppliers can be challenging in itself but for this to be effective, incentivisation to make changes is required. Companies can make changes in their own operations to reduce their water, waste and carbon footprint, which is what we are doing at Kering, but the bigger challenge is the collaboration and partnerships needed between diverse partners for supplier support and investment and innovation in equipment to reduce impacts, especially in relation to water. And further, "breakthrough innovation" to drastically reduce a business' environmental impact must be investigated and deployed.

It is all the more difficult to implement

new business models and innovation when an industry, like the luxury sector, has a strong heritage and a traditional way of manufacturing. These are the types of actions to bring about systematic change.

ALEXANDER MCQUEEN



Menswear collection in organic cotton.



# HAZARDOUS CHEMICALS

**Ensuring all hazardous chemicals have been phased out and eliminated from our production by 2020.**



## PROJECTS

To ensure hazardous chemicals are not used in the manufacturing of Kering's products we put in place management systems that track and monitor chemical usage. As such, our Chemical Management Framework was developed in collaboration with our brands and through consultation with industry peers and other key stakeholders in the chemical industry academia and NGOs. To ensure implementation across our brands and their suppliers and to provide additional guidance we set up the Kering Chemical Idea Lab. We also developed internal tools to facilitate implementation such as a guide comparing the different certifications and standards and how they relate to our MRSL.

Through our chemical risk assessment we identified that one potential area of significant impact is the tanning of leather and precious skins. Consequently, we prioritized the implementation of our MRSL in 2014 through a series of tannery initiatives including: analysing chemical inputs and outputs; identification of 'green' alternatives; and roadmaps for eliminating any dangerous substances. In 2015 we began extending a similar program to our textile suppliers. Complementarily, PUMA enhanced its chemical management system through collaboration with bluesign®. PUMA was also the first Sport & Lifestyle brand to respond to the Detox campaign launched by Greenpeace and, as such, committed to remove all toxic residues from its entire production chain by 2020. As part of their commitment, PUMA has been a founding member of the Zero Discharge of Hazardous Chemicals Group (ZDHC) and is currently serving on their Board of Directors and Co-Chairing the development of a common ZDHC waste water guideline. PUMA also built additional stakeholder engagement through a collaboration with the Chinese NGO, Institute of Public and Environmental Affairs (IPE) with the goal of communicating openly to local stakeholders on the quality of the waste water released by the brand's suppliers with wet-processing facilities. At the end of 2015, 33 of PUMA's key suppliers publicly reported information on their waste water quality from dyeing, tanning, etc. on IPE's online platform. Since its publication in 2013, PUMA has also performed environmental audits of key material suppliers using the ZDHC protocol. Several of our other brand's suppliers have

undergone similar environmental audits conducted by bluesign® or by the Leather Working Group, and Gucci is chairing the sustainability roundtable at Camera Nazionale della Moda Italiana to issue guidelines on sustainability in fashion; the first of which to be published focuses on chemical management for the Luxury sector.

