

ESPRIT HOLDINGS LIMITED
YEAR ENDED 30 JUNE 2017

STOCK CODE : 00330

SUSTAINABILITY REPORT

ESPRIT

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Our Sustainability Vision



Esprit was founded in San Francisco in 1968, in a time and a place defined by the spirit of social engagement and environmental stewardship. Nearly 50 years later, as we present our third annual Sustainability Report, we at Esprit are proud that these original values continue to guide us.

We have always believed that Esprit is an attitude characterized by positivity and authenticity. We aim to empower all people touched by our business, from those who make our products to those who sell and wear them, to live a more positive, more authentic life. We believe that authenticity means that our actions align with our ideals. We believe that, despite our growth into a global brand with a presence in 40 countries and a supply chain spanning 27, at our core we are a real people company. The people of Esprit aim to embody positivity and authenticity in all we do, from what we make to how we make it. We acknowledge that this is a challenge given the size of our company and the scope of our global operations; nevertheless, it is a challenge worth taking on.

This is Esprit Holdings Limited's (called "Esprit" in this report) Sustainability Report, written in accordance with the Global Reporting Initiative (GRI) G4 "Core" level. The Sustainability Report is produced annually, together with our Annual Report covering our financial performance. This Report covers our identified material aspects, risks and focus areas as well as gives an overview of the sustainability strategy, efforts and projects of Esprit and all its entities that are covered in the Annual Report for the financial year FY16/17, ended 30 June 2017.

We welcome readers' feedback.

Please send us your thoughts to sustainability@esprit.com

Our focus: PEOPLE and PLANET



We have translated our principles into concrete sustainability commitments that are embodied within the focus areas of both **PEOPLE** and **PLANET**.



Our focus: PEOPLE and PLANET

As part of our PEOPLE focus, we
make the following commitments:



We are
Responsible



We are
Ethical

Our focus: PEOPLE and PLANET

Our activities under PLANET are guided by these additional commitments:



We Choose
Sustainable
Materials



We Protect
our Planet

Letter from the CEO



Dear Readers,

I am proud to present to you our updated sustainability strategy, and our progress on the commitments we have made in our two focus areas of PEOPLE and PLANET. Our new approach was developed over the last two years, during which time we took stock of our values, re-examined our heritage, and investigated the ways in which we can have the biggest impact. We also aligned our activities with powerful initiatives, such as the [UN Sustainable Development Goals](#).

Our Approach

We have developed a holistic strategy that incorporates the environmental side of sustainability along with the human-centered side of it. Our focus on PEOPLE encompasses the people who make Esprit clothes, our own staff and internal teams, and also ethical business practices. Under PLANET we target resource use and environmental management, as well as key topics such as animal welfare and sustainable materials. We have identified four major imperatives that guide our actions under these two areas:

PEOPLE



PLANET

In the spring of 2017, we launched a cross-departmental steering committee to take charge of our PEOPLE and PLANET commitments, to ensure that everyone within Esprit is working collaboratively towards our sustainability goals, and to seek opportunities for improvement. Members include top management from operations, logistics, supply chain and marketing.

Letter from the CEO

Our Accomplishments

We are particularly proud of the progress we have made over the past year in the following areas:

Living wage: We are part of the ACT (Action, Collaboration, Transformation) Initiative, a multi-stakeholder platform that aims to implement a living wage in garment manufacturing regions by enabling industry collective bargaining in major producing countries.

Sustainable Products & Sustainable Materials:

We became a Standard Member of the [Better Cotton Initiative \(BCI\)](#) and started working with our suppliers to initiate up-take of BCI cotton in our supply chain. Additionally, we achieved [Organic Content Standard](#) and the [Recycled Claim Standard](#) certification and increased the amount of organic and recycled materials in our products. Over six months we managed to increase the amount of more sustainable cotton to more than 5%. In addition to partnering with [CanopyStyle](#) to develop a more sustainable supply chain for cellulose fibers, we also made a commitment to the [Responsible Wool Standard](#) and are certified since February 2017. These initiatives cover three of our major raw material sources.

Transparency: In August of 2017 we published a list of all our direct suppliers and their subcontractors.

We incorporated social and environmental sustainability aspects into our supplier evaluation. We use a supplier scorecard system that considers sustainability performance in the overall supplier scoring methodology, and incorporates the Higg Index.

Cleaner Supply Chain: We initiated a training and auditing program for our wet processing facilities, where dyeing and finishing takes places, to reduce water, energy, and chemical use and to enable our partners to work in a cleaner and more sustainable way.

Looking Ahead

Including more sustainability in our business and our processes is a long-term goal, and a difficult one that intersects with the areas of culture, government, technology, and many other aspects of human and business interactions. It will continue to be a challenge for many years to come; which underscores why we need to be working on it now.

As we consider the most urgent sustainability topics and set our priorities accordingly, there are several areas in particular where we see our engagement increasing. We believe in implementing cleaner chemistry, and in cleaner production, which is an approach for manufacturing using fewer resources. Beyond manufacturing, we see a role for responsible resource use throughout the life cycle of a garment,

from raw material to retail. This covers topics such as water use, pesticide and fertilizer use, and energy use and emissions, as well as chemicals

More broadly, we at Esprit aim to move into a leadership position regarding sustainability.

- We will source 50% of our cotton from more sustainable sources by 2021, a challenge for a brand that uses predominantly cotton
- We will rethink our buying practices and align them with our goal of supporting a living wage in manufacturing regions
- We will require all of our suppliers to publish wastewater data publicly by the end of April 2018
- We will continue to improve conditions in factories through our environmental auditing program; we will incorporate the Higg Index Facility Environmental Module as a tool for improvement

The following report is our invitation to you to learn more about what we have done, and what we are committing to do going forward, to bring our philosophy to life. Thank you for taking the time to read our report. I hope you enjoy learning more about our sustainability goals and commitments.

Jose Manuel MARTINEZ GUTIERREZ

Executive Director and Group CEO

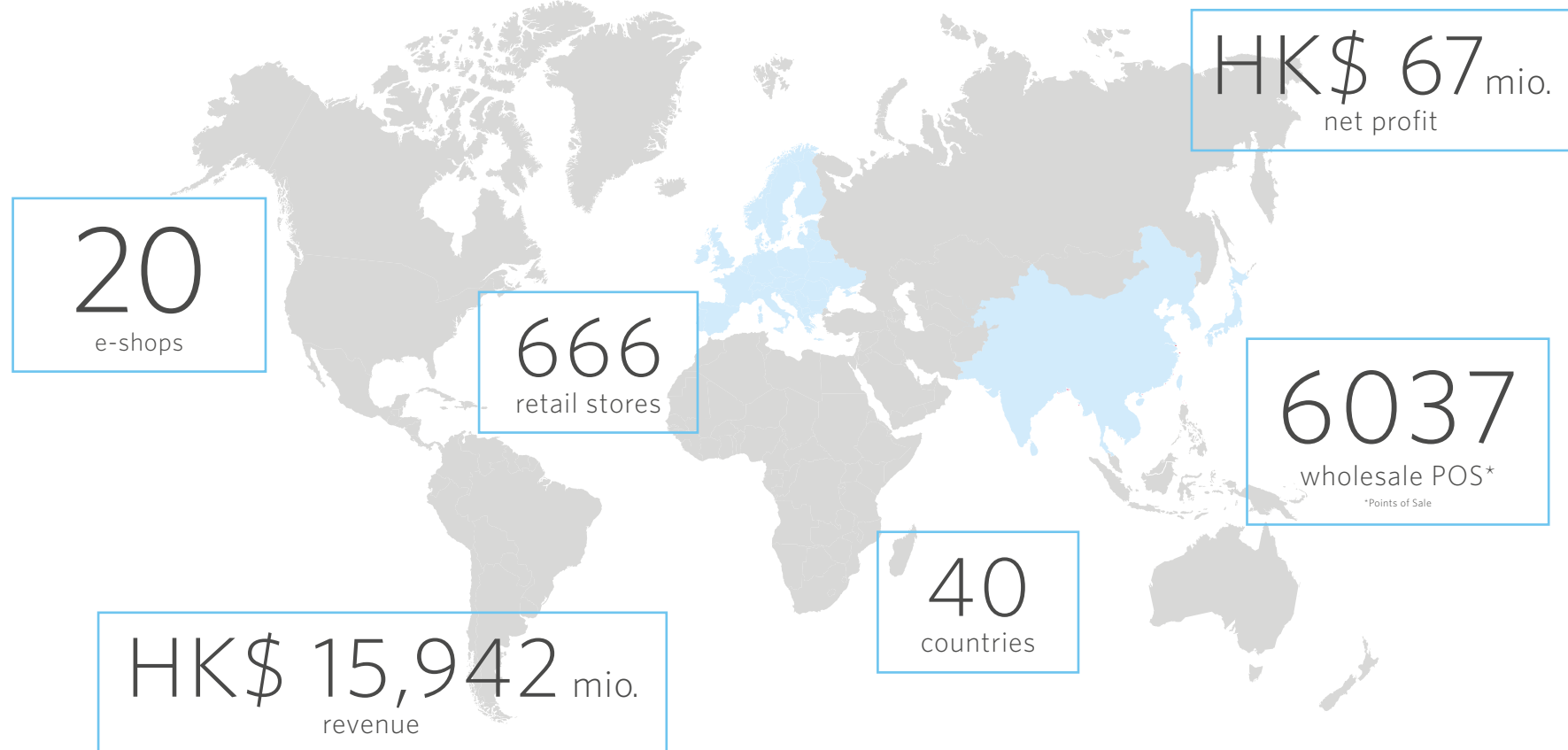


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Sustainable Business



Our Products

CASUAL

Feel relaxed? Let us inspire you with a fresh and natural style for your every day look.



COLLECTION

Want to dress up a bit? Let us go more fancy today or help you with that special occasion.



EDC

You like it more progressive, edgy, urban, younger? We like it too!



OUR LIFESTYLE WORLD

Accessories



Shoes



Bodywear



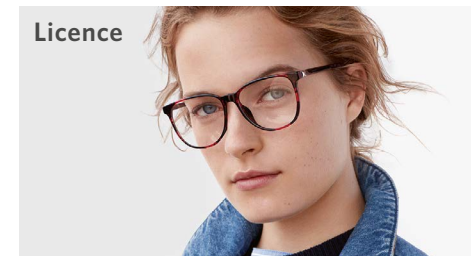
Sports



Kids

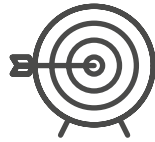


Licence



UN Sustainable Development Goals -

WHY THEY ARE INCORPORATED



The United Nations Sustainable Development Goals (SDGs) are an internationally recognized framework that aims to address the three elements of **economic growth, social inclusion and environmental protection** as part of a broader endeavor to eradicate poverty and strengthen peace and freedom.



There are 17 goals, **accompanied by 169 specific targets.** Businesses, alongside governments, are encouraged to implement actions in support of these goals in order to achieve the framework's ambitious goals by 2030. We at Esprit have decided to take on this challenge.

