

STOCK CODE 00330

SUSTAINABILITY REPORT

ESPRIT HOLDINGS LIMITED
YEAR ENDED 30 JUNE 2016

ESPRIT

SUSTAINABILITY REPORT FY15/16
ESPRIT HOLDINGS LIMITED

ESPRIT

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 Maria 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
- The Bank of East Asia, Limited
- BNP Paribas
- Hang Seng Bank Limited
- Industrial and Commercial Bank of China
- ANZ Bank
- China Merchants Bank

Auditor

- PricewaterhouseCoopers
Certified Public Accountants

Principal legal advisor

- Baker & McKenzie
- Freshfields Bruckhaus Deringer

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
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Pembroke HM08
Bermuda

Hong Kong branch share registrar

Tricor Secretaries Limited
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183 Queen's Road East
Hong Kong

Registered office

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2 Church Street
Hamilton HM 11
Bermuda

Hong Kong headquarters

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Kowloon, Hong Kong
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Global Social & Environmental Sustainability department

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e sustainability@esprit.com

Corporate profile

Founded in 1968, Esprit is an international fashion brand that pays homage to its roots and expresses a relaxed, sunny Californian attitude towards life. Esprit creates inspiring collections for women, men and kids made from high-quality materials paying great attention to detail. All of Esprit's products demonstrate the Group's commitment to make consumers "feel good to look good". The Company's "esprit de corps" reflects a positive and caring attitude towards life that embraces community, family and friends – in that casual, laid-back California style. The Esprit style.

The Group distributes its products directly to end-consumers through directly-managed retail stores ("Retail (excl. e-shop)") and online ("e-shop"), and also distributes through third parties, both offline and online ("Wholesale"). The Group markets its products under two brands, namely the Esprit brand and the edc brand. Listed on The Hong Kong Stock Exchange since 1993, Esprit has headquarters in Germany and Hong Kong.

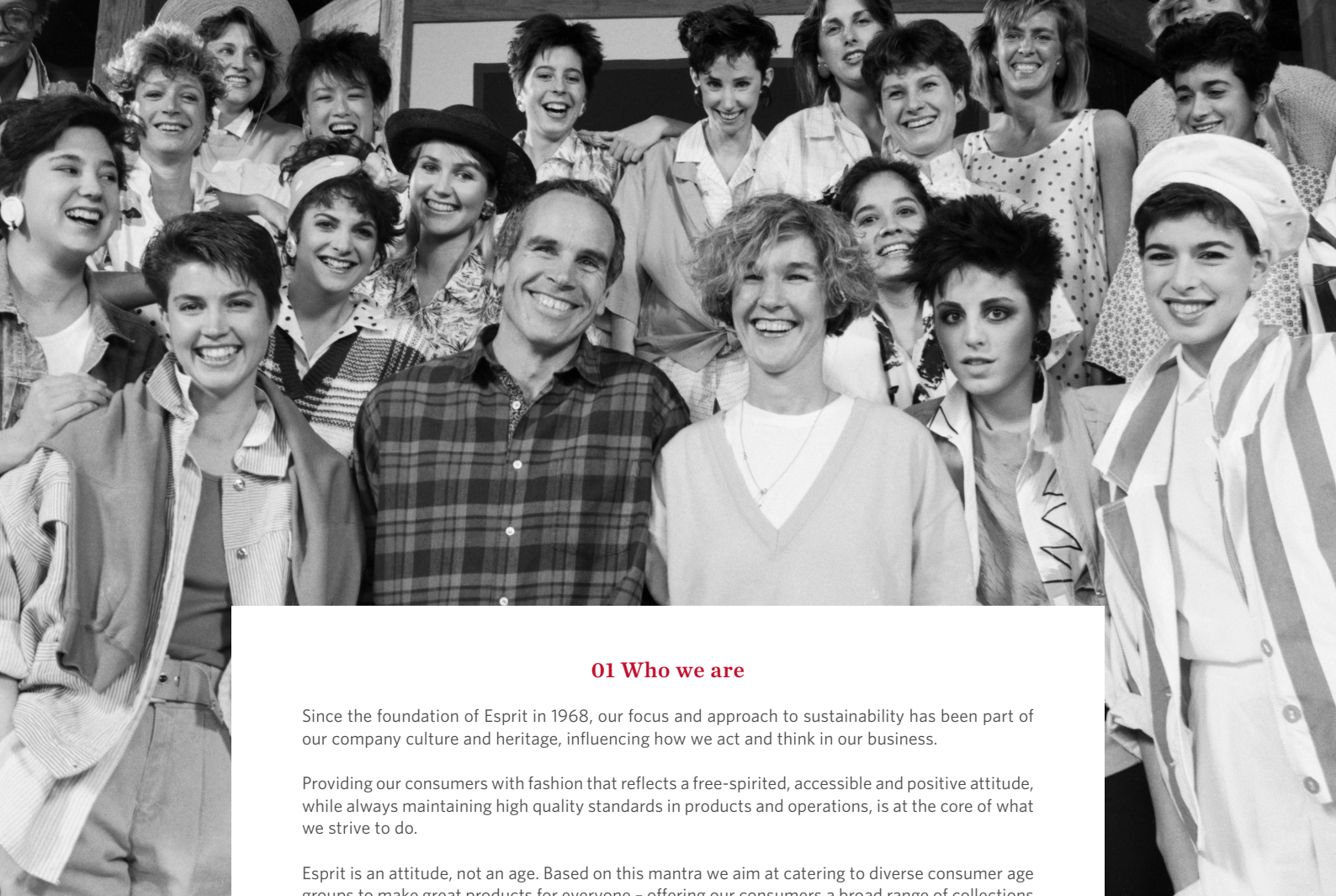


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01
WHO WE ARE



01 Who we are

Since the foundation of Esprit in 1968, our focus and approach to sustainability has been part of our company culture and heritage, influencing how we act and think in our business.