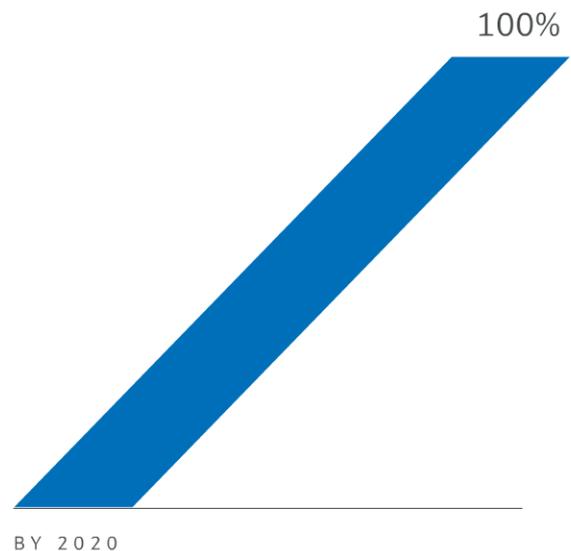
Since 2012, we have also focussed on finding alternative solutions to avoid the use of hazardous chemicals. A number of our projects have centred around innovation and Kering's MIL has been integral to this process. The majority of the fabrics in the MIL's library are certified and its expertise supports our brands in identifying and substituting chemically treated materials with greener alternatives. Our brands have also been developing innovative solutions to reduce the use of higher risk chemicals in different processes such as leather tanning. As a first for the luxury sector, Gucci's metal free tanning used an organic tanning agent whereby the wastewater and tanned leather are free of all heavy metal at the end of processing. Gucci's method reduced water use, had energy savings and reduced chemical intensity as compared to conventional tanning methods. Bottega Veneta developed innovative technologies as well and chrome-free tanning has been incorporated into a number of its collections. Already in 2014, Bottega Veneta launched its first men's bags from their Cruise Collection in drap calf treated using chrome-free agents, and furthermore, Bottega Veneta extended chrome-free tanning to include all full Nappa Cabat bags in 2015 and to progressively increase the utilization of new and more sustainable tanning methods. Stella McCartney is another brand that has focused on chemical optimisation and a number of its fabrics are OEKO-TEX certified. To augment its initiatives, Stella McCartney was part of the 'Cradle-to-Cradle Fashion Positive' launch in order to continuously improve the sustainability of its products, with the goal of being Gold C2C certified in 2016. Further, Stella McCartney has been working alongside Fashion Positive to encourage chemicals companies to develop fabric dyes and process chemicals that are free from heavy chemicals and that can be part of biological nutrient cycle.

## PERFORMANCE

Thousands of chemicals are used in the manufacturing of products in the fashion industry. Some of these chemicals have the potential to impact people's health and the environment and this can occur through the production of the chemical itself, the manufacturing processes and also sometimes through residues in products. Careful management of chemicals is imperative for fashion supply chains and this is particularly critical for those chemicals that have been identified as 'hazardous'. For this reason, Kering set a target illustrating our commitment to high standards of chemical management. Kering complies with all local and international regulations and industry standards, however, our Target on hazardous chemicals goes beyond regulatory compliance in recognition that there may be certain chemicals of concern that are not yet regulated. The priority chemicals determined under our Target were identified through a risk assessment by third party experts on chemicals used in our brands' manufacturing processes. We also leveraged the results of our EP&L analysis to identify the 'hotspots' of chemical use in our supply chains. This, in turn, enabled us to prioritise how and where to focus on chemical management with our suppliers. We then established the Kering Chemical Management Framework to serve as the guidance and standards for our brands and our suppliers. The Framework includes our Restricted Substances Lists (RSL) for products and our Manufacturing Restricted Substances List (MRSL) for processes and will be updated regularly to reflect new regulations and new science-based information from experts. Our Framework also highlights the processes and substances that require further research and investment to have greener alternatives available. To support a focus on such alternatives, Kering leveraged our Materials Innovation Lab (MIL) to provide information on alternative sustainable materials that are RSL and MRSL-compliant and we also partnered with stakeholders and experts across industries to conduct scientific research

focused on hazardous chemicals management and elimination. We are taking proactive action to meet our 2020 Target with the Kering Group recently joining the Zero Discharge of Hazardous Chemicals Group (ZDHC), bringing our experience from the luxury sector to the table in order to contribute to the industry-wide change they aim to achieve.

### TARGET ACHIEVEMENT



**BOTTEGA VENETA**



Cabat in Nappa, 100% traceable bag in chrome-free leather.

