

STELLA McCARTNEY

2017 Environmental Profit and Loss Account

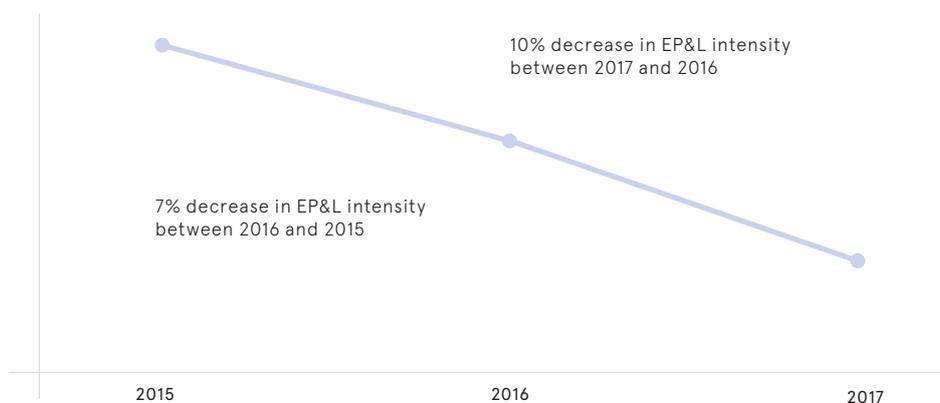
2017 Environmental Profit and Loss Account

This report presents our 2017 Environmental Profit and Loss (EP&L) account, marking the third year we are publishing our brand results. We are pleased to announce a continued reduction in our environmental impact associated with our operations and supply chain as a result of our sourcing decisions.

Stella McCartney's global EP&L impact in 2017 is estimated to be €7.38million, an 8% decrease compared with the previous year when 2017 updated methodology is applied across both years. This is despite a growth in the business, particularly the inclusion of two 2017 menswear collections. Stella McCartney launched her first menswear collection in Autumn/Winter 2016, adding a new business unit to the EP&L.

Figure 1 shows the trend in our EP&L intensity, which is our total EP&L impact relative to total net sales, which is an indicator of the size of our business. Since 2015, when we first started publically reporting our EP&L results, our total net sales has grown year-on-year while our EP&L intensity has consistently decreased. When compared to 2015, our 2017 EP&L intensity was 16% lower despite total sales being 20% higher.

Figure 1 - EP&L intensity (Total EP&L relative to net sales)



Methodology Updates Since 2016

The methodology developed by Kering to calculate the EP&L was revised between 2016 and 2017. The first significant change was aligning the EP&L with the EU Commission's Product Environmental Footprint Category Rules (PEFCRs) after participating in the development of the Leather PEFCR.

PEFCRs provide a framework for quantifying and reporting a finished product's environmental impacts based on Life Cycle Assessment (LCA) methodology. Each of the PEFCRs were tested by groups of organisations that developed the rules for their product and sector. Stella McCartney was a participating brand in the Non-Leather Footwear PEF development, which was led by the Sustainable Apparel Coalition as Technical Secretariat.

Secondly, the environmental valuation methodology that underpins the EP&L was updated using the most up to date methodologies and datasets. This is the methodology that models the impact of land use change and environmental pollutants on human wellbeing and converts them to monetary values.

- Air pollution: updated meteorological data used in pollution dispersion models to improve the understanding of human exposure to air pollutants
- Land use: soil organic carbon has been incorporated as another proxy for ecosystem service values
- Waste: data on quality and types of waste treatment facilities has been updated to better reflect the likely impacts of non-recycled waste
- Water consumption: updated the statistical approach to calculate the correlation between corporate or agricultural water consumption and the prevalence of waterborne diseases in water-stressed areas
- Water pollution: the methodology now uses the latest version of USEtox database as the basis for estimating the quantity of water pollutants that are likely to affect the population
- Price year for all coefficients: updated to 2016 prices by applying the global average inflation from the World Bank

