5.2 Acting against climate change

The carbon footprint of human activity, and in particular that of businesses, has numerous impacts: increasing atmospheric concentrations of greenhouse gases can generate changes in weather patterns, rises in sea levels and in average temperatures, and an increased likelihood of extreme weather events. This can in turn generate adverse human health impacts (malnutrition, disease), risks of disruption to economic activities, reduced agricultural yields, desertification and other serious disturbances of ecosystem services.

	END OF LIFE	PRODUCT USE	TIER 0 Operations and stores	TIER 1 Final assembly	TIER 2 Manufacturing	TIER 3 Raw materials processing	TIER 4 Raw materials production
Greenhouse gas emissions **38%** **2,427,724 tCO_2e**	4,044 tCO_2e	244,112 tCO_2e	316,635 tCO_2e	193,103 tCO_2e	336,429 tCO_2e	239,202 tCO_2e	1,094,201 tCO_2e

The Group's 2022 EP&L results show that 38% of Kering's monetized environmental impacts relate to greenhouse gas emissions, and that they mostly happen in Tier 4 (production of raw materials) of its supply chains.

5.2.1 Kering Climate Strategy: adapting our business model to address climate issues

5.2.1.1 Our climate trajectory and Science Based Targets (SBTs)

Kering has made climate action a key part of its sustainability strategy, aiming for a Net Zero trajectory consistent with the ambitions of the Paris Agreement.

In 2016, Kering was the first luxury goods group verified by the Science Based Targets initiative (SBTi) for its carbon footprint reduction targets. In 2021, the Group revised its SBTs to adopt the 1.5°C scenario. Kering has therefore made the following commitments through 2030, based on its 2015 emissions:

- 90% reduction in absolute greenhouse gas emissions from Kering operations (whole of *Greenhouse Gas Protocol* Scopes 1 and 2);
- 70% reduction in the intensity of supply chain-related greenhouse gas emissions (Greenhouse Gas Protocol Scope 3), consistent with the EP&L objectives.

Kering aims to achieve this by:

- reducing emissions;
- offsetting emissions that cannot be reduced;
- taking into account material climate-related risks (physical risks and transition risks) for greater resilience.

To meet these targets, Kering has developed a Climate Strategy based on four main areas:

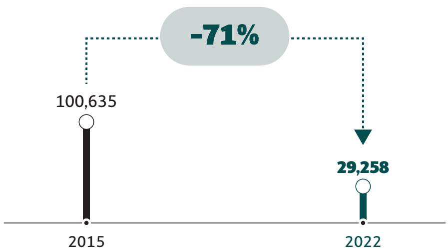
1. Mitigation of climate-related risks through emissions reduction	**2. Adaptation and resilience thanks to nature-based solutions**
3. Positive contributions to climate change mitigation	**4. Industry transformation**

As part of the Fashion Pact, Kering and the other participating companies have committed, among other things, to take action to achieve the objective of net-zero greenhouse gas emissions by 2050, in order to keep global warming below 1.5°C between now and 2100.

The Group's Climate Strategy is available online on the Group's website. It defines Kering's ambitions and provides details of all targets in the area as well as the means of action and measurement. Kering received a CDP Climate Change 2022 rating of A and is included on the Climate A list. The Group's response is publicly accessible on kering.com and www.cdp.net websites.

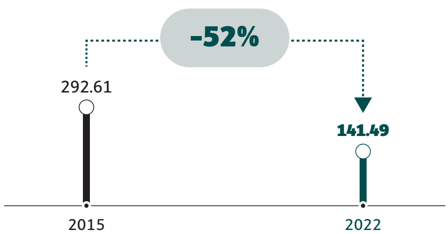
Scopes 1 and 2 (tCO_2e)

SBT target: 90% absolute reduction by 2030



Scope 3 (tCO_2e per € million in gross margin)

SBT target: 70% reduction in intensity by 2030



5.2.1.2 Financing the transition

The involvement and expertise of finance teams is vital to unlock investments in sustainability. The cooperation with sustainability and operational teams plays a major role in accelerating the transition to business models that take social and environmental challenges into account. Accordingly, in 2022 Kering created a department focused on Sustainable Finance. Its remit includes overseeing non-financial performance (social and environmental), which helps with financial planning relating to energy transition and the decarbonization of the Group's business; ensuring that the Group complies with the current and future regulatory framework as regards non-financial reporting and green finance; and ensuring that social and environmental issues are factored into the Group's management and decision-making processes, particularly regarding investments and M&A.

Funding for the transition is already being provided in various operational areas: sourcing of raw materials with the Regenerative Fund for Nature, help for suppliers adopting more responsible production processes, including the Clean by Design program, the Group's energy consumption and in particular its purchases of renewable electricity, Group site construction and renovation programs involving all certification procedures, and the €100 million invested by Kering in the Climate Fund for Nature.