Providing our consumers with fashion that reflects a free-spirited, accessible and positive attitude, while always maintaining high quality standards in products and operations, is at the core of what we strive to do.

Esprit is an attitude, not an age. Based on this mantra we aim at catering to diverse consumer age groups to make great products for everyone – offering our consumers a broad range of collections to suit the variety of occasions that they might face in their everyday lives.

Operating on a global market and with a global supply chain, we see it as our duty to act responsibly. Building strong and long lasting relationships with our suppliers and partners is a first step towards this goal. Moreover, an honest and authentic dialogue with our consumers is indispensable to being a responsible organization and partner to our stakeholders.



Did you know that Esprit was first founded in San Francisco in the late sixties by the entrepreneurs Susie Buell and Doug Tompkins? Susie and Doug believed in providing affordable fashion, while focusing on providing good working conditions for employees, caring for the environment and considering social issues in society. Almost 50 years after the first Esprit collection was launched, we are still all about style suitable for real life, relevant issues and authentic people.

01.1 About this report

This is Esprit Holdings Limited's (called Esprit in this report) second 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 FY15/16, ended 30 June 2016.

We welcome readers' feedback. Please send your thoughts to sustainability@esprit.com.



01.2 Group-CEO-letter

Dear Readers,

With its foundation in 1968, Esprit established sustainability as a core part of its corporate culture. In times of increasing pollution, climate change and social injustice, we see it as our responsibility to act towards greater sustainability and transparency in everything we do.

In the past financial year FY15/16, we have continued to strengthen our sustainability strategy and structured the different sustainability programs to ensure a more systematic approach to the sustainability issues that we have identified as most material for our business. In this respect, the sustainability strategy at Esprit has three focus areas: **Social Sustainability**, **Sustainable Materials**, and **Environmental Sustainability**. This is, furthermore, supported by a social compliance strategy, aiming at ensuring that we always operate in compliance with international and local social standards and labor rights to maintain a responsible business across our supply chain.

To achieve a systematic change in the industry and to increase the impact of our projects, we see the importance of partnering up with our industry peers and joining multi-stakeholder and industry initiatives. As such, collaboration is a key tool and element in our sustainability strategy – only through collaboration across the textile industry, can we seek to ensure that our vision and future goals for sustainability are met.

Besides our participation in different industry initiatives, our own Social & Environmental Sustainability department manages risks related to social responsibility and sustainability in our business operations on a day-to-day basis. To ensure that we are efficient in this effort, in FY 15/16, the Social & Environmental Sustainability team, partnered up with our Risk Management, Fabric Management and Quality Assurance teams to establish the Esprit Minimum Requirements Steering Committee (EMRSC). The EMRSC works to implement national and international requirements, such as the standards of the International Labour Organization (ILO), the REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) standards, environmental standards and policies related to animal welfare, in all our operations, as well as to define and coordinate the different projects in our sustainability strategy. With the EMRSC, we want to gather the knowledge of various departments across the company to holistically and most effectively deal with the challenges and risks in the fields of social compliance, sustainability, and product safety.

Social Sustainability

With regards to ensuring our social sustainability, we keep track of our operations with an internally established compliance monitoring and reporting system, as well as through active collaborations with the Business Social Compliance Initiative (BSCI), Better Work, and the Bangladesh Accord on Fire and Building Safety. Furthermore, we joined the Action Transformation Collaboration (ACT) program in September 2015, which entails that Esprit, together with other ACT member brands, will address and work towards a fair living wage in the textile industry – a topic that we identified to be critical to ensure social compliance and sustainability in our supply chain in the long-term.

Sustainable Materials

After narrowing down our Tier 1 supplier base in FY14/15, through an effort to build stronger partnerships with our core suppliers, our focus in FY 15/16 has moved to our Tier 2 suppliers and cotton farms.

Therefore, we have become a Learning Member of the Better Cotton Initiative (BCI) in February 2016. For Esprit, the BCI is a valuable partner to enable us, to implement more sustainable cotton into our products in the coming years. We support the long-term strategy of the BCI by sharing knowledge with cotton farmers, urging them to use less pesticides and water during cotton growth, and communicating the long-term economic benefits to be gained for the cotton farmers.

Although cotton is the most used fiber in Esprit products, cellulose fibers, especially viscose, made from wood pulp, also accounts for a significant share of our textiles. To ensure that no trees from endangered forests have been cut to produce the cellulose fibers that we use, in January 2016 we signed a commitment with Canopy, a non-profit organization working to ensure sustainable foresting of fibers used in the fashion industry. The goal is, by latest 2017, to form supply chain, where no wood is used from endangered forests.

Securing animal welfare is another topic that we, as well as our consumers and wholesale partners, are passionate about. For all our products that contain down we have therefore implemented the Responsible Down Standard (RDS), an internationally recognized certification, ensuring that all down used come from animals that have been treated well. By June 2016, all down used in Esprit products meets the RDS standard, eliminating the use of down originated from live-plucking

Environmental Sustainability

In December 2012, Esprit published an agreement for a Detox solution with the non-profit organization Greenpeace. Since then, we have partnered up with the Zero Discharge of Hazardous Chemicals Group (ZDHC), to achieve the overall goal of eliminating eleven identified groups of hazardous chemicals by 2020. Especially for this target, the supply chain mapping exercise, identifying our Tier 2 suppliers, has been indispensable. We finished the mapping of our Tier 2 suppliers by the end of FY 15/16 and hereafter we have developed a supplier audit protocol based on the Manufactured Restricted Substances List by the ZDHC. In the coming year, we will start the audit program and improve the environmental performance of our Tier 2 suppliers in order to stay on track with the criterias in the Detox solution agreement with Greenpeace.