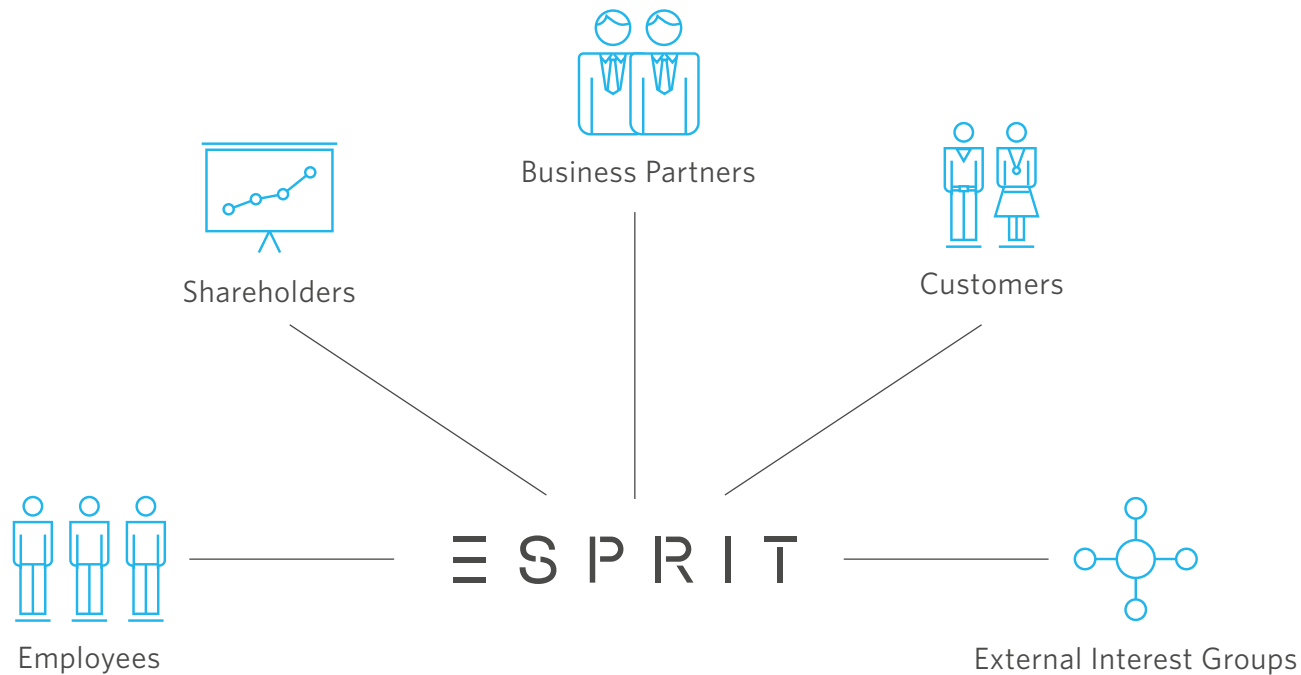
UN Sustainable Development Goals -

WHY THEY ARE INCORPORATED

IN DETERMINING OUR APPROACH AND OUR STRATEGY, WE KEPT ALL 17 SDGS IN MIND SO THAT WE COULD ALIGN OUR ACTIVITIES WITH THE BROADER GLOBAL SUSTAINABILITY AGENDA:



Materiality Assessment



To plan sustainable and being a successful company also in the future, we want to acknowledge the needs and the interests of the different groups of stakeholders that make up our community. We have identified five main stakeholder groups: employees, shareholders, business partners, external interest groups, and customers. Our goal is to understand and address the different needs of each group. One way we have done that this year is by including these groups in our stakeholder survey, detailed next.

Materiality Assessment



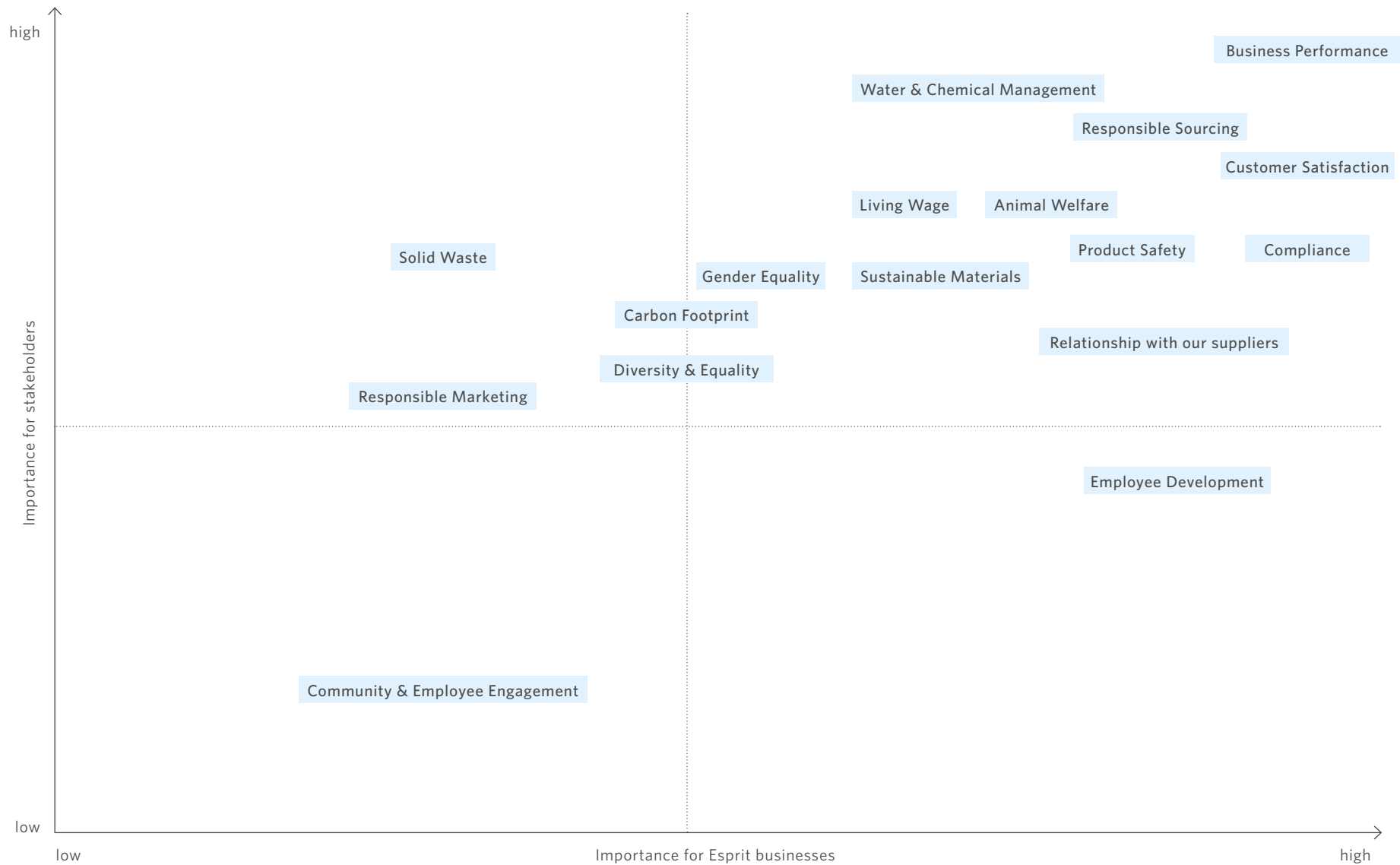
In the spring of 2017, we distributed a survey to our stakeholders to better understand their priorities and concerns regarding our business in general, and sustainability in particular. In the past, we have conducted similar assessments with internal stakeholders, but we are proud to have expanded our outreach to a wider group this year. This shifts some of the results as compared to last year, however we were able to gain a better view as to which

social, environmental and economic aspects are most important for all of our stakeholders.

Survey respondents included the key Esprit Tier 1 suppliers (which are responsible for 75% of our production), our employees, and representatives of the various initiatives and platforms to which we belong, including [Better Cotton Initiative](#), [Business Social Compliance Initiative \(BSCI\)](#) and [CanopyStyle](#).



Materiality Assessment



Goals and Progress

The following image outlines our Four Commitments within the two focus areas of PEOPLE and PLANET.

PEOPLE



PLANET

Goals and Progress

FOCUS AREA: PEOPLE

We have also developed a set of goals related to PEOPLE and to PLANET and our Four Commitments that we are using to guide and measure our activities. We will continue to develop additional goals in the coming 2-3 years in order to fully address all topics.

↻ = ongoing



WE ARE RESPONSIBLE

Verify social performance of
100% of direct suppliers annually



Update map of our suppliers (Tier 1
and Tier 2) every six months



All suppliers in the BSCI system are
rated C or higher by the end of June 2018



100% of our Bangladesh suppliers implement
safety improvements by end of 2017



WE ARE ETHICAL

Create a Responsible Marketing
Guideline by June 2017



Goals and Progress

FOCUS AREA: PLANET



WE USE RESOURCES RESPONSIBLY

50% of the cotton we use will come from more sustainable sources* by 2021



100% of our down and feathers are sourced according to the [Responsible Down Standard](#)



50% of our virgin sheep wool will be sourced according to the [Responsible Wool Standard](#) by 2025



Shift to 100% water-based synthetic leather in Esprit products by 2025



 = ongoing



WE PROTECT OUR PLANET

100% of our wet processors publish wastewater data by end of April 2018



50% of our wet process facilities are audited on chemical management and environmental performance by end of June 2018



Publication of a Care Guideline for our customers by March 2017



90% of the e-shop parcels in Europe shall be shipped by climate-neutral or reduced emissions by end of June 2018



* Incl. BCI cotton, organic cotton, recycled cotton



03

People

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PEOPLE

ONE OF OUR GOALS AT ESPRIT IS TO NURTURE OUR PEOPLE. THIS APPLIES TO THE WORKERS AND TECHNICIANS WHO MAKE ESPRIT CLOTHES, AS WELL TO OUR OWN EMPLOYEES. COMPLIANCE AND ETHICAL BEHAVIOUR HAVE A TOP PRIORITY FOR ESPRIT.

PEOPLE



PLANET

Continue reading to learn more about our goals, activities, and our progress so far.

We are Responsible

PEOPLE



PLANET

Over 525,000 people work to create Esprit garments every year. We acknowledge the essential contribution of these individuals, as well as our duty to make sure that we manage our supply chain in a responsible way, ensuring that all people who touch our products from the field to the store work in a safe and healthy environment.



We are Responsible



GOALS AND PROGRESS

↻ = ongoing

100%



Verify social performance of 100% of direct suppliers annually

95%



Update map of our suppliers (Tier 1 and Tier 2) every six months

80%

100% of our Bangladesh suppliers implement safety improvements by end of 2017

82%

All suppliers in the BSCI system are rated C or higher by the end of June 2018

We are Responsible



OUR ACCOMPLISHMENTS



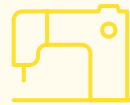
75% of our products are produced in 114 factories.



Our supplier list is now publically available.

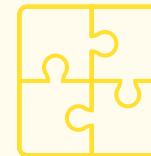


We know the compliance status of 100% of our supplier factories.



We have reduced the number of factories we partner with by 11% in comparison to FY13/14 enabling stronger relationships and better supply chain management.

We are part of the Business Social Compliance Initiative (BSCI) program and we are a Global Buying Partner in the Better Work program.