## PERSPECTIVE

Certain chemicals can pose risks to human health, through skin contact, being inhaled or ingested through contaminated water. There can also be significant environmental impacts on animals and plants from water and air contamination. It is essential that the fashion industry reduces and moves to eliminate its use of hazardous chemicals, by putting in place management systems to track and monitor chemical use. There are various issues to be addressed, from the production of the chemical products themselves which can have poor management and include hazardous chemical residuals, to the habit of suppliers using chemicals without questioning the potential hazards. Furthermore, finding green alternatives and influencing suppliers to incorporate them into their processes is challenging. Challenges across our own business are also complex as regions of production vary and different regions internationally can have different regulations and a supply chain in one area can incorporate chemicals that are restricted in another. As an example, our Luxury brands operate in a very different way than the mass production model of the "fast fashion" whereby sourcing is mainly from heavily regulated European countries and thus less risk during production. These are just a few of the challenges in the industry that we are trying to solve through capacity-building initiatives with our suppliers and stakeholders.





## EVALUATING OUR SUPPLIERS

**Evaluating our key suppliers at least every 2 years, and helping guide them to meet best practices and adhere to Kering's code of conduct.**

# CHAPTER 3: SOCIAL

## TARGET TRAJECTORY: KERING GROUP LEVEL

Ethics Charter created

1996

Sustainability Department established

2003

Code of Business Practices deploys

—

Ethics & CSR Committee created

2005

Group's CSR commitments defined

2006

Sustainability Department represented on the Executive Committee & reporting to CEO & Chairman

—

Seven strategic Group CSR priorities for 2008-2010 defined

2007

Kering Group becomes a member of the UN Global Compact

2008



# OVERVIEW

It is clear that new business approaches are needed to ensure socially responsible supply chains. Increasingly, consumers are demanding more transparency and responsibility in the way their clothes are being made. And fortunately, a great deal of attention and effort is now underway to transform the industry and establish collaborative frameworks to catalyse long term improvement and to meet the demands and expectations of a changing global working environment. Creating positive social outcomes through our business is a fundamental principle in Kering's sustainability strategy and we consider that we have a responsibility to be a leader in catalysing transformative change that will, in turn create business opportunities and resilience.

The roadmap to do so involves actions by individual companies, industry groups and multi-stakeholder platforms and involves a series of key actions including: clarity and agreement on standards and practices; communication and collaboration to implement these standards; innovation in ways to support infrastructural and operational change in suppliers; and verification against the standards. This is the approach that Kering has taken as we continue to build resilient supply chains that integrate both social and environmental sustainability for the long term. Kering's supplier auditing

Target is just one way that we measure progress and it is part of a cycle of continuous improvements and adaptive management. We have a deep commitment to sustainability and since 2012 when we set our Targets we have been focused on reducing our negative footprint and creating environmental and social positive outcomes, across our supply chain. This is shown in the way we source our materials from small-scale producers in addition to the way we ensure responsible working conditions in our manufacturing. We have put a framework in place and have created tools to help us implement and verify our standards more thoroughly. We have set up a comprehensive compliance management system, embedded social requirements in our supplier contracts, and rolled out auditing programmes by accredited third parties. These actions are all underpinned by our philosophy of 'open sourcing' our key sustainability tools and implementing collaborative approaches with our suppliers and stakeholders. Ultimately, it is through collaboration with peers, civil society and the public sector that will bring about transformative change and enable better working conditions for all.

Group member  
Global act



## PERFORMANCE

Kering's ethical principles reflect our commitment to ensure that best practices are employed throughout the business and to support the people working in our supply chains. Our Code of Ethics is based on international references, including the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, the United Nations Convention on the Rights of the Child, the main ILO Conventions and the ten principles of the UN Global Compact. And as part of tracking our progress in implementing the highest standards in our supply chains we established a Target focused on auditing suppliers. Key elements of our work over the last few years towards this Target included the development of Group-wide standards for labour conditions and supplier environment management along with monitoring legal compliance and business integrity in our supply chains. Our standards outline the mandatory practices that need to be in place and our suppliers are required to comply with the criteria outlined in our Supplier Charter of our Group's Code of Ethics. And to further drive adoption, we also embedded our sustainability requirements into supplier contracts. Vital to the implementation of our standards was the roll out of a new global supplier management system across our brands. One key element of this system is monitoring the compliance with social, environmental and ethical standards across our entire supplier management lifecycle. The development and implementation of our global system is ongoing but meanwhile, we have an auditing programme to help ensure our sustainability requirements are effectively embedded in our supply chains. We recognize that auditing is simply one tool in a suite of approaches and central to the sustainability of our supply chain is our partnership with a select group of key suppliers.