Besides the initiatives mentioned above, in FY15/16 we have also focused on providing sustainability trainings to all employees. With the support of the HIGG Index, developed by the Sustainable Apparel Coalition (SAC), we have had the chance to share with our colleagues what Esprit has already achieved in our sustainability efforts, but also what the areas are, where we still need to improve.

Given our legacy as a highly responsible company, we are eager to continue to better our operations through the engagement in issues related to social responsibility and sustainability - hereby, we seek to do our part in enabling a more sustainable future in our industry.

We hope that you enjoy reading our Sustainability Report.

Jose Manuel MARTINEZ GUTIERREZ
Executive Director and Group CEO

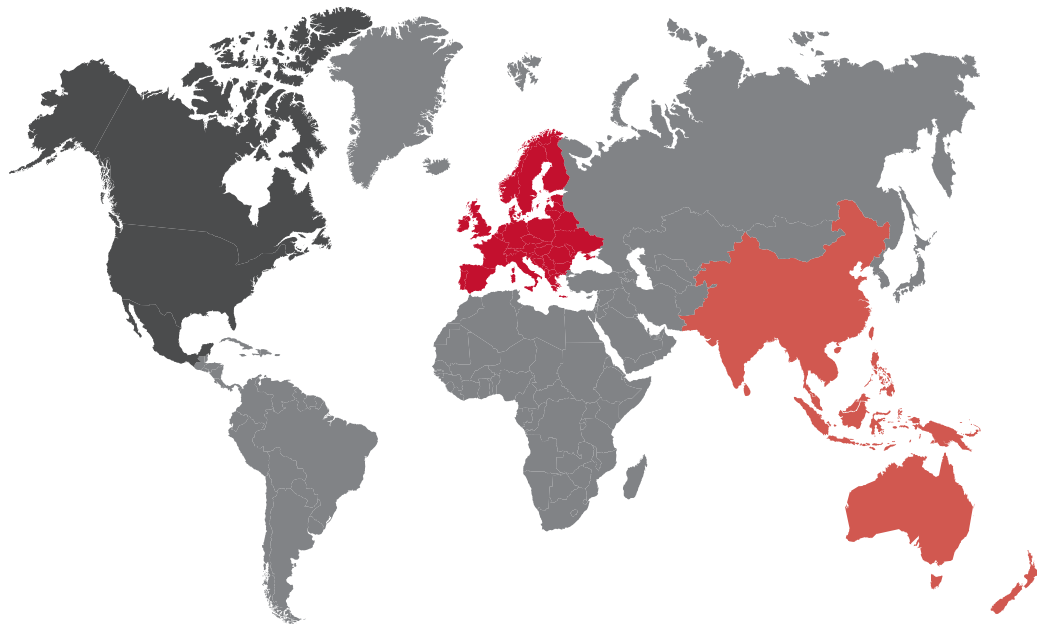
01.3 Sustainable business

Since 1993 Esprit has been publicly listed on the Stock Exchange of Hong Kong Limited. As a result, we have, besides our global headquarters located in Ratingen in Germany, also a headquarters located in Hong Kong. Our Group CEO, design and product development teams as well as corporate functions are based in the German headquarters; while a large part of our finance functions are housed in Hong Kong. Worldwide, Esprit has 761 own operated stores including standalone stores, concession counters and outlets with a focus on the European and Asian markets. Additionally, Esprit operates 20 e-shops and has in total 6,332 controlled space wholesale POS (point of sale). Our controlled space wholesale POS include franchise stores, shop-

in-shops and identity corners. An additional business model for Esprit is licensing. As such, the Omnichannel model ensures that all our distribution channels work closely together, which is further explained on p. 47. In the retail business (excluding e-shops), which generated 44.0% of Esprit's revenue in FY15/16, we saw 56 store openings globally versus 185 closures. Wholesale generated 31.8%, the e-shop 23.3% and licensing and others 0.9% of our total revenue. In FY15/16, Esprit Holdings Limited, including all associated entities, achieved a revenue of HK\$17,788 million. Complete financial data are reported in our Annual Report for FY15/16.

Our international distribution network

To date, Esprit's collections are distributed via an international network covering around 40 countries worldwide through our directly managed retail stores, own e-shops and wholesale points of sales.



40 countries
20 e-shops
761 retail stores
6,332 wholesale POS

Our business across four major product divisions

Esprit markets its products under two brands, namely the Esprit brand and edc brand, which offer apparel and lifestyle products for women, men as well as kids. The products are categorized into four major groups: Esprit Women, Esprit Men, Lifestyle, and edc.

HK\$ million // % to Group revenue // % local currency growth

edc

edc women
3,059 // 17.2% // -1.5%
edc men
815 // 4.6% // 0.1%

ESPRIT WOMEN

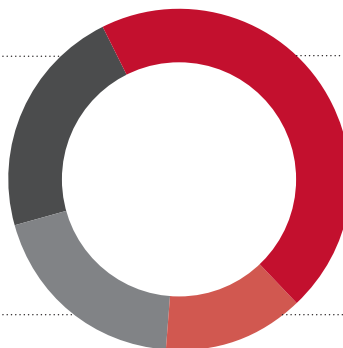
women casual
5,462 // 30.7% // 2.6%
women collection
2,184 // 12.3% // -1.5%
trend#
437 // 2.4% // -6.9%

LIFESTYLE AND OTHERS

bodywear^
921 // 5.2% // 8.0%
accessories^
888 // 5.0% // -4.7%
shoes^
704 // 3.9% // 1.8%
kids
465 // 2.6% // -18.0%
others*
479 // 2.7% // -3.8%

ESPRIT MEN

men casual
1,932 // 10.9% // -6.7%
men collection
442 // 2.5% // -11.3%



The Trend Division was set up as a laboratory to test our fast-to-market product development processes. The lessons we have learned have been applied to other product divisions under the Women segment, hence it is more meaningful to interpret the combined performance of these product divisions

^ Bodywear, accessories and shoes under edc brand are grouped together with those under Esprit brand in FY15/16 while they were grouped under edc others in FY14/15. Comparative figures of bodywear, accessories and shoes are restated accordingly

* Others include mainly licensing income & licensed products like timewear, eyewear, jewelry, bed & bath, houseware, etc.