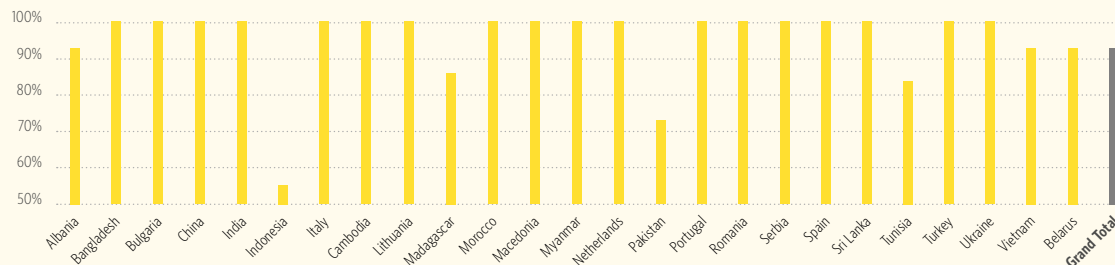
We are a member of ACT (Action, Collaboration, Transformation), a multi-stakeholder initiative that is working to support living wages in the textile and garment supply chain.

We have developed a transparent supplier scorecard that incorporates sustainability criteria.



We have completed **343** factory audits in FY16/17.

Overview audits per country in %:



We are Responsible



OUR APPROACH

Our activities under this commitment are centered around sourcing responsibly and choosing the right partners, and we have taken concrete steps to build stronger relationships with our suppliers, create a more transparent way of working and a transparent system of requirements to create a safer and more positive working environment within our supply chain.

We are Responsible

CHOOSING THE RIGHT PARTNERS

STRONGER RELATIONSHIPS

We focus on long-lasting relationships with our suppliers and working with them in a collaborative and transparent way. In order to better achieve this, over the last four years we have streamlined our supply chain, reducing the number of factories we work with so that we can work more closely with our partners and strengthen our relationships.

We have reduced the final number of factories we partner with by 11% in comparison to FY13/14, enabling stronger relationships and better supply chain management. In FY16/17 we worked with 472 factories.

TRANSPARENCY

Starting in March, we launched a transparent score card system to score our suppliers on their overall performance, which incorporates topics including social standards, transparency, and environmental standards on equal footing with more traditional metrics such as quality, on-time delivery and price.

The score card drives home to suppliers that sustainability is a priority for Esprit. It explicitly links sustainability performance with the suppliers' ability to receive orders from Esprit. Additionally, in August 2016 we published our Tier 1 and Tier 2 supplier list, according the requirements of our [Detox Commitment](#) and in alignment with our push toward greater transparency. In November, [Human Rights Watch \(HRW\)](#) contacted us about participating in their [Pledge on Supply Chain Transparency](#). We think transparency is a crucial part of being a fair and sustainable company, so we

added additional details to our supplier list, such as the amount of workers in a factory, to align with HRW's requirements. When we updated this list in February, we became one of the original group of brands to fulfill the HRW Pledge on Supply Chain Transparency. We will update our supplier list every six months and make it publicly available on our website. It is our goal to cover all suppliers we know of.

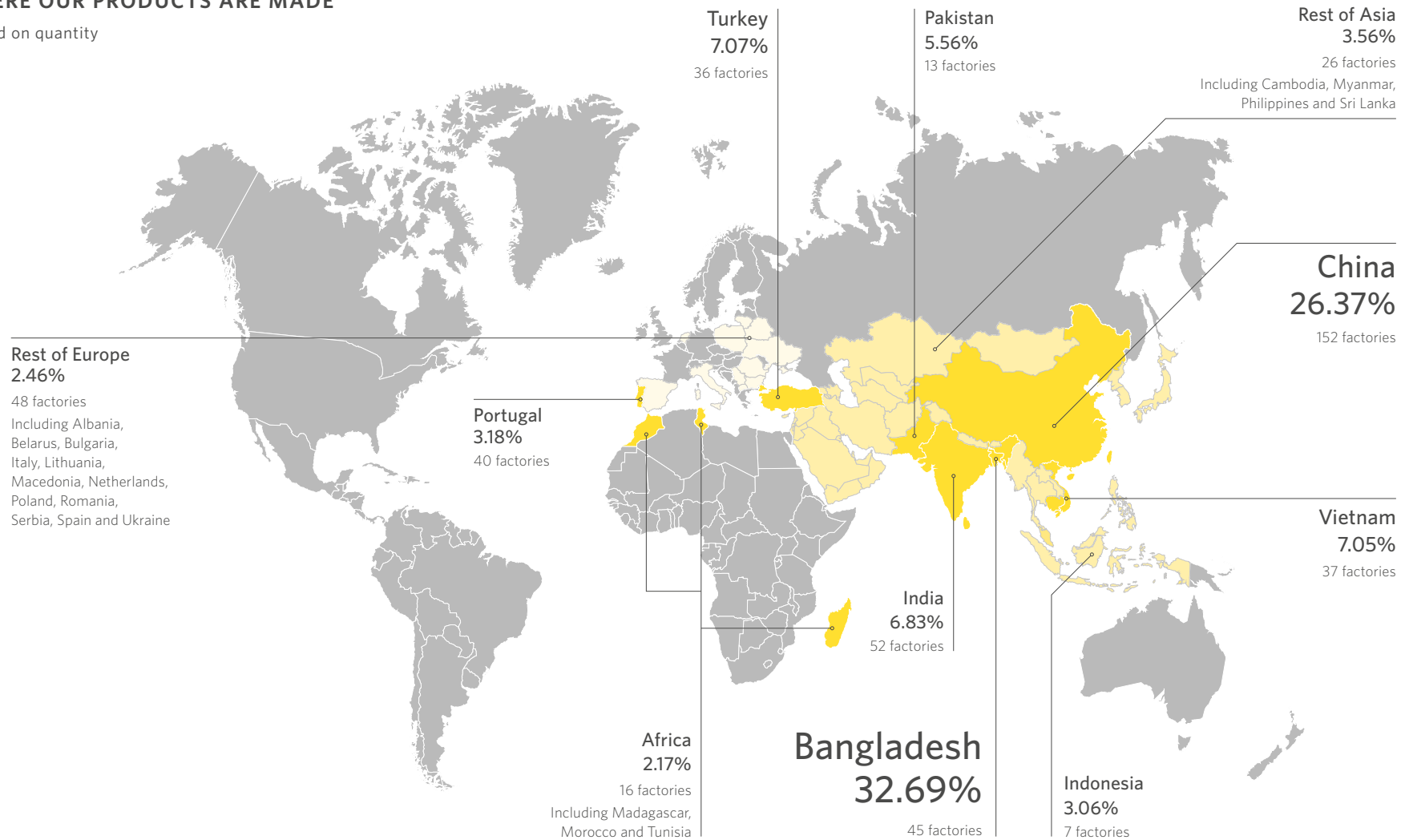


We are Responsible

CHOOSING THE RIGHT PARTNERS

WHERE OUR PRODUCTS ARE MADE*

*based on quantity



We are Responsible

CHOOSING THE RIGHT PARTNERS



POSITIVE WORKING ENVIRONMENT

All factories producing Esprit garments must comply with our Code of Conduct, which is part of a basic supplier agreement that all of our suppliers must sign. In addition to audits conducted according to the Business Social Compliance Initiative (BSCI) and Better Work requirements, Esprit's internal staff also conducts audits and follow-up visits as needed, to ensure that factories make progress and align with the Code of Conduct. At least one audit was conducted in all our supplier factories in high-risk regions in FY16/17. Each audit is followed up by a time-bound corrective action plan so that the factory knows what steps to take to address any problems that are found. The factory is expected to make improvements based on the findings, which will be confirmed by our internal audit team or through one of our collaborations, detailed below.

Additionally, Esprit partners with leading industry initiatives to ensure that working conditions in our suppliers' factories are appropriate, safe, and meet legal requirements, and to ensure that the people working in these factories are treated fairly and with respect. These collaborations let us reduce the auditing burdens and costs for our supplier while at the same time, contribute to the recognition and improvement of the audit results by other companies.



In 21 of our sourcing countries we participate in the BSCI program.¹



We are a Buyer Partner in the Better Work program by the ILO and IFC.²

¹ The Business Social Compliance Initiative (BSCI) is a leading supply chain management system that supports companies to drive social compliance and improvements within the factories and farms in their global supply chains. BSCI implements the principle international labor standards protecting workers' rights such as International Labor Organization (ILO) conventions and declarations, the United Nations (UN) Guiding Principles on Business and Human Rights and Guidelines for multinational enterprises of the Organization for Economic Co-operation and Development (OECD).

² Better Work is a collaboration between the United Nations' International Labour Organization (ILO) and the International Finance Corporation (IFC) – is a comprehensive program bringing together all levels of the garment industry to improve working conditions and respect of labor rights for workers, and boost the competitiveness of apparel businesses.

As a result of their participation in Better Work, factories have steadily improved compliance with ILO core labor standards and national legislation covering compensation, contracts, occupational safety and health and working time. This has significantly improved working conditions and, at the same time enhanced factories' productivity and profitability.

We are Responsible

SOURCING RESPONSIBLY



NON-COMPLIANCE

While Esprit has very clear requirements for factory working conditions based on local law and [International Labour Organisation \(ILO\)](#) standards, a constant challenge in our industry is monitoring compliance. We work closely with factories to ensure that they meet and maintain our requirements, however virtually every factory that is audited has one or more findings requiring remediation. Often, these findings are relatively minor. Esprit's approach to factory compliance is that we set minimum standards and focus on working collaboratively with our supply chain partner to meet these requirements and resolve issues in their factories. All factories that are audited receive a corrective action plan that lists any problems that were found, outlines the actions they must take to address the problem, and provides a timeline within which improvements must be completed. We support our suppliers for improvement beyond our minimum standards, focusing on helping factories to build better management systems so that they can be better equipped to maintain their progress.

In 21 countries, we work with the [Business Social Compliance Initiative \(BSCI\)](#) to audit and rate the suppliers we work with. The BSCI's grading system for factories ranges from A (Outstanding) to E (Unacceptable). To ensure that no major non-compliance issues are present in our supply chain, our target is that all the factories we work with that are part of the BSCI program must earn at least a score of C (Acceptable) by end of June 2018. By the end of June 2017, already, 82% of our factories have achieved this target.

When efforts to address problems fail, Esprit may find it necessary to stop doing business with the supplier. In FY16/17 Esprit dropped 0.9% of suppliers for poor social compliance performance. If an issue is exceptionally severe, however, it may be necessary to take immediate action, which could include suspending orders and shifting cut pieces or materials to other factories to be completed.

Zero tolerance issues include:

- Child labor: Production can continue only if management immediately implements the remediation plan outlined in [Esprit's Social Compliance Standards Manual](#)
- Non-transparency: Refusing audits, actively hiding documents or producing falsified records, actively misleading the auditor, failing to participate in the audit process as agreed upon becoming an Esprit supplier
- Illegal activity
- Attempted bribery / corruption
- Imminent physical danger posed by the factory to workers, Esprit staff or others.
- Other serious violations of human rights

Zero Tolerance findings in factories are relatively rare. The most common non-compliances in our factories include:

- Inconsistencies between compensation policies and wage calculation (incorrect wage calculation)
- Inconsistencies between factory policies and information obtained in worker interviews
- Excessive overtime
- Inadequate machine safety (e.g. missing safety guards, etc.)
- Lack of effective grievance procedures
- Insufficient oversight of subcontractors' compliance

We are Responsible

SOURCING RESPONSIBLY



BANGLADESH ACCORD

Esprit was one of the first companies to sign onto the [Bangladesh Accord on Fire & Building Safety](#) in 2013, which launched following the collapse of the Rana Plaza complex that killed over 1200 people. For the last four and a half years, we have worked within the Accord to improve building, fire and electrical safety in our factories in Bangladesh. The original Accord was due to expire in May 2018. All participants recognize that, although the agreement has accomplished a great deal, much work remains. Therefore, over the last ten months, Esprit has been a member of the negotiating team that has worked with the trade union members of the Accord to extend the agreement. Esprit is pleased to be part of the new three-year effort to finish the work that the Accord set out to do. By the end of June 2017, 80% of the individual corrective actions in our supplier factories that were recommended based on their initial Accord audits have been accomplished. By the end of December 2017, all improvements will be done in our factories.