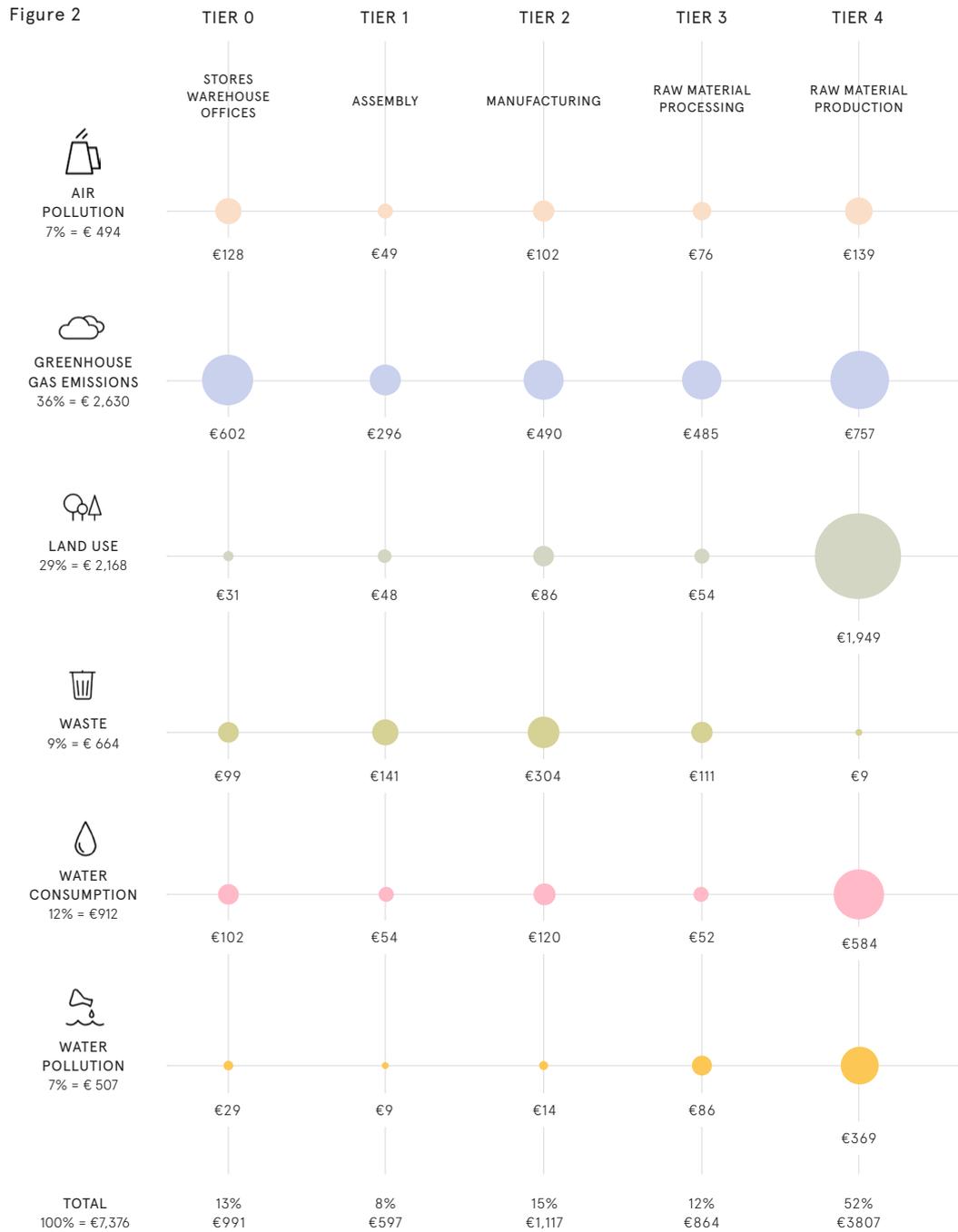
For more information, please refer to Kering's 2017 EP&L report:

http://www.kering.com/sites/default/files/kering_2017_epl_report.pdf

In last year's EP&L report, our total impact was reported as €6.97million. When the methodology updates are applied to our 2016 company data, the 2016 pro forma impact is estimated to be €7.98million.

Understanding Our 2017 Results

When compared to the 2016 pro forma results, our EP&L in 2017 was 8% lower than in 2016. Figure 2 shows how our impact in 2017 was distributed across the different supply chain tiers and environmental impact groups.



Raw material production continues to be the biggest driver of impact across our supply chain, and accounts for 52% of our total impact. When compared with the 2016 pro forma, impacts associated with the production of the raw materials was 18% lower in 2017. Figure 3 shows the relative changes in our EP&L as compared to our 2016 pro forma results.

Figure 3 - 2017 EP&L results, showing changes in pro forma results since 2016 ('000s)



We achieved this EP&L saving despite the growth in the business, reflected in the increase in manufacturing impacts, as a result of a number of key decisions including:

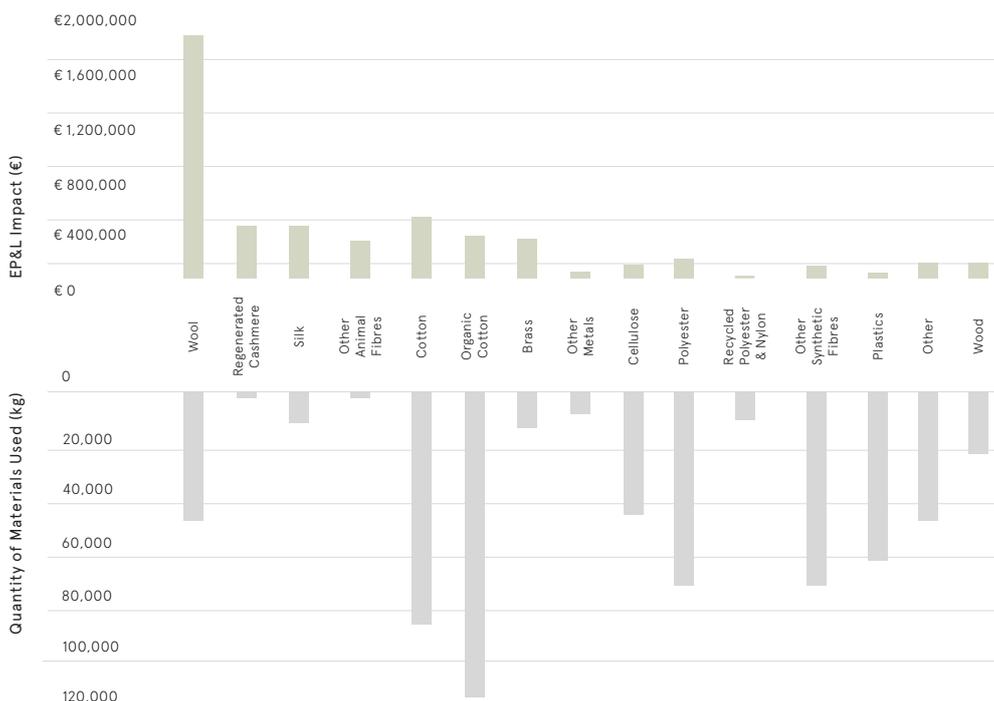
- The elimination of virgin cashmere, which was our second biggest impact material in 2015. Cashmere is a high impact material due to the over-grazing and desertification of grasslands that has resulted from the growth in demand for cashmere and land requirements for goat raising
- We increased our use of steel and aluminium alternatives to our brass chains as these metals cause much less environmental damage in the ore extraction phase
- Increasing the use of recycled materials and repurposing fabrics from previous years so that they do not go to landfill

However, our Tier 0 impacts (the impacts associated with the operations of our stores, offices and warehouses) increased by 20% due to the opening of new stores.

Climate Beneficial Materials

When we analysed our environmental impact by material type (Figure 4) we noticed that while cotton remains our most used material with regards to volume, it is actually animal fibres that drive the majority of the impact due to the land use requirements and changes caused by animal raising and grazing as well as methane production by ruminants. In fact, plant and animal fibres together account for 93% of our raw material production impacts, and 48% of our total impact.

Figure 4 - EP&L impacts (€) of key raw materials compared to quantity of materials used (kg)



We believe that plant and animal fibres can be produced in a way that is regenerative and improves the ability of soils act as carbon sinks. Regenerative agriculture and regenerative grazing practices have the potential to be natural climate solutions. These use specific farming techniques that simultaneously improves the ability of soils to sequester atmospheric carbon therefore increasing soil organic content, the ability of soils to hold water reducing the amount needed to farm, and as a result increases productivity of the land. A recent study by Nature Conservancy found that the improved management of land in order to increase carbon storage or avoid greenhouse gas emissions can provide up to 37% of the emissions reductions needed by 2030 to keep global temperature rise under 2°C compared to pre-industrial levels.

As shown in Figure 4, the EP&L shows us that our use of plant and animal fibres drive the majority of our raw material impacts. We want to not only minimise these negative impacts but find or develop solutions that are restorative and regenerative so that we can generate real positive impact for the natural environment that we rely on for our materials. Regenerative agriculture and grazing have the potential to provide these profits and will be a key focus area for us going forward.

The Future of Stella McCartney’s EP&L

As announced earlier this year, Stella McCartney will acquire full control of her brand and will be leaving the Kering Group. While the business reorganizes, we will continue to collaborate with Kering on sustainability projects and we have decided to continue to use natural capital accounting, and specifically the EP&L developed by Kering, to measure and manage the impact of our business on the environment. We have already begun the process of fully integrating the EP&L tool into our business.

¹ https://thought-leadership-production.s3.amazonaws.com/2017/11/14/13/50/57/3227fb00-bc55-43b7-be7b-adc021853ba0/TNC_NCS_LandsofOpportunity_2017.pdf

Building on the pioneering work of Kering, we are reviewing the EP&L methodology in order to make it more specific to the materials that we use and is more representative of the Stella McCartney supply chain rather than the Kering Group's supply chain. For example, we use a much smaller range of materials compared to the Kering Group and do not use any leather, fur, gold or natural stones. Furthermore we will be working with our suppliers to incorporate recent facility data into the EP&L so that it reflects data collected from within our supply chain, especially as our suppliers start to implement efficiency programs such as Clean by Design.

In addition, we have commissioned more Life Cycle Analysis (LCAs) for raw materials or processes that we commonly use and with suppliers that we have long-term relationships with. For example, we are working closely with our wool suppliers to collect primary data so that when integrated into the EP&L it can better reflect their farming practices and the environmental stewardship that they champion. We are also looking into the impacts of our denim production given a lack of good quality LCA datasets. With this, we hope to develop a more accurate way of estimating the impacts of not only the raw material production required for our denim but also the impacts of the indigo dyeing and wet finishing processes.

We aim to stabilise the EP&L methodology to facilitate easier year on year comparisons and track our progress. In next year's report we will share more information about how we model the impacts of the Stella McCartney supply chain and we will open source our methodology.