Our business through four sales channels

We distribute our products primarily through directly managed retail stores, as well as points of sales managed by third parties. Directly managed retail stores include standalone stores, concession counters in department stores, the online shop ("e-shop") and outlets, which together are reported under the retail channel. Points of sales managed by third parties include franchise stores, shop-in-stores and identity corners in multi-labels, which together are reported under the wholesale channel.

HK\$ million // % to Group revenue // % local currency growth

WHOLESALE

5,658 // 31.8% // -10.0%

RETAIL (EXCL. E-SHOP)

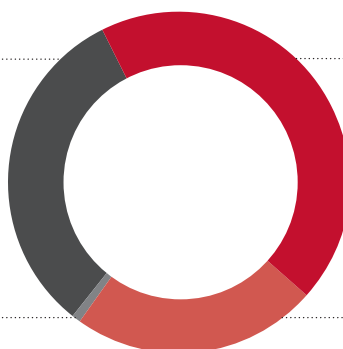
7,825 // 44.0% // -1.3%

LICENSING & OTHERS

152 // 0.9% // 2.1%

E-SHOP

4,153 // 23.3% // 15.3%



Our product range

Three product lines for women and men

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



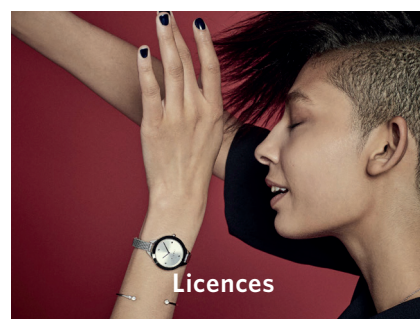
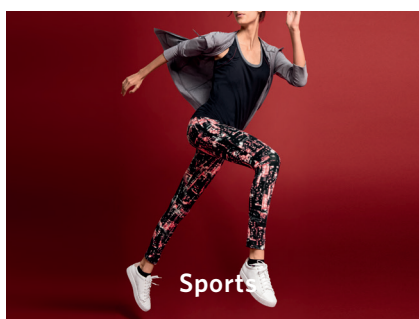
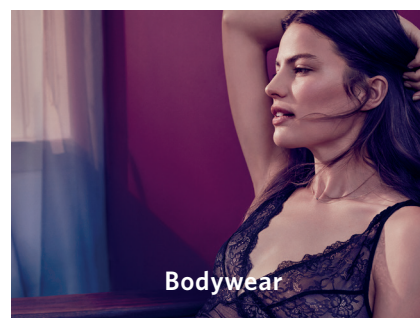
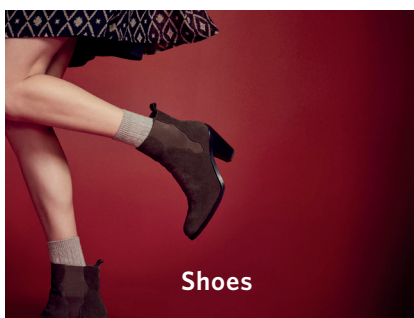
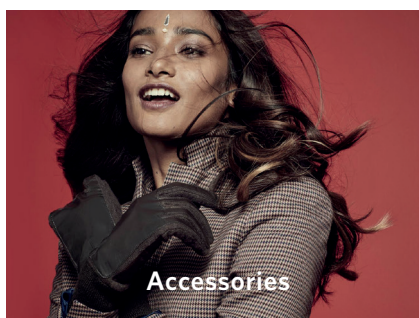
edc

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



Our lifestyle world

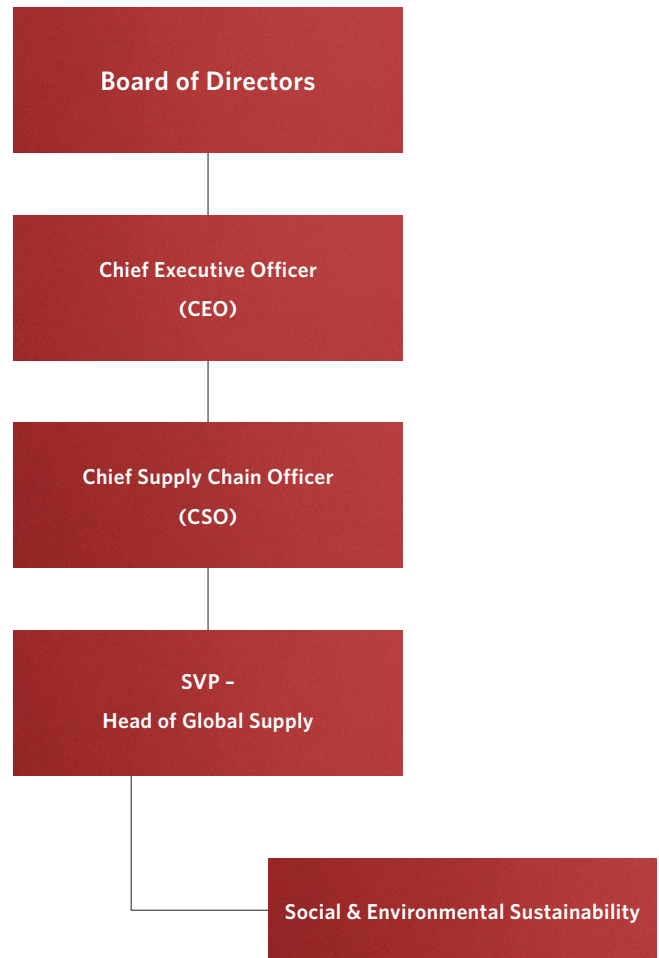
To ensure that nothing is missing from our Friends' wardrobes:



Our governance

The majority of the Board of Directors¹ at Esprit are independent non-executive directors with not more than one-third of its Board members being executive directors².