ESPRIT'S RESPONSE TO REFUGEES IN TURKISH TEXTILE FACTORIES

Refugees are particularly vulnerable populations, and while job opportunities in the apparel industry in many cases are a much-needed opportunity, these people are also vulnerable to exploitation, including child labor or low wages. In Turkey, refugees often struggle to secure the proper documentation needed to work. Our aim is to support refugees in Turkey in securing the opportunities, and the services, they need to rebuild their lives. Early on, Esprit saw the problem and joined with other brands to help lift administrative roadblocks preventing refugees from working legally. In 2015, we joined with the [Fair Labor Association \(FLA\)](#) to pressure the Turkish government to allow people under “temporary

protection” to be granted work permits. When this was successfully passed, in 2016, we formulated a policy which has guided our actions in cases where we have found refugees working in our supplier factories. Esprit's policy includes the following key points:

- Employers must obtain work permits for refugees. We recognize that, while it is possible to obtain legal work permits for refugees, in practice there are significant bureaucratic hurdles to doing so. Esprit expects our suppliers to take the process as far as possible, and to report honestly in those cases where a work permit cannot be obtained
- Refugees are to be given the same pay and benefits, to the greatest degree possible, as Turkish workers
- Language courses must be provided to refugees. Workers who speak the local language will be better able to defend their own interests, and to change jobs if needed

Learn more about the “Protection of Syrian Labor Rights in Turkey – A Business-Led Call for Supply Chain Action” multi-stakeholder forum co-led by Esprit along with the FTA [here](#).

[See the letters](#) to the Turkish president written jointly by BSCI, FLA, Esprit, and a number of other brands, advocating better working conditions.

We are Responsible

SOURCING RESPONSIBLY



LIVING WAGE

It is widely acknowledged that wages in the global apparel sector are too low, which often means that workers making apparel do not earn enough to live on. Calculating a living wage is complex, however, and the debate is often stopped by lack of consensus on methods. Moreover, benchmarking is often conducted without consulting workers on the issue. To make progress on this difficult problem, Esprit joined with other brands in signing a memorandum of understanding with IndustriALL Global Union to form Action, Collaboration, Transformation (ACT). ACT seeks to address the problem of low wages in the apparel industry by ensuring that workers have a voice in wage-setting through industry-wide, national collective bargaining agreements in key apparel producing countries. Through collective bargaining, workers can seek higher wages within agreements that address a range of concerns about working conditions while preserving the competitiveness of their industry.

In addition to support for collective bargaining, ACT members aim to support productivity improvements, and to review buying practices to ensure that actions support payment of a living wage. As an initial step, in March 2017 our buying team took part in a pilot self-assessment study on buying practices. These first results will be anonymized, analyzed and compared with the other brands. This pilot is a start for a bigger round of self-assessments on buying practices to identify what needs to be changed in the future to help achieve a living wage in factories.



We are Responsible

ESPRIT - YES CENTER

ONE WAY ESPRIT LIVES OUT OUR COMMITMENT TO SUPPORTING POSITIVE LIVES, SELF-EXPRESSION AND SELF-DETERMINATION, IS THROUGH OUR SUPPORT FOR INITIATIVES THAT EXPAND OPPORTUNITIES FOR YOUNG PEOPLE, AND ESPECIALLY FOR YOUNG WOMEN.



According to the United Nations, education ranks as a top intervention in the pursuit for peace, wealth, health, equality and fairness for everyone on this planet. For the next two years Esprit is sponsoring schools in selected supplier countries. The YES Center is a project that was initiated by Esprit and the [YOU foundation](#). The first school was inaugurated in Cox's Bazar, Bangladesh, on November 14, 2016. In January 2017, a second school opened in Pakistan.

The aim is to reach 400 students between 15 and 22 years old, 60% of whom are girls and young women. Over the next two years, they will gain knowledge across six different subjects: safety and quality management, English, computer training, accounting, gender equality and human rights. This prepares them to enter the workforce, while also equipping them with the skills and the knowledge they need to advocate for themselves and their peers, and to grow in their careers.

Funding for the YES Center is through the Esprit Cares Trust, which was founded in 1993 to support charity-related activities. All projects funded through the Esprit Cares Trust are strictly tied to a legally-defined set of charitable causes, demonstrating our commitment to being a responsible, caring employer and business partner.

We are Ethical

PEOPLE



PLANET

Ethical behavior is paramount at Esprit in terms of how we work with our partners, how we work internally within the company, and how we communicate with our stakeholders and customers. Our aim is to create a corporate culture and a system that encourages, promotes, and rewards ethical, honest behavior and positivity. One specific area we aim to influence is the promotion of healthy body images and diverse perceptions of beauty.



We are Ethical



OUR ACCOMPLISHMENTS



We provide regular **Anti-Corruption and Anti-Trust trainings** for all departments and regions with high risk.



2029 employees in Europe and Asia have been invited to evaluate their **391** team leads.



People from more than **57** countries work at Esprit.

We have created a **Responsible Marketing Guideline**.



100% apprentices successfully finished the apprentice program.

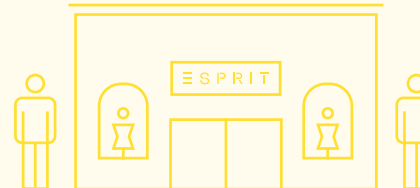


109 trainees globally successfully finished the trainee program.



All new employees have signed our **Code of Conduct** and received dedicated trainings.

62% apprentices stayed at Esprit.



90% of the trainees in our Headquarters in Ratingen stayed at Esprit.

We are Ethical



OUR APPROACH

Compliance and ethical behavior is a top priority for Esprit. Esprit stands for lawful and ethical business practices and zero tolerance for unethical or illegal conduct. This requires every one of us to pay attention every day not only to how we do business, but also to how we interact with each other in the workplace. To ensure our

behavior and our communications align with our values we have developed clear compliance policies. The core of these policies is captured in our Code of Conduct. In the following chapter we want to highlight our compliance program as well as our newly-developed guideline on Responsible Marketing.

We are Ethical

COMPLIANCE

OUR POLICIES

Our Code of Conduct is the heart of all our policies. It must be signed by all our employees before they start at Esprit. Esprit strongly believes that free and fair competition forms the basis of commercial activity. Therefore we have implemented a clear Anti-Corruption policy for all employees as well as an Anti-Trust Policy that prohibits certain agreements, practices and conduct which are against anti-corruption law and competition law. To ensure that the policies are fully understood and that our employees feel confident complying with our expectations, we train all employees in high-risk departments and regions on anti-corruption and anti-trust. In order to encourage people to bring any issues to our attention, we have a Whistleblowing Helpline in place. The Whistleblowing Helpline is open for all Esprit employees worldwide as well as for the employees of our customers, suppliers, and business partners. In addition, we have appointed a dedicated Compliance department, who can be contacted either directly or through the Whistleblowing Helpline at any time to give guidance in sensitive situations. All cases are handled strictly confidentially.

We follow a strict zero-tolerance approach to our non-compliance with our policies. In FY16/17, there was no public legal allegation on compliance issues, such as corruption, against Esprit.



We are Ethical

RESPONSIBLE MARKETING

OUR GUIDELINES

Our advertising campaigns are developed in-house or in collaboration with international creative agencies by our Brand and Marketing department. These campaigns are an important tool for communicating Esprit's message and values. As a real people company, we want to emphasize that our clothes are created for real people from all over the world. We aim to celebrate diversity of appearance, size, gender, skin color, culture and ethnicity. Our photo productions are supported by professional photographers, production companies and creatives from the fashion industry. In these shoots we focus on selecting models who portray a healthy look, and on presenting them in an appropriate way.

- **Campaigns:** Claims and messages of our campaigns are chosen carefully
- **Photo shootings:** Our photo productions are supported by professional photographers, production companies and creatives from the fashion industry. For all our models, adults or children, we are constantly taking care of them on set with healthy food and a proper work/break balance



- **Choosing models:** We focus on selecting models who portray a healthy look, and on presenting them in an appropriate way
- **Kids campaigns:** For photo shootings with kids we follow the international and local laws and requirements. There is always at least one representative of Esprit to make sure that all requirements are obtained
- **Animals:** When animals are used in our production, we follow the international and local laws and requirements. No animals are harmed during a production and they have professional guidance



GOAL AND PROGRESS



Create a Responsible Marketing Guideline by June 2017

We are Ethical

OUR PEOPLE

LEARNING

As a real people company, we believe that we are defined by our people, and we are only as successful as they are. This is one reason we support our people grow in their careers. In December 2016, we launched the Esprit Learning Center platform, an internal site available to our employees around the world.

This platform houses a variety of multi-media training resources for various departments, including product, supply chain, and distribution channels. New employees can find information on daily business to help them start off in their new position. Store Managers can find training concepts for their staff. Experienced employees can also search for internal or external training classes in order to build their knowledge.



9,816
people
at Esprit



52%
full-time

48%
part-time



83% female



17% male



Please find more information [here](#).

We are Ethical

OUR PEOPLE

TRANSPARENCY

In total, 2,029 employees in Europe and Asia have been invited to participate by evaluating 391 team leads. They had the chance to give comprehensive feedback on professional and social skills and leading competence. Through this program, our executives receive valuable information from their own teams; their closest employees, who work with them on a daily basis. Team members in leadership roles learn about their impact on others and, with the support of the Learning & Development division, have the opportunity to adjust their behavior to potentially increase their team's satisfaction and even their success. Not only does this information strengthen our leaders and support them in their personal development, but it shapes the leadership relationship between managers and their team members. This Upward-Feedback program is a deliberate step towards loosening the typical top down-oriented leadership relationship between supervisors and employees. This new way of viewing roles is contemporary, constructive, and aligned with our company aims to empower all our people.

A regular and open dialogue with our employees is important for us. We therefore respect every individual involvement in workers' councils and collective bargaining. Related to this, we follow all legal requirements such as local law and the [International Labour Organization's \(ILO\) Declaration on Fundamental Principles and Rights at Work](#). We apply the terms and conditions stated in collective bargaining agreements around the globe, wherever subsidiaries and employees are bound by it. Worldwide, 51% of our employees have been covered by collective bargaining agreements by the end of FY16/17.



**MZWANELE THABISO MILO,
SALES ASSOCIATE**

I've been with Esprit for three years now. I actually started as a temporary store assistant while I was studying to be a teacher. I ended up staying with Esprit because I enjoyed my job so much! I love how open and friendly everyone on the team is. We are all very happy in our jobs, and we have great team spirit. I also really like working directly with the customers. Often people come and ask my advice because they need an outfit for a special occasion, and I will immediately have an idea for what could be right for them. Seeing a happy customer motivates me every day!