It is through these collaborations that we can improve conditions and practices on an ongoing basis and with a trust and confidence that will support the responsible growth of our business. To this end, we collaborated with our suppliers on initiatives that included: the development of "lean management" techniques; manufacturing process improvements; and support for innovative technologies that improve workplace experience.

---

OVER

6,000

SUPPLIER AUDITS

AUDITS AND RE-AUDITS OF SUPPLIERS  
WITHIN A 2-YEAR PERIOD THAT  
CAN BE COMPRISED OF SOCIAL,  
ENVIRONMENTAL AND OTHER  
COMPLIANCE CRITERIA

addition to training, the SAVE programme offered suppliers a precise diagnosis of their current situation with respect to energy and water efficiency as well as waste management. In total, 222 efficiency measures were reported with an average payback period below two years and a saving potential of over 5 Million USD. As part of Kering's broad collaborative approach with suppliers, our brands hold regular training sessions with their suppliers to discuss the key sustainability projects. In 2014, Bottega Veneta hosted more than 85 suppliers at its Montebello Vicentino site, and for the same event in 2015 the number of suppliers increased to 112. Between 2012 and 2015 Gucci involved more than 1400 suppliers in outreach activities and PUMA regularly organises roundtables on sustainability issues and challenges with 273 direct and indirect suppliers in Turkey, India, Indonesia, Vietnam, Cambodia, China, Argentina and Bangladesh.

Significantly, Kering takes our approach on social issues upstream in our supply chains as well. The work that Kering and our brands are doing on sustainable sourcing of raw material is focused on finding sourcing solutions that not only reduce our environmental footprint but also provide benefits for local communities. There are several examples of our efforts to do so, including the work we are doing with nomadic herders in Mongolia for sustainable cashmere production, our projects with artisanal gold mining communities, and our support of the wild harvest of Bolivian caiman.

Kering and our brands also engage in industry level initiatives aimed at improving social conditions across the fashion supply chains. PUMA signed the "Bangladesh Accord" after the Rana Plaza factory collapse in Bangladesh although none of its direct or indirect suppliers were implicated in the event. As weak regulations and enforcement of safety in industrial buildings were found to be the root cause of the building's collapse, PUMA launched its "Building Safety" project

whereby professionals in building safety assessed the safety of the buildings in selected factories producing for PUMA in China, Vietnam and Cambodia. To further support its suppliers in emerging markets, PUMA and the International Finance Corporation (IFC), entered into a partnership in 2016 to offer financial incentives for suppliers to improve environmental, health and safety and social standards. In its first phase, the programme will be rolled out in Bangladesh, Cambodia, China, Indonesia, Pakistan and Vietnam. Another example of Kering's stakeholder engagement was the signing the "Responsible Supplier Relations" charter established by the French Ministry of the Economy and Finance, and the Compagnie des dirigeants et acheteurs de France which promotes the implementation of and compliance with best practices in relation to suppliers in France.

## PROJECTS

Kering's sustainability strategy has always encompassed social aspects, alongside environmental stewardship, across all of our supply chain. Over the last four years our work on ensuring best standards for human health and welfare has continued to evolve and adapt to the needs of our expanding Group. The management of our suppliers' social compliance also takes into account our growth by creating synergies between the brands. As an example, Kering launched a comprehensive review to provide recommendations on the harmonisation of supplier assessment systems, using the expertise of our brands to develop a common framework.