To uphold our focus on sustainability in our business operations, Esprit has a Social & Environmental Sustainability Department incorporated under the Supply Chain Management. The sustainability reporting line goes through the Senior Vice President - Head of Global Supply and the Chief Supply Chain Officer to our CEO and Board of Directors.



¹ Please find all members of the Board of Directors here: http://www.esprit.com/investor_relations/corporate_governance/board_of_directors

² Jose Manuel Martinez Gutierrez - Chief Executive Officer, Thomas Tang Wing Yung - Chief Financial Officer

01.4 Our work on anti-corruption

Free and fair competition forms the basis of all our commercial activities and therefore we have established a global Anti-Corruption Program guided by our Code of Conduct and Anti-Corruption Policy. We expect all our employees and all business partners to act according to our ethics principles outlined in the Esprit Code of Conduct. Thereby, we seek to limit the risk of corruption and unfair business practices in our business operations. With our Anti-Corruption Policy³, which was launched in 2013, we clearly commit that Esprit neither offers nor accepts any form of bribes and is against any form of facilitation payments. When third parties, including wholesale and franchise partners as well as suppliers, enter into a partnership with Esprit, they must agree to comply with Esprit's Code of Conduct and our Anti-Corruption Policy as well as any applicable anti-corruption laws.

To support our various partners as well as our employees in acting in compliance with our vision for ethical and responsible business operations, we have an internal team of compliance professionals in place. Our Compliance team works to ensure adherence to our Code of Conduct, policies, regulations and our vision for ethical business practices, based on three pillars: Prevent, Detect, and Respond. Each pillar entails a set of activities, intended to ensure that Esprit, at all times, is compliant with applicable laws, regulations as well as our own policies. Our efforts are additionally supported by extensive compliance communication tools, such as guidance documents, FAQs and aids for interpretation of policies.

The compliance team is tasked with assessing the risks that Esprit face in its daily operations and developing the required mitigation and monitoring activities to prevent potential risks from occurring. In terms of anti-corruption issues, the risk assessment has been implemented as a permanent and ongoing program with different

activities throughout the year. This has entailed that we in 2015, started to conduct a focused global anti-corruption risk assessment, covering all business units and legal entities of Esprit in order to identify business areas and employees most exposed to corruption risks. The findings from the risk assessment have resulted in the decision to take further actions, such as implementing regular anti-corruption trainings for risk-exposed employees, making policy- and process adaptations and setting up neutral control measures in high risk areas. Moreover, to raise employees' awareness, an Anti-Corruption training program has been established and Esprit has committed relevant employees be provided with regular face-to-face training. By the end of FY15/16, over 1.400 employees have participated in the training, and it is our aim to facilitate more training sessions in the coming year to ensure that we comply with our standards for anti-corruption and maintain a responsible business operation.

In order to uncover potential compliance violations, our Whistle-blower Hotline was established in 2014. The Whistle-blower Hotline is open to all Esprit employees worldwide as well as to our business partners. We provide detailed instructions for using it on our intranet for internal use and the Compliance team can be contacted either directly or through the Hotline at any time to provide guidance in sensitive situations or to pursue and investigate possible violations.

If severe compliance violations occur, Esprit follows a zero tolerance strategy. Following this principle, when violations of our Code of Conduct and our policies are identified, investigated and confirmed, the Compliance team initiates a set of appropriate sanctions. In the event that systematic deficiencies or structural failures are revealed, the compliance team seeks to support the entity to improve its processes – only as a last resort, when there is no remedy for the serious offence, do we stop the collaboration. In FY15/16, no allegations of corruption were made against Esprit.



³ The Anti-Corruption Policy is available in seven languages, and can easily be downloaded from our Intranet to ensure that all Esprit employees have access to it.

01.5 Our focus

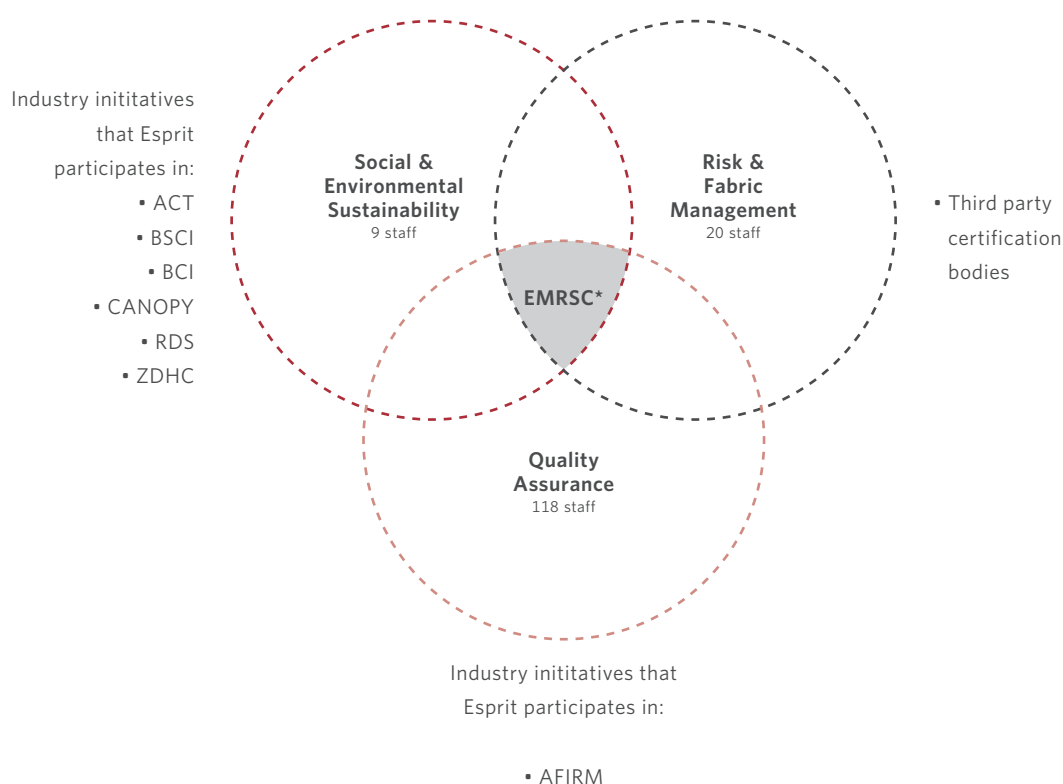
Sustainability is an integral part of Esprit's company strategy to fulfil our vision of being a sustainable business as well as meeting our stakeholders' expectations on how we operate. In general, we notice that these expectations, no matter if they come from society or consumers, have risen in recent years. With a clear strategy aimed at ensuring sustainability in our business, we strive to meet and exceed these expectations. By developing a sustainability strategy, based on three key pillars: **Sustainable materials**, **Social sustainability** and **Environmental sustainability**, we started a long-term journey to become a more sustainable organization.