We are Ethical

DIVERSITY AND EQUALITY



WE ARE A DIVERSE COMPANY

What makes Esprit a unique company? We think it is the over 9,000 unique people who make up our team, all of whom bring unique perspectives, adding to the innovative, creative, and welcoming environment we strive for. In order to protect this atmosphere, we have developed an internal Code of Conduct that applies to every employee in every country where Esprit operates. This code lays out Esprit's expectations that each employee must be treated with respect and dignity; harassment or any kind of intimidation will not be tolerated. Our top priority is the protection of our team members, so violations of our Code of Conduct are rigorously pursued. We have implemented a confidential whistle-blower hotline so that employees can anonymously notify management if they suspect or know of incidents.

We are proud of our diverse team, with 57 countries represented just at our headquarters office in Ratingen. In Germany, where around half of our employees are based, the Equality Act provides the legal framework for extensive protection against discrimination. The purpose of this Act is to prevent and stop discrimination on the grounds of race or ethnicity, gender, religion or belief, disability, age or sexual orientation.



We are Ethical

VOLUNTEERING



**BE INFORMED — BE INVOLVED —
MAKE A DIFFERENCE. WE ARE ESPRIT.**

Esprit's heritage of social awareness continues to inspire our teams today. "Esprit Cares," an initiative launched by Esprit employees in 2014, enables our teams to volunteer in various community initiatives wherever Esprit is present. The intention is to create tangible impact within our communities around the world, and to empower employees to determine what is meaningful to them. This platform also creates a space where everyone from different departments and levels can interact beyond the office, bringing everyone closer to the heritage of Esprit, further instilling the values of sustainability, community development, and social impact.

Continuing with existing efforts and creating new initiatives, over the past year Esprit employees have actively worked through Esprit Cares to transform their communities by donating time, money, and gifts to causes for the homeless, children, the disabled, the elderly, refugees, and anyone else in need. Esprit is proud of the significant involvement of employees in this program across all regions.

Global Highlights of Esprit Cares Community Engagement:

- During the winter holidays in Germany, 16 cartons of warm clothes were donated to fiftyfifty, an organization that helps people who are homeless, to ensure they made it through the winter safely and with proper clothing.
- Celebrating 25 years of work within Esprit, two employees requested donations instead of gifts and collected €1200 to give to a children's hospice.
- After a fire destroyed most of the scarce possessions in a refugee community, Esprit Cares acted promptly and gathered much needed menswear items for the residents within 48 hours.
- The Hong Kong office joined raised money for a run benefitting Community Chest, an organization that provides support services for the mentally and multiple handicapped.



**KIT NG, CHAIRMAN OF ESPRIT
CARES HONG KONG**

Starting in April 2017, we combined Esprit Cares with our staff engagement program called Together@Esprit, and we work as a team to sponsor several activities each month. Our team of 15 committee members arranges staff activities that aim to build a meaningful work experience while also supporting our local community.

Note: The Together@Esprit program currently only operates in Hong Kong but we will expand to the rest of the Asia Pacific and China region in September 2017.



04

Planet

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PLANET

WE SEEK TO MANAGE THE FULL LIFE-CYCLE OF OUR PRODUCTS, FROM DESIGN TO FINISHED PRODUCT AND BEYOND, IN A RESPONSIBLE AND ENVIRONMENTALLY-FRIENDLY WAY, TAKING STEPS TO REDUCE OUR ENVIRONMENTAL FOOTPRINT AND TO EMPOWER SUPPLIERS AS WELL AS CUSTOMERS TO JOIN WITH US IN THIS JOURNEY.

PEOPLE



PLANET

Continue reading to learn more about our goals, activities, and our progress so far.

We Choose Sustainable Materials

PEOPLE



PLANET

We at Esprit consider the impact our design and product development choices have on the planet, and aim to make responsible decisions that reduce our footprint. This begins with choosing materials that are produced in more sustainable and ethical ways, from cotton and cellulose to animal-derived materials such as down and leather.



We Choose Sustainable Materials



GOALS AND PROGRESS



Continue to ensure that 100% of our down and feathers are sourced according to the Responsible Down Standard (RDS)



50% of the cotton we use will come from more sustainable sources* by 2021.



Shift to 100% water-based synthetic leather in Esprit products by the end of 2025



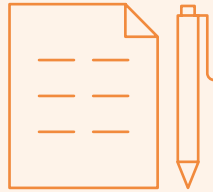
50% of our virgin sheep wool will be sourced according to the Responsible Wool Standard (RWS) by 2022

*Including BCI cotton, organic and recycled cotton

We Choose Sustainable Materials



OUR ACCOMPLISHMENTS



Esprit is a fur free company and part of the Fur Free Retailer Program.



Esprit is working with Textile Exchange and other brands to develop the Responsible Wool Standard (RWS).

Angora wool has been banned since 2013 due to animal welfare concerns for angora rabbits.



All Esprit products containing feathers and down have been certified according to the Responsible Down Standard (RDS).



Esprit became a member of the Better Cotton Initiative (BCI) in February 2016.



Esprit is certified according to the Organic Content Standard (OCS) and we started increase the use of organic cotton.

We Choose Sustainable Materials

SUSTAINABLE FIBERS



OUR APPROACH

The materials we use to make our products come from nature; what we choose and how we source these materials has implications for environment. Responsible use of these resources is not only a business imperative in the long term, it is how we demonstrate our values. We consider things such as water use,

land use, animal welfare, chemical use, and human health in our approach to sustainable materials, which prioritizes our most commonly-used fibers and materials. This includes cotton, viscose, polyester, wool, and leather. See more detail on each of these materials on the following pages.

We Choose Sustainable Materials

SUSTAINABLE FIBERS



Conventional cotton growing often requires large quantities of pesticides, herbicides and fertilizers, which can have a negative impact on the environment. In addition, cotton needs a lot of water to grow, which is an increasingly scarce natural resource in many cotton-producing regions.

In order to improve the environmental profile of cotton, Esprit became a member of the [Better Cotton Initiative \(BCI\)](#) in February 2016. BCI is a non-profit organization that takes a holistic approach to sustainable cotton production by training farmers on how to best manage the environmental, social and economic aspects of cotton production. It supports the people who grow cotton to implement more environmentally-friendly cultivation methods that also help farmers reduce costs and increase profits.

In addition to being a member of the Better Cotton Initiative, we also focus on organic cotton. Less than 1% of the world's total cotton production is organic, which makes sourcing organic cotton more difficult. Organic cotton is grown without pesticides or synthetic fertilizers according to strict standards. Esprit has increased the range of organic cotton in our collections and we are using the [Organic Content Standard \(OCS\)](#) to trace and certify our organic cotton. The OCS, developed by the non-profit organization [Textile Exchange](#), verifies the presence and amount of organically grown material in a final garment by tracking the chain of custody from the certified field to the end product.

By 2021, we aim to ensure that 50% of our cotton comes from more sustainable sources, including BCI, certified organic cotton, and certified recycled cotton.

More broadly, Esprit participates in the natural fibers working group of the [Partnership for Sustainable Textiles](#), a German government sponsored multi-stakeholder initiative seeking to improve sustainability in the textile industry.



**MAXIMILIAN ESCH,
JUNIOR BUYER**

I'm a Junior Buyer here at Esprit, and sustainability is part of my daily work within the buying department. At the beginning of the year we made the commitment to convert as much conventional cotton as we could into more sustainable cotton, switching to options such as organic cotton. One of the things I work on is finding and building relationships with those supply

chain partners who want to join us along this path toward greater sustainability. We prefer to do business with those suppliers that are either already engaged on sustainability, or those that are willing to put in the effort to get there. In those cases, we try to support our suppliers and help them along the way, sharing what we have learned so far. This work helps us to create more sustainable products, which our customers are looking for more and more. Seeing this shift in awareness of sustainability makes me feel quite optimistic. However, I think there is still more we can do. I am happy that I get to be part of this journey towards greater sustainability at Esprit and that I get to contribute to it every day.

We Choose Sustainable Materials

SUSTAINABLE FIBERS



We Choose Sustainable Materials

SUSTAINABLE FIBERS



RECYCLED MATERIALS

Esprit incorporates recycled materials as a strategy to reduce waste, reduce emissions, and encourage more thoughtful material selection. Esprit uses the [Recycled Claim Standard \(RCS\)](#) to ensure recycled materials are indeed being used. The RCS affirms the presence and amount of recycled material in a finished garment. Starting in fall 2017, we will start to increase the amount of products with recycled content.



CELLULOSICS

Cellulosic materials, such as viscose, rayon and lyocell are manufactured artificial fibers, as opposed to natural fibers like cotton, or synthetic fibers like polyester. The raw material is derived from natural sources of cellulose, often trees. In order to responsibly source these fabrics, the cellulose needs to come from properly managed forests, as opposed to endangered or old-growth forests, and the chemical processes should be as efficient as possible, aiming for a closed-loop system. We partnered with the environmental non-profit organization [CanopyStyle](#) in September of 2015 to ensure that our cellulose fabrics do not come from at-risk forests. We support a future that does not exploit ancient and endangered forests to create man-made cellulosic fabrics. For more information, please see [Esprit's Policy on Protecting Forests Through Fabric Choices](#).

We Choose Sustainable Materials

SUSTAINABLE FIBERS

MORE SUSTAINABLE SYNTHETIC LEATHER

Synthetic leather, which is generally polyurethane-based, allows us to create leather-like products without animal-derived materials. However, the challenge is that the manufacture of conventional polyurethane (PU) requires a solvent called DMF, which can be hazardous for workers and can pollute the environment. We are working to shift our production from conventional PU to water-based PU that does not use DMF.

This is a challenge for a number of reasons:

- Suitable alternatives need to be further developed
- Any alternatives must continue to meet Esprit's quality standards and provide good technical performance
- Costs remain high for new and innovative alternatives
- We must address all potential sources of cross-contamination

Nevertheless, throughout FY16/17 we have been researching alternatives and working closely with chemical suppliers and our Hong Kong-based chemicals team to identify and further develop these innovative alternatives. We are connecting chemical suppliers with producers to enable them to collaborate around the technical challenges of meeting Esprit's quality requirements using water-based alternatives. We are also working through the ZDHC platform to stand with other brands, collectively pushing for the shift to water-based PU in the supply chain.

Additionally, we have also been training our buying, sourcing and design teams on the issues and alternatives. In FY17/18 we plan to start with the first styles that will use water-based PU. Our target is to switch all synthetic leather to water-based PU by 2025.

FSC-CERTIFIED HANGTAGS

One way we minimize waste is to use smarter hangtags. All our hangtags for Casual, Collection, Trend, EDC, Accessories and Shoes are made of FSC-certified paper cardboard. The [Forest Stewardship Council \(FSC\)](#) is a global non-profit organization dedicated to promoting responsible forest management.

We Choose Sustainable Materials

ANIMAL WELFARE



OUR COMMITMENT

As part of our commitment to living our ideals, Esprit believes in animal welfare and the humane treatment of animals. All products derived from animals must be in accordance with our Code of Conduct and the [Farm Animal Welfare Committee \(FAWC\)](#) Five Freedoms:

1. Freedom from Hunger and Thirst
2. Freedom from Discomfort
3. Freedom from Pain, Injury or Disease
4. Freedom to Express Normal Behaviour
5. Freedom from Fear and Distress

One challenge we see in this area is that there only a few certification standards considering animal welfare. To ensure that all animals in our supply chain are treated with respect and in accordance with the principles of the Five Freedoms.