5.2.1.3 Kering's alignment with TCFD principles

A signatory since 2017, Kering has committed to implementing recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD), the benchmark framework for reporting on physical and transitional climate risks. Kering has conducted an initial assessment of the financial impact of specific climate risks. Kering intends to refine this initial work as part of a process of continuous improvement and to take account of future developments in methodology. A cross-business working group made up of key functions (finance, financial communication, risk management) has been set up since 2020, under the leadership of the Sustainability Department and with the support of internal and external experts. Its work began in 2021 and continued in 2022, covering the development of climate scenarios and an initial exercise to evaluate the potential financial impacts of certain risks and opportunities. Progress made was presented to Executive Management and the Sustainability Committee of the Board of Directors.

Governance

The Group's governance of climate-related risks and opportunities is fully integrated into its governance of sustainability, described in detail in section 1.5 and in Chapter 3 "Governance" of the present document.

Board of Directors:

- Setting the Group's strategic direction, which includes climate change matters and sustainability issues more generally. The Sustainability Committee supervises the Group's Climate Strategy. In addition to considering progress by the Group, the Committee examines subjects such as carbon offsetting, as well as the physical and transitional risks relating to climate change.
- Including the subject in the agenda of Board meetings at least twice a year.
- Appointment of a Climate Change Lead in 2022 with the role of ensuring that climate issues are taken into account as part of a long-term approach (see description in section 1.6 of chapter 3).

Executive Committee:

- The Chief Sustainability and Institutional Affairs Officer is a member of the Executive Committee and reports directly to the Chairman and Chief Executive Officer. She is responsible for the definition and implementation of the sustainability strategy. She evaluates and manages the risks and opportunities relating to climate change at a Group level, through the implementation of sustainability action plans and projects;

Incorporation into executive pay:

- The variable elements of the remuneration of the Chairman and Chief Executive Officer and Group Managing Director are in part linked to non-financial criteria (in 2022, sustainability represented 10% of the criteria for annual variable remuneration and biodiversity 10% of those for multi-annual variable remuneration).

Strategy and scenarios

In 2021, as the first stage of its assessment of impacts, Kering drew up two climate scenarios, based in part on the effects of climate change on the economy on the one hand and the political, economic, social, technological, environmental and legal (PESTEL) effects on the other:

- an "accelerated transition" scenario, based on warming of less than 1.5°C by 2100. Aligned with the Group's Climate Strategy and SBT 1.5°C objectives, this scenario is based on a strong response from governments and international institutions, high carbon prices, significant awareness-raising among consumers regarding climate change and its consequences, and, more generally, actions to anticipate and mitigate climate change.
- a "business as usual" scenario, based on warming of around 4°C by 2100. This scenario is based on limited intervention from governments and international institutions, low carbon prices, increasing pressure on trade, economic stagnation or contraction and, more generally, a primarily reactive adaptation to climate change.

Two time horizons were considered: 2035 (short term) and 2055 (long term).

For both scenarios, assumptions were based on scientific research, most notably the RCP2.6, RCP4.5 and RCP8.5 Representative Concentration Pathways from the Intergovernmental Panel on Climate Change (IPCC) and modeling from experts including the International Energy Agency (IEA), World Bank and World Resource Institute. These scenarios also took account of the recommendations of ISO 14090/91, the TCFD and the Institute 4 Climate Economics (I4CE).

Also drawing on the results of Kering's EP&L, the whole value chain was included in the analysis framework for Kering's scenarios.

These scenarios fed into the assessment of risks for the Group (see Chapter 5 of this document).

Risks and opportunities identified

Drawing on these two scenarios, Kering mapped climate-related risks and opportunities, identifying 12 main risks and 7 main opportunities with potential consequences for its business and the development of its strategy. This mapping also included interviews with contributing departments and internal experts and took account of practice at our peers. A variety of risks, including the impacts of climate change on the supply of key raw materials, carbon pricing, and the effects of extreme climatic events on the Group's infrastructure as well as those linked to consumer expectations, were identified. This mapping gave rise to differentiated assessment approaches for the impact of risks and opportunities, which fed into the review of policies and strategic directions. Forming part of a process of continuous improvement, this research also identified additional action areas for strengthening the Group's management of climate risks and prioritizing the action plans adopted.

In order to carry out an in-depth analysis and initial estimates of their potential financial impacts, work began in 2021 and focused on three risks and three opportunities, published in detail in Kering's 2022 response to the CDP Climate questionnaire.

Kering plans to manage climate-related risks and opportunities, anticipating their effects and ensuring its resilience by adapting its business model, governance and decision-making processes, and its supply chain. The evaluation of climate risk is today an integral part of Group risk management (see section 1.3.3 and Chapter 5 of this document).