In addition to this strategy, we have certain regulations in place to meet the expectations of our employees as well as our business partners. Transparency and regulations aimed at ensuring equality play a major role in maintaining a sustainable organization. Therefore, our business partners as well as our employees are committed to the Esprit Code of Conduct. Additionally, to fulfill uniform qualitative and quantitative criteria for our partner stores, we have the Selective Distribution System in place, to improve the quality standard of distribution channels and guarantee high brand value. This means that all partners must fulfill the same standards and criteria in order to be accepted into this system. The Esprit Supplier Code of Conduct

(see page 29) is a further standard requirement incorporated into our supplier agreements, to be signed by all our direct supply chain business partners when our collaboration starts.

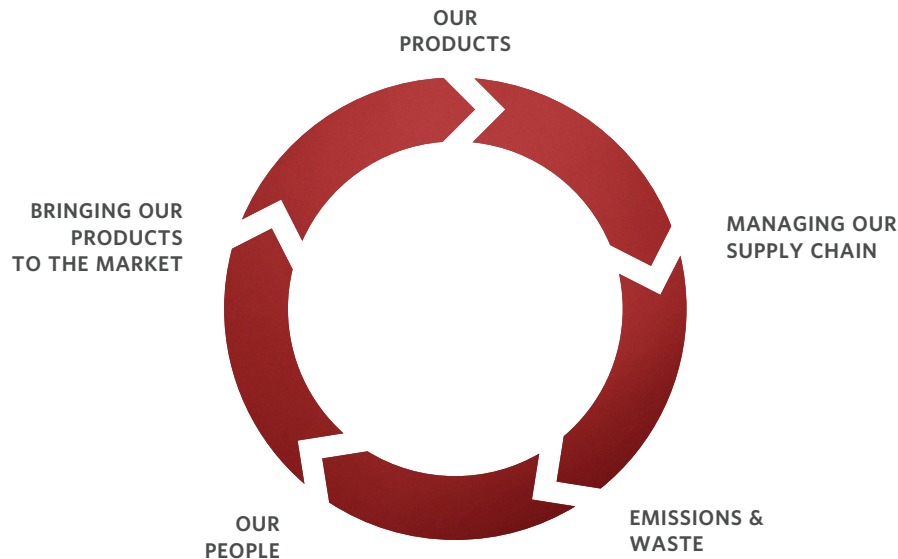
Our reporting on sustainability is a key tool to further strengthen our sustainability work, ensuring that our efforts are as traceable, measurable and transparently communicated as possible. With this goal in mind, we, in FY15/16, started to implement an extensive system for data collection and management to ensure that our sustainability reporting and commitment to the GRI G4 reporting standard will advance in the coming years.

In FY15/16, we have started the Esprit Minimum Requirements Steering Committee (EMRSC). This group is formed by employees from the Quality Assurance, Risk and Fabric Management and Social & Environmental Sustainability departments. The EMRSC's target is to manage overlapping responsibilities and risks, for example related to legal requirements or consumer and societal expectations. With an ongoing, regular exchange of information, we want to ensure that all relevant employees are up-to-date with our activities and work together towards greater sustainability in the Esprit supply chain.



* Esprit Minimum Requirements Steering Committee

In order to understand the sustainability issues that we face across our value chain, this report has been structured according to the central elements in our value chain. As such, the report contains five main sections:



Materiality assessment and stakeholder dialogue

In FY14/15, we released our first Sustainability Report according to the GRI G4 'Core' level. As part of this reporting process, we conducted an internal Materiality Assessment with 20 employees from various parts of the company, including the Product Divisions, Corporate Strategy, Finance, Human Resources Management, Legal and Compliance, Marketing, Corporate Communications and Supply Chain, to ensure that we gained input from the entire organization in identifying sustainability focus areas, risks and material issues. The identified issues have hereafter enabled us to define our opportunities and challenges related to sustainability. These challenges and opportunities included a consideration of the economic, environmental and social impacts of Esprit, as well as how these impacts influence our stakeholders on a local and global scale. Once the material issues were identified, this laid the foundation for our development and implementation of a company-wide sustainability strategy.