We Choose Sustainable Materials

ANIMAL WELFARE



Esprit is a fur free company and part of the [Fur Free Retailer Program](#).

This means that we only use fake fur in our products.



In accordance with our Animal Welfare Policy, Esprit strongly condemns force-feeding animals and plucking feathers and down from live birds. To ensure a high level of transparency, all Esprit products containing feathers and down have been certified according to the [Responsible Down Standard \(RDS\)](#). The standard, developed by the non-profit organization [Textile Exchange](#), approaches all links in the supply chain – from duck and goose farms to Esprit itself – to ensure that no live-plucked down or feathers are used in Esprit's garments. Since fall 2016, all Esprit down products are certified according to the RDS.



We Choose Sustainable Materials

ANIMAL WELFARE



To enhance our work in guaranteeing the welfare of sheep, Esprit worked with [Textile Exchange](#) and other brands to develop the [Responsible Wool Standard \(RWS\)](#). The RWS seeks to ensure that the sheep in our supply chain are treated with respect and in accordance with the Five Freedoms of the Farm Animal Welfare Committee (FAWC). The standard also focuses on sustainable management of grazing land. In June 2017, Esprit funded the RWS Kickstarter program to support the implementation of the RWS in textile supply chains. We are currently working on bringing RWS certified wool into our products, and we have set the goal that 50% of our virgin sheep wool will be sourced according to the RWS by 2022. This is a challenging target as of now only a few farms are RWS-certified. To bring more certified wool, Esprit funded the RWS Kickstarter program. Since 2012, Esprit has expressly prohibited surgical mulesing of sheep in our supply chain.

Since November 2013, angora wool has been banned from all Esprit products. The ban on angora wool will remain in place until proper controls and transparency can be established to assure the humane treatment of angora rabbits.

RESPONSIBLE WOOL KICKSTARTER PROGRAM

The [Responsible Wool Standard \(RWS\)](#), a new initiative that launched in August 2016, is a certification program that aims to ensure that sheep are treated humanely according to the Five Freedoms, and that farmers properly protect their land. Certified wool is tracked from the farm through all stages of processing to the final product.

Esprit officially joined the RWS Kickstarter program in June 2017, demonstrating our strong commitment to ethical and sustainable wool and helping to fast-forward the adoption of the Responsible Wool Standard. By using the Kickstarter program to get more certified wool into the supply chain quickly, we can achieve a number of important things:

- Show farmers that brands have a strong and sustained commitment to responsibly raised wool
- Give supply chain players the confidence to invest in RWS inventory and create buffer stocks that will allow them to respond quickly to demand
- Provide one-time financial support to selected farmers embarking on certification

We Choose Sustainable Materials

ANIMAL WELFARE

LEATHER

Esprit has strict rules for the use of leather in our products. We require our leather to be a by-product of the food industry, and our suppliers must be able to trace raw hides and skins back to their country of origin. We do not source leather from endangered or threatened species that appear on the lists from the [International Union for the Conservation of Nature \(IUCN\)](#) or the [Convention on International Trade in Endangered Species of Wild Fauna and Flora \(CITES\)](#).



LEATHER ADVISORY GROUP

One challenge we have come up against is that there is not one overall apparel industry standard for leather that includes animal welfare.

Textile Exchange also identified this issue and in early 2017 Textile Exchange launched the initiative [Responsible Leather](#) which aims to address the many issues found within the global leather supply chain, including animal welfare as well as social and labor issues and deforestation. Responsible Leather takes a multi-stakeholder approach that brings together interested parties to help develop the best possible solutions for the industry. Esprit is part of the group because we think it is important to find a solution for the challenges in the leather supply chain.

We Protect our Planet

PEOPLE



PLANET

As part of our commitment to protecting the planet, Esprit works throughout the supply chain to minimize waste, eliminate hazardous chemicals, implement more efficient practices for shipping and storage, reduce emissions, and promote garment longevity. These activities ensure that our products are safe and smart in addition to being beautiful, and that our actions are aligned with our ideals.



We Protect our Planet

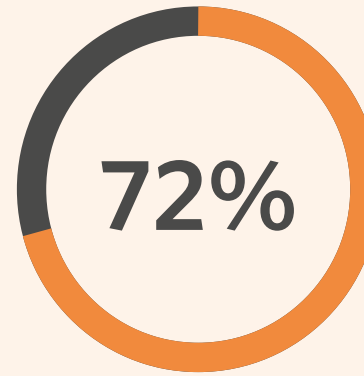


GOALS AND PROGRESS



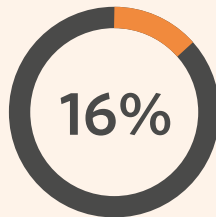
100%

Publication of a Care Guideline for our customers by March 2017



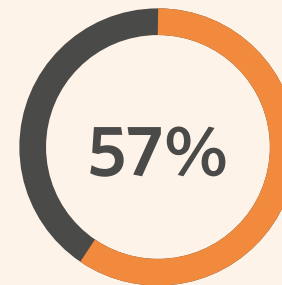
72%

90% of the e-shop parcels in Europe shall be shipped by climate-neutral or reduced emissions by end of June 2018



16%

100% of our wet processors publish wastewater data by end of April 2018



57%

50% of our wet process facilities are audited on chemical management and environmental performance by end of June 2018

We Protect our Planet



OUR ACCOMPLISHMENTS



All parcels and envelopes in our e-shop in Europe are made of recycled cardboard and paper.

In January 2017 we published a review of our Detox Commitment, demonstrating our progress and outlining our next goals.



We have switched to paper bags from plastic bags in **100%** of our retail markets.

All our water-repellent products are made without per-fluorinated chemicals (PFC) since December 2014.



Our switch to reusable boxes for distribution has enabled us to save more than **620,000** cardboard boxes every year.

Esprit is a member of the ZDHC Group, working collaboratively with other brands to achieve the Detox goals by 2020.



We Protect our Planet

CLEANER PRODUCTION

MEASURING PERFORMANCE

In the production of clothing, water, energy and chemicals are linked closely together. At Esprit, we feel that the greatest impact we can have on these issues is by promoting cleaner production, which is a way of working that emphasizes measurement, process control, resource management, and optimization so that water, energy and chemicals can be minimized. We support this approach through our work with the [Sustainable Apparel Coalition's Higg Index](#), our membership in the [Zero Discharge of Hazardous Chemicals \(ZDHC\) Joint Roadmap](#), and our shifts to safer chemicals, detailed here. Overall, throughout these various initiatives, we emphasize measurement, improvement, and transparency.



FRAMING OUR SUSTAINABILITY EFFORTS

A brand's environmental sustainability performance is the result of a very broad range of activities, many of which require water, energy and chemicals. In order to structure our activities and guide improvement across the whole range of areas where Esprit has an environmental impact, we make use of the Higg Index Brand Module, a tool developed by the [Sustainable Apparel Coalition](#), of which Esprit is a founding member. The Higg Index Brand Module breaks sustainability into seven broad subject areas: General sustainability information, Materials, Packaging, Manufacturing, Transport, Use and End of use. By assessing our performance in each of these areas, we are able to see where we are doing comparatively well, and where we need to improve.

We also encourage our suppliers to use the Higg Index, and our new supplier score card system incentivizes suppliers to use the platform. By end of June 2017, 160 of our suppliers' facilities are connected with us on the Higg platform and have posted an updated Facility Environmental for 2016.

We Protect our Planet

CLEANER PRODUCTION

✚ OUR DETOX COMMITMENT

In December 2012, Esprit signed a [commitment](#) with the Greenpeace Detox Campaign to eliminate eleven classes of chemicals from the textile supply chain. To help realize this commitment, we became an active member of the [Zero Discharge of Hazardous Chemicals Group \(ZDHC\)](#), working alongside like-minded industry peers to develop the tools and protocols to empower the entire supply chain to achieve the long-term aim of the ZDHC Group's "Roadmap to Zero": Zero discharge of hazardous chemicals by 2020. In January 2017 we published a [review of our Detox Commitment](#), which gives an overview of what has already been achieved and outlines our targets for the future.

MAPPING

To fulfil our Detox Commitment, the first thing Esprit had to do was to map out our Tier 2 and wet process supply chains. We do not place orders directly with these factories, and in the past we were not aware of the Tier 2 supply chain. That needed to change. In July 2016 we mapped for the first time the actual supply chain and established a process to update the mapping in an ongoing way, and we are committed to publishing a new version on our website every six months.

ASSESSING

We then began a series of one day audits at these wet processes facilities, where the finishing processes of our products take place. These finishing processes have the biggest environmental impact during the production. In our audits we covered chemical management, process quality control, wastewater management and solid waste. Over the course of the year our internal team audited 149 wet process factories. In addition to these audits, 21 supplier factories were chosen for a follow-up assessment focusing more deeply on chemical handling and wastewater management.

IMPROVING

What we discovered was that while some factories manage chemicals and wastewater in a way that allows them to fully support Esprit's Detox Commitment, many factories had gaps in their systems – some serious. In total 18% factories had serious gaps, while 41% had moderate gaps, and 41% were able to meet our expectations.

Common problems in factories included:

- Failure to control chemical inventory and lack of knowledge about the chemicals that are used in the factory

- Improper disposal of unused chemicals and empty chemical containers
- Lack of training for staff on the risks of proper handling on chemicals
- Lack of wastewater treatment facilities or improper use of facilities that are in place

To follow-up on improvements, we hand over a corrective action plan to each supplier that has been audited. After a set time frame we visit the factory again and make sure that all measurements have been implemented.



We Protect our Planet

CLEANER PRODUCTION

CHEMICALS

The first step to fulfil the [Detox Commitment](#) is the adoption of a [Manufacturing Restricted Substances List \(MRSL\)](#) which each supplier has been required to follow since 2013. At that time, we merged the MRSL together with our existing [Restricted Substances List \(RSL\)](#). The RSL defines the international requirements as well as our own standards beyond legal requirements that finished products and packaging must meet with regard to chemicals. Whereas the RSL focuses on the amount of restricted chemicals in the final Esprit product, the MRSL focuses on hazardous chemicals that have to be phased out from chemical formulations used during the manufacture of Esprit products. These chemicals are often washed during the manufacturing process. We also included the limits in terms of chemicals in wastewater into this combined list.

We then developed a tool called the [RSL & MRSL Supplier Guideline](#) to better support our suppliers in understanding and implementing these requirements.

Our water-repellent products are produced without perfluorinated chemicals (PFCs) since December 2014.

Additionally, we created the Chemical Corner on our Vendor Portal, which can be accessed by our suppliers. It houses all guidelines and documents relevant to our Detox program.

The Chemical Corner includes examples that cause RSL and MRSL non-compliance, and safe alternatives within the same chemical supplier portfolio. As we grow and build our knowledge, we share our experiences through the Chemical Corner in order to empower our partners.