Our Luxury production is primarily in Italy, and our largest Luxury brands, Gucci and Bottega Veneta, have had long-standing social compliance programmes in place, working closely with their key suppliers. These brands are SA8000-certified and Gucci has been a member of the SA 8000 Consultative Committee since 2009. Our other Luxury brands are following this model and have built collaborative supplier compliance programmes. Additionally, Luxury Goods International, Kering's international logistics platform for our Luxury brands, is also SA 8000 certified. For Sport & Lifestyle, PUMA has had a globally recognised supplier compliance programme set up since 17 years using a Fair Labor Association (FLA) accredited framework with all of its key suppliers. In 2015, PUMA also focused on the integration of the United Nations Guiding Principles on Business and Human Rights. Kering supported Volcom to develop similar programmes and the brand became a FLA member in 2014.

To ensure there are safe and socially responsible conditions in the supply chain, our brands have a comprehensive auditing programme for supplier standards in place. Gucci's strategic suppliers are audited every year and new suppliers as well as those deemed most at risk are reviewed each year. As such, in 2015 Gucci conducted 1,120 social

and security audits of its suppliers, 602 of which also covered environmental aspects. To select the suppliers to be audited, Gucci relies on precise mapping of its suppliers and a risk matrix that factors in specific criteria including location, revenue, number of employees, industrial processes used, social risks and environmental risks. Based on the same broad risk assessment principles, Bottega Veneta performed 814 social and security audits across its various business units in 2015. In 2015, Saint Laurent completed 350 audits of direct suppliers and sub-suppliers mainly around social, but also incorporating health and safety aspects covering all product categories, but with a particular focus on Leather Goods suppliers given this represents a significant source of revenue. The same approach was taken by Balenciaga's Leather Goods division and 69 audits were performed in 2015 by an external audit programme for all its direct and indirect Leather Goods manufacturers located in Italy covering social and safety aspects in accordance with the Workplace Conditions Assessment standard. For PUMA, a total of 384 social audits were conducted in 332 factories in 2015 covering more than 95% of the factories that PUMA works with, and in the same year 34 of Volcom's factories were audited.

Kering and our brands augment our auditing programmes with initiatives to build awareness of standards and practices and capacity across our suppliers. A prime example is the SAVE programme (Sustainable Action and Vision for a better Environment), a public-private partnership between PUMA and Deutsche Investitions und Entwicklungsgesellschaft (DEG). This programme, in collaboration with H&M and Asia Society for Social Improvement and Sustainable Transformation (ASSIS), has trained more than 500 people working for the brands' suppliers in Cambodia, China, Bangladesh and Indonesia in environmental management techniques outlined by the UN Industrial Development Organization. In

## PERSPECTIVE

There are many possible facets to creating a safe and fair work place including fire safety, environmental and chemical safety, reasonable working hours and overtime. A social compliance management policy and approach is fundamental to ensure a safe and responsible supply chain. Where Luxury is concerned, we made a strategic decision to retain production of our products in Europe with a focus on "Made in Italy" and, consequently, because there are strong governmental protections in place in Europe the challenges are somewhat different. Kering's audit programmes, as well as our close working relationships with our suppliers, governments and trade unions are designed to ensure our suppliers are transparent and responsible. The key to success in creating and maintaining the highest standards lies not only in auditing but also in building relationships with suppliers, and industry collaborations that build awareness and support suppliers to help them meet the necessary standards.



**KERING**

—

**Société anonyme (a French corporation)  
with a share capital of €505,117,288**

—

**Registered office: 10 avenue Hoche –  
75381 Paris Cedex 08 552 075 020 RCS  
Paris**

—

**Tel.: +33 1 45 64 61 00  
Fax: +33 1 45 64 60 00**

—

**[www.kering.com](http://www.kering.com)**

—

**Developed by Kering Sustainability  
Communications**

GUCCI  
BOTTEGA VENETA  
SAINT LAURENT  
ALEXANDER McQUEEN  
BALENCIAGA  
BRIONI  
CHRISTOPHER KANE  
McQ  
STELLA McCARTNEY  
TOMAS MAIER  
BOUCHERON  
DODO  
GIRARD-PERREGAUX  
JEANRICHARD  
POMELLATO  
QEELIN  
ULYSSE NARDIN  
PUMA  
VOLCOM  
COBRA