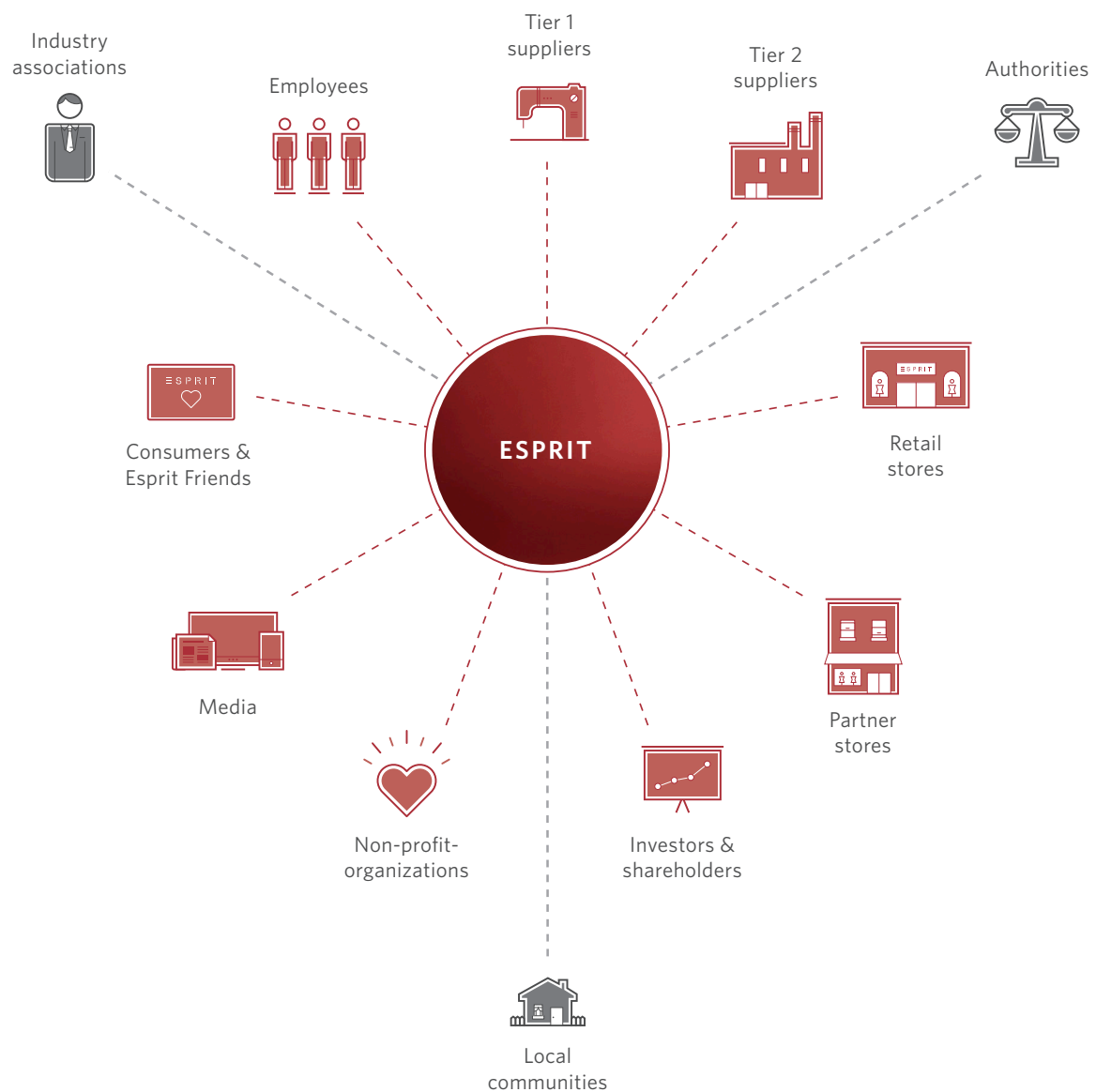
To conduct the Materiality Assessment, it is important to identify and hereafter consider Esprit's different stakeholders. For FY15/16, we could only detect one change in our stakeholder analysis. We identified our Tier 2 suppliers as equally important as our Tier 1 suppliers, especially for our environmental program:

Main stakeholders

1. Consumers and Esprit Friends⁴
2. Retail stores
3. Partner stores
4. Investors and shareholders
5. Tier 1 suppliers
6. Tier 2 suppliers
7. Employees
8. Non-profit-organizations
9. Media

Secondary stakeholders

1. Local communities around Esprit offices and in suppliers' countries
2. Industry associations
3. Authorities



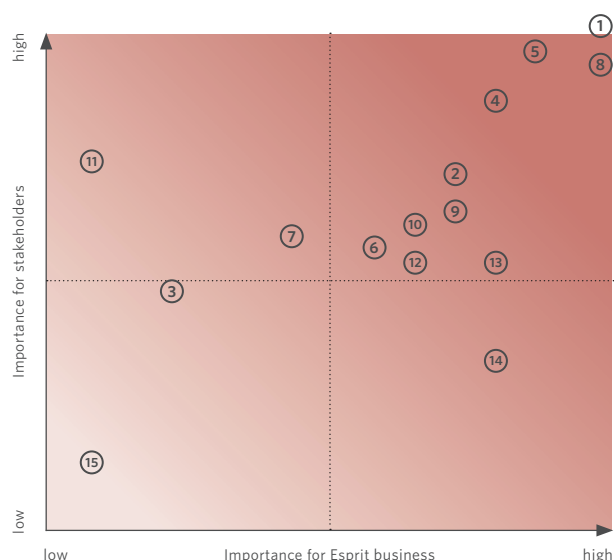
⁴ Please find further information regarding our Esprit Friends program on p. 47.

A regular and ongoing dialogue with our stakeholders is indispensable and a major priority to obtain a sustainable business. Understanding expectations, different perspectives, motivations and needs is key to build a long-term relationship with our employees, business partners, consumers and other stakeholders.