CONTROL OF WASTEWATER

Esprit adopted the ZDHC Wastewater Guidelines in February 2016. The ZDHC Wastewater Guidelines have been adopted by most leading brands in the industry. By adopting those guidelines, rather than developing our own, Esprit is able to take advantage of experience across the industry and to allow our factories to work on one standard instead of a separate standard for each of their customers. In November 2017, the ZDHC wastewater and chemical requirements will become part of the Higg Index 3.0. The next step is that we will require our suppliers to upload their wastewater testing data on the IPE or ZDHC platforms by April 30, 2018. This is an ambitious step; we know that by the end of the FY16/17, only around 16% of our wet process suppliers uploaded their data. Esprit is cooperating with a third-party testing laboratory to develop

a training and testing program. This program will provide factories with the training they need to manage chemicals and wastewater treatment appropriately, and to have wastewater testing done in compliance with the adopted Wastewater Testing Guidelines by the ZDHC.

TRANSPARENCY

Esprit's Detox Commitment requires public disclosure of all our wet process factories; we complied with this requirement in August 2016 when we published our supplier list, and we went beyond this requirement when we updated the list to meet the expectations of the [Human Rights Watch Transparency Pledge](#). The factory list will be updated approximately every six months. In addition, all of our wet-process factories need to upload wastewater test data onto a public platform so that community members can access the list to see what local factories are releasing into their water.

We Protect our Planet

SAFE PRODUCTS



MAKING OUR PRODUCTS SAFE

Overall quality assurance is a key point in our corporate strategy and our commitment to our customers. We continually follow developments in legal requirements and social expectations, as well as technical and design innovations, to ensure that we live up to our brand's promise.

Esprit established a "Minimum Requirements Steering Committee" (EMRSC) in 2015, which is build of staff from Product Safety, Quality Management, Supply Chain and Sustainability. To oversee comprehensive screening of applicable legislation in markets where Esprit products are sold, including the latest findings of test institutes, NGO demands, industry trends, and demands of Esprit's wholesale customers and end-consumers. This ensures the implementation of appropriate control measures throughout the supply chain.

In accordance with the Precautionary Principle, Esprit closely monitors a variety of important and reliable sources of information regarding chemical properties or safety of Esprit products.

We implemented processes, to ensure that our products are safe:

- All Esprit products are tested by independent and certified laboratories before leaving the factory
- Our in-house laboratory also checks goods as they are delivered to our distribution center
- These physical and chemical tests are in accordance with global standards and norms. The tests include compliance with our [Restricted Substances List \(RSL\)](#)

Additionally, Esprit is also a member of [AFIRM](#), an industry body dedicated to maintaining the highest standards for implementing chemical restrictions.



**THIVAKARAN KUMARSAMY,
FABRIC QUALITY MANAGER**

As a Fabric Quality Manager, I spend a lot of time visiting our Tier 2 suppliers, where our dyeing and finishing happens. We do this to keep an eye on quality and to make sure we understand the processes and the chemicals being used, and to assess a factory's practices. During a visit, I make sure the factories understand our expectations, our approach to sustainability, and how we will assess them. After an assessment, we leave the

mill with a Corrective Action Plan, which they use to improve their operations and to address any concerns we might have.

Esprit has clear sustainability protocols that govern our selection of raw materials all the way through to our dyes, inks, and processes. It is my job to ensure that our fabric supply chain fully understands our requirements, and train our suppliers on waste reduction, getting things right the first time, and proper chemical management—all crucial to sustainability. I do this onsite with the teams in the mills, which helps them to see how sustainability connects with their business and their production processes.

The biggest challenge is making sure our suppliers understand why sustainability is so critical. Our intention at Esprit is to support our partners wherever we can, educate them as much possible, help them take ownership and responsibility for sustainability, and bring greater awareness to throughout the supply chain.

We Protect our Planet

END OF LIFE

WEARING ESPRIT

Sustainability does not stop after the production process. Environmental responsibility is also important when the garment is in the hands of the customer. Esprit wants to raise customers' awareness on the sustainable use of textiles. To do so, we aligned our care labels with the [Clevercare](#) instructions. Clevercare provides information about more sustainable washing, drying and ironing of garments. Small things, such as reducing washing temperature to cut down on overall energy consumption, can have an impact on the environment. Clevercare also provides detailed information about the common care symbols. The link to the Clevercare website can be found on the care labels of all our apparel products.

We follow the right-to-know-principle, and strive to provide our customers with all the information they need regarding a product, its content and product care instructions. We ensure that our labels are in accordance with the laws of each country where our products are sold. Beyond this, Esprit includes the country of origin on the label of every garment. All non-textile components of animal origin such as leather, horn buttons, feathers and down are stated on the care label.

Esprit's in-house quality department watches over quality during production and after shipment to our warehouse, but this does not end with the sale of a garment. We watch over quality even while the garment is in the hands of the customer by empowering them to better care for their items so they last for a long time. Proper care has a great impact on the durability of garments. Our Care Guideline helps our customers to make sure that their Esprit clothes last a long time. The Guideline explains, for example, how to properly care for silk or wool garments and explains the care symbols.



We Protect our Planet

END OF LIFE

RECYCLING

When the life of our products comes to an end, we seek to keep them out of the landfill. Esprit wants to close the loop and actively push for a circular economy. Recycling and reusing garments is a more sustainable solution to extend the life of a textile.

Together with our partner [PACKMEE](#) we want to give people the chance to extend the life of their garments by donating the items they are no longer using. PACKMEE collects donations of usable clothing and shoes and provides user-friendly and free shipment by parcel service in the German market. The initiative aims to extend the life of clothing and to create a sustainable cycle in the textile industry. Over half of the proceeds from the program are donated to the German Red Cross. Customers can choose an Esprit voucher for a 10% discount in exchange for donating their old clothes. Around 95% of the donated garments could be reused or recycled.



We Protect our Planet

REDUCING OUR EMISSIONS

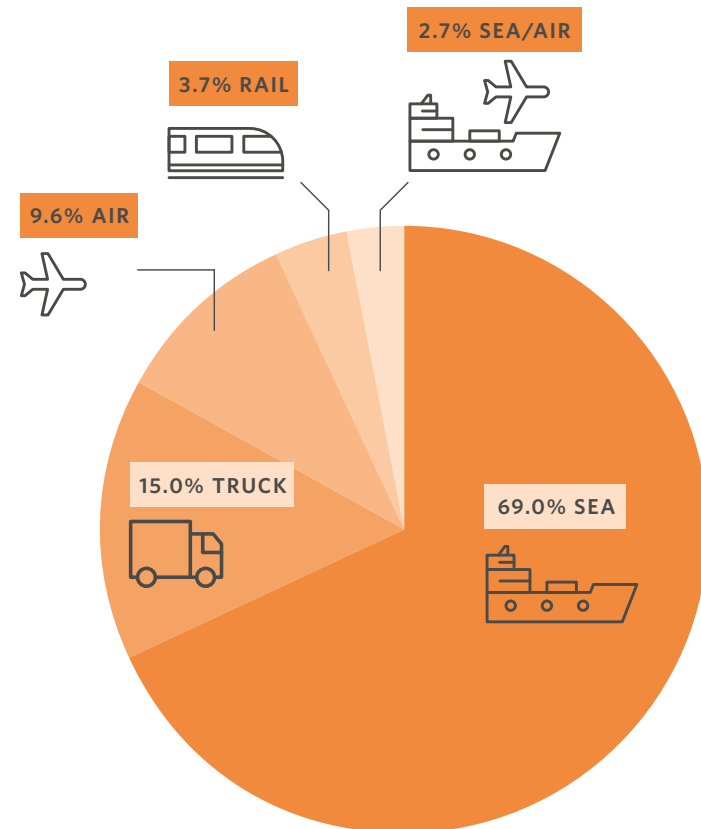
SMARTER SHIPPING

Because of the global nature of our business, one area we need to consider carefully when working toward greater sustainability is transportation. The main modes of transport we use to move our garments from the factories to our distributions centers are sea, air, combined sea/air, truck, and rail.

Each shipment mode has different risks, benefits, and impacts on the environment. Shipping vessels expel emissions such as CO₂, soot, and sulfur particles, and the noise they generate can have an impact on the navigation of some ocean animals. However, these vessels are very efficient since we are able to ship large volumes one way. In order to be as efficient as we can be, Esprit takes care to ensure that our cartons and containers are full, that space is well-used, and that orders are combined wherever possible.

We aim to avoid air shipments other than as a last resort because this is linked to greater emissions and comparatively small volumes can be moved at one time. Combined sea/air shipments are preferred before we use air only. For our products that are produced in Europe, we are able to use trucks, and for some products produced in China, we use rail shipment, which is the most environmentally-friendly shipment mode. We are examining ways to shift toward more rail shipping, and we launched a pilot in FY16/17 to test rail transport of goods from Shenzhen, southern China. We hope to increase the amount of goods shipped by train in the future.

OUR SHIPPING IN FY16/17 BASED ON VOLUME



We Protect our Planet

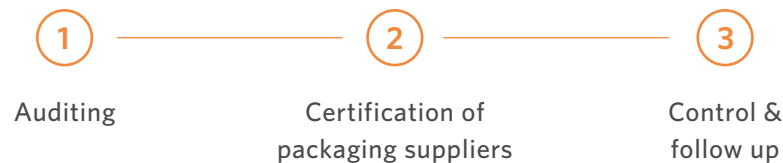
REDUCING OUR EMISSIONS



SMARTER PACKAGING

Esprit received over 90 million garments in FY16/17 from our suppliers all over the world, and these arrive in cardboard boxes. In looking for ways to be more efficient in our resource use, and to apply our sustainability values to our packaging, we began by looking at how we could better manage the manufacturing, selection, use, and re-use of these boxes. We launched a project in 2017 to ensure that shipping boxes are manufactured according to our standards, that products are sufficiently protected to reduce the incidence of waste, and that the way we use these boxes contributes to our sustainability goals. This was not an easy challenge; changing these processes touches upon many different areas of the business, included logistics, warehouse processes, commercial processes, transportation, and sustainability.

Our approach to better management of packaging included three phases:



Within these phases, additional steps included analysis of incidents that impede normal operations within the supply chain, training of our personnel, analysis of technical capacity of suppliers, development of a tracking system, and the implementation of a pilot project.

We are now working to develop new regulations and techniques that will guide our suppliers to be able to pack garments and load boxes in ways that will maximize efficiency, which has a significant impact considering the volume of products our suppliers create. We will also be able to monitor which suppliers are able to meet these new expectations, and work to continuously improve our packaging processes. Our expectation is that this work on packaging will lead to reduced product waste, greater efficiency in packing and shipping, reduced air emissions, and reduced resource use. We are looking forward to sharing the results of this program in 2018. Besides that, we have increased the amount of reusable boxes made of robust plastic that do not break, even after multiple uses in our Distribution Center in Mönchengladbach Germany. By using in total 90,000 reusable boxes we have been able to save more than 620,000 cardboard boxes every year.



E-COMMERCE

Smarter packaging and transport are even more important in our e-commerce business, where six different package sizes and shipments to thousands of individual home addresses make operating responsibly a complex matter. All of the boxes and envelopes that Esprit uses are made of recycled cardboard or paper. Whenever possible, we try to use envelopes, which are smaller and compactable, as well as easier for our customers to carry. To reduce the impact of our shipments, we set an ambitious target: 90% of our European e-commerce shipments will be carbon-neutral or shipped via reduced emissions programs by the end of June 2018. To achieve this goal, we focus on developing more sustainable shipping programs with our carriers. 65% of our shipments in Europe are already sent via such programs. In 2016, we were able to neutralize more than 1,646 t CO₂e due to more sustainable shipping.

We Protect our Planet

REDUCING OUR EMISSIONS



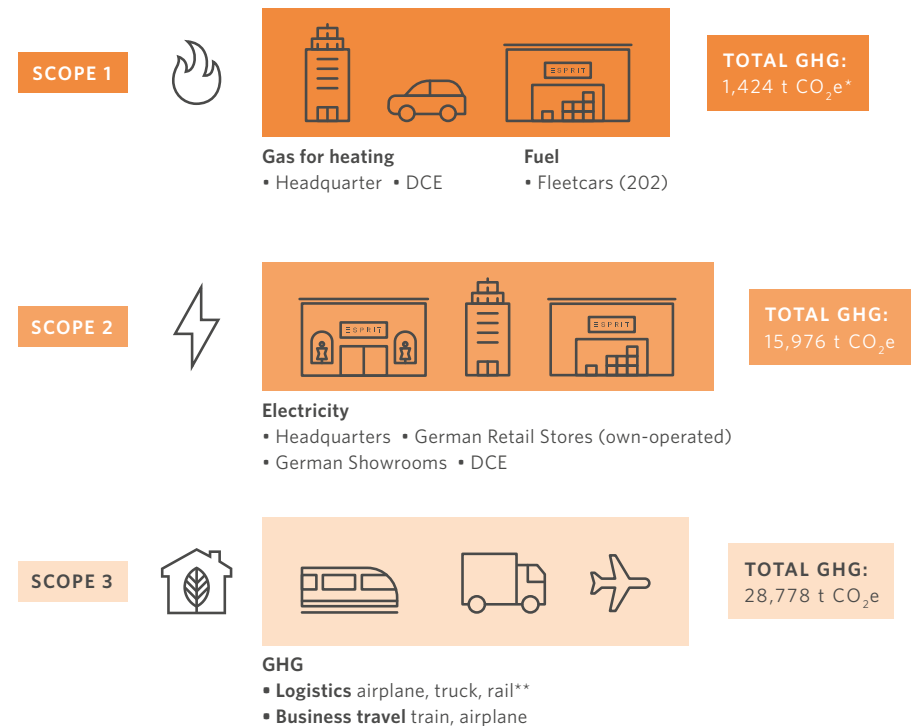
MONITORING OUR OWN OPERATIONS

With over 650 directly-managed retail stores and over 6,000 partner stores, there is great potential to work towards sustainability at the point of sale.

We follow a sustainable store concept that guides our store design and equipment choices. As part of this, we use renewable construction materials such as wood and we avoid artificial materials such as plastic wherever possible. We make sure, that our store equipment is purchased locally, to avoid longer transport ways and to keep the emissions as low as possible.

Another way we work to reduce emissions at our retail stores is by reducing our electricity use. Electricity consumption is monitored in our German retail stores, and this data is compared to previous years to understand the reasons behind any peaks in energy use with the aim of minimizing these in the future. We are also installing LED lighting in all our new stores.

OUR CARBON FOOTPRINT IN FY16/17



Scope 3 omission: For technical reasons we were unable to obtain data by vessel for our sea freight shipments for FY16/17. We are working with our transport companies to have this data going forward.

* Out of scope: 20 t CO₂e due to bio-fuel

** Esprit participants in the 'DB Umwelt Plus' program of Deutsche Bahn



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Our Partners

Our Partners 70

Partnerships and Programmes



06

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General standard disclosures

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Strategy and analysis			
G4-1	CEO statement	8	
Organizational profile			
G4-3	Name of organization	4	
G4-4	Primary brands, products, and services	12	
G4-5	Location of the organization's headquarters	76	
G4-6	Number of countries where the organization operates, and names of countries where the organization has significant operations	11, 28	
G4-7	Nature of ownership and legal form	76	
G4-8	Served markets	11	
G4-9	Scale of organization	37	
G4-10	General employee-related disclosures	39–41	
G4-11	Percentage of total employees covered by collective bargaining agreements	40	Esprit has no global collective bargaining agreements. Therefore this data cannot be provided.
G4-12	Organization's supply chain	27–28	
G4-13	Significant changes during the reporting period	—	No significant changes during reporting period.
G4-14	Precautionary approach	4 29–32 36–38, 60–63	Regular performance and career development review; Product and service information labeling; Reporting Period; Spill; Significant operational changes.
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	8–9, 13–14 25, 29–32 49, 51–56 59–64, 70	
G4-16	Memberships of associations and national or international advocacy organizations	—	Besides her position at Esprit, Dr. Marion Welp is also chairwomen in the German Federal Association of Company Lawyers and is representing Esprit next to other German corporations.

General standard disclosures

		Page	Notes and Omissions
Identified material aspects and boundaries			
G4-17	List of all entities	—	This report covers all organization's principal subsidiaries as the Annual Report.
G4-18	Process for defining the report content	15 – 17	
G4-19	Identified material aspects	17	
G4-20	Material aspects and aspect boundaries within the organization	15 – 17	
G4-21	Material aspects and aspect boundaries outside the organization	15 – 17	
G4-22	Effect of any restatements of information provided in previous reports	—	Not applicable
G4-23	Significant changes from reporting periods in the scope and aspect boundaries	—	Not applicable
Stakeholder engagement			
G4-24	List of stakeholder groups engaged by the organization	15 – 16	
G4-25	Basis for identification and selection of stakeholders	15 – 16	
G4-26	Organization's approach to stakeholder engagement	15 – 16	
G4-27	Key topics and concerns raised through stakeholder engagement	15 – 17	
Report profile			
G4-28	Reporting period	4	
G4-29	Date of most recent previous report	—	FY15/16 (financial year from July 01, 2015–June 30, 2016).
G4-30	Reporting cycle	4	
G4-31	Contact point for questions	4, 76	
G4-32	Chosen 'in accordance' option	4	
G4-33	External assurance	—	This report has not been externally assured.
G4-34	Governance structure	76	
Governance			
G4-56	Organization's values, principles, standards and norms of behavior	4, 36–38	

Specific standard disclosures

Material aspect	GRI G4 material aspect	DMA and indicators	Page	Notes and omissions
Business Performance	Economic performance	G4-EC1: Direct economic value generated and distributed	11	Please find the disclosure on p. 28–39 in our Annual Report FY16/17.
Compliance	Anti-corruption	G4-SO3: a. Global anti-corruption assessment	37	Reason for omission: Confidential information.
		G4-SO4: a. Anti-corruption policy and its communication within the organization	37	Reason for omission: Confidential information. Reason for omission: Numbers are not available because there are currently no data collection systems in place.
Sustainable Materials	Own aspect	Uptake of Better Cotton, organic cotton and recycled cotton	49	
	Own aspect	Commitment on Protecting Forests through Fabric choices	51	
Product Safety	Social	G4-PR3: Type of product and service information required by the organization's procedures for product and service information and labelling	54, 63	
	Social	G4-PR4: Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	—	The company has not identified any non-compliance with regulations and voluntary codes.
Animal Welfare	Own aspect	Implementation of the <u>Responsible Down Standard</u>	54	
	Own aspect	Implementation of the <u>Responsible Wool Standard</u>	55	
Relationship with our suppliers	Own aspect	Transparent supply chain and focus on relationships with our suppliers	26–27	
Responsible Sourcing	Social	G4-LA14: Percentage of new suppliers that were screened using labor practices criteria	25	
		G4-LA15: Significant actual and potential negative impacts for labor practices in the supply chain and actions taken (Social Compliance Assessment)	29–31	
		G4-HR1: Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	29–31	
		G4-HR9: Total number and percentage of Social Compliance Assessment audits, by country	25	
		G4-HR10: New suppliers that were screened using human rights criteria (Social Compliance Assessment)	29–31	
		G4-HR11: Significant actual and potential negative impacts for human rights impacts in the supply chain and actions taken (Social Compliance Assessment)	30–31	

Specific standard disclosures

Material aspect	GRI G4 material aspect	DMA and indicators	Page	Notes and omissions
Living Wage	Own aspect	Participation in Action, Collaboration, Transformation (ACT)	32	
Water & Chemical Management	Own aspect	Zero discharge of hazardous chemicals: own audit and training program for wet processes factories	61-62	
	Own aspect	Wastewater testing program	62	
	Own aspect	Measuring sustainability performance of factories	60	
Carbon Footprint	Environmental	G4-EN15: Direct greenhouse gas emissions (Scope 1): Headquarters, DCE, fleetcars	68	
		G4-EN16: Indirect greenhouse gas emissions (Scope 2): Headquarters, DCE, German retail stores, German showrooms	68	
		G4-EN17: Indirect greenhouse gas emissions (Scope 3): Logistics (vessel, airplane, truck, rail), business travel (train, airplane)	68	
		G4-EN30: Significant environmental impacts of transporting products	66	
Solid Waste	Own aspect	Savings of plastic bags due to exchange to recycled paper bags	59	
	Own aspect	Save of cartons due to usage of reusable boxes in logistics	59, 67	
Gender Equality	Own aspect	Implementation of Esprit's Code of Conduct	37, 41	
Diversity & Equality	Own aspect	Implementation of Esprit's Code of Conduct	37, 41	
Employee Development	Own aspect	Implementation of E-Learning platform	39	
Community & employee engagement	Own aspect	Implementation and projects of the Esprit Cares group	42	
Responsible Marketing	Own aspect	Implementation of Responsible Marketing Guideline	38	
Customer Satisfaction	Own aspect	Customer loyalty program and customer service	—	Our <u>Esprit Friends</u> program offers our customers to collect e-points for every purchase and receive a bonus. The program provides exclusive advantages, such as exclusive offers, invitations to events and birthday surprises. Additionally Esprit offers a <u>customer service</u> in different languages via email, chat or telephone.

Corporate Information

Chairman

- Raymond OR Ching Fai
Independent Non-executive Director

Deputy Chairman

- Paul CHENG Ming Fun
Independent Non-executive Director

Executive Directors

- Jose Manuel MARTINEZ GUTIERREZ
Group CEO
- Thomas TANG Wing Yung
Group CFO

Non-executive Director

- Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors

- José María CASTELLANO RIOS
- Alexander Reid HAMILTON
- Carmelo LEE Ka Sze
- Norbert Adolf PLATT

Company Secretary

- Florence NG Wai Yin

Principal bankers

- The Hongkong and Shanghai Banking Corporation Limited
- Deutsche Bank AG
- BNP Paribas
- China Construction Bank
- Bank of Tokyo – Mitsubishi UFJ, Ltd.

Share listing

Esprit's shares are listed on The Stock Exchange of Hong Kong Limited (SEHK). The Company has a Level 1 sponsored American Depositary Receipt (ADR) program.

Stock code

- SEHK: 00330
- ADR: ESPGY

Principal share registrar

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong branch share registrar

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Registered office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong headquarters

45/F Enterprise Square Three
39 Wang Chiu Road
Kowloon Bay
Kowloon, Hong Kong
t. +852 2765 4321
f. +852 2362 5576

Global business headquarters

Esprit-Allee
40882 Ratingen
Germany
t. +49 2102 123-0
f. +49 2102 12315-100

For enquiries related to sustainability, please contact:

Global Social & Environmental Sustainability department

Esprit-Allee
40882 Ratingen
Germany
t. +49 2102 123-0
f. +49 2102 12315-100
e. sustainability@esprit.com