In our Materiality Assessment for FY14/15 we defined the most relevant aspects related to the economic, environmental and social impact on the business. Below, you can find the Materiality Matrix with the 15 most material aspects for the Esprit business in FY14/15. The aspects which have been identified as the top priorities for Esprit as well as for our stakeholders, can be found in the top right corner of the matrix. In FY15/16 we conducted a new Materiality Assessment in consideration of our defined sustainability strategy. After our

comprehensive materiality assessment in FY14/15, the Social & Environmental Sustainability team developed a new matrix in FY15/16 in close consultation with the different departments and the EMRSC. The content of this report reflects the result of the latest Materiality Assessment and stakeholder dialogue. Some aspects identified in FY14/15 changed, such as Chemical Management and Water Quality and Efficiency, which have been merged together because the different projects in place under these two aspects complement each other. Additionally we added the aspect Responsible Marketing, as we see this topic becoming more important for our consumers and society. In total we identified 16 materiality aspects as most relevant to ensure that we succeed in our sustainability effort in FY15/16. Please find below both assessments:

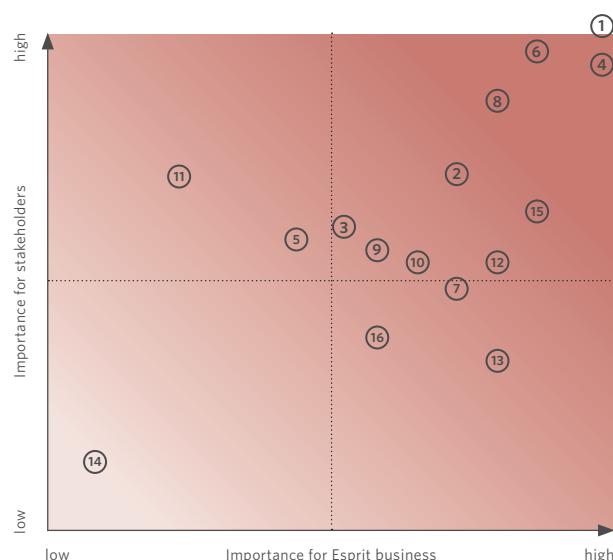
Materiality Matrix FY14/15



Material aspect

- | | |
|------------------------------------|-----------------------------|
| 1) Sustainable business | 9) Customer loyalty program |
| 2) Anti-corruption | 10) Customer service |
| 3) Sustainable materials | 11) Packaging |
| 4) Supply chain management | 12) Carbon footprint |
| 5) Supply chain working conditions | 13) Diversity & equality |
| 6) Environmental management | 14) Personal development |
| 7) Animal welfare | 15) Volunteer engagement |
| 8) Product confidence | |

Materiality Matrix FY15/16



Material aspect

- | | |
|-----------------------------|---------------------------------------|
| 1) Sustainable business | 9) Chemical management |
| 2) Anti-corruption | 10) Carbon footprint |
| 3) Sustainable materials | 11) Waste |
| 4) Product confidence | 12) Diversity & equality |
| 5) Animal welfare | 13) Talents |
| 6) Supplier relationship | 14) Community & employee engagement |
| 7) Measuring sustainability | 15) Esprit Friends & consumer service |
| 8) Responsible sourcing | 16) Responsible marketing |

Our targets for sustainability

FY14/15 marked the first time we reported on sustainability according to GRI G4 "Core" level. This entailed that we, among other initiatives, formulated a set of clear and measurable targets for our sustainability performance. As a company that operates in over 40 countries worldwide, we have to meet a wide variety of international laws as well as country- and industry-specific regulations. Esprit endorses lawful and ethical business practices and has zero tolerance for unethical or illegal conduct. Esprit has not signed the United Nations Global Compact⁵, but in our business practices we incorporate and seek to operate according to the Global Compact Principles, which comprise ten principles related to Human Rights, Labor, Environment and Anti-Corruption. One of the ways, Esprit

incorporates these principles is through the participation in the Business Social Compliance Initiative (BSCI)⁶ and a number of other initiatives aimed specifically at the textile industry, which draw their standards from the same International Labour Organization (ILO)⁷ and United Nations sources as the Global Compact.

As FY14/15 was our first year working systematically with sustainability reporting, we chose to focus on creating short-term goals in order to set a baseline for the future sustainability initiatives at Esprit. For FY15/16, we have updated the target overview below to show our progress and to set new targets for our future sustainability effort.

✓ achieved ⌚ in progress

Material aspect	Target	Timeline	Status	Stakeholder Impact
Sustainable materials	'Esprit Decision Tree': Evaluate its use and develop quantitative goals for the use of more sustainable materials	By June 2016	✓	Consumers, suppliers, own business
	Set target for Better Cotton Initiative program and start as a Standard Member	By February 2017	⌚	Consumers, industry associations, non-governmental organizations, suppliers, own business
	Communicate Canopy program throughout the supply chain and support implementation	By December 2017	⌚	
Measuring sustainability	Support our key suppliers in their environmental self-assessment in HIGG ⁸ and share results to identify improvement	By June 2017	⌚	Suppliers, industry associations, own business
	Onboard all new Tier 1-suppliers into the HIGG Index	Ongoing	⌚	
Supply chain working conditions	Maintain assessment of working conditions for 100% of our Tier 1 suppliers before order placement	Ongoing	⌚	Suppliers, local communities surrounding supplier facilities, own business
	Improve audit quality by designating BSCI auditors	By December 2016	✓	Suppliers, industry associations, own business
	Visit and audit each factory at least once a year	Ongoing	✓	
	Start the Action, Collaboration, Transformation (ACT) ⁹ program with IndustriALL and develop targets	By June 2017	⌚	Suppliers, Industry Associations, Non-Governmental Organizations, own business
Chemical management	Work with ZDHC Group ¹⁰ - Roadmap to Zero: Elimination of all hazardous chemicals in our supply chain	By January 2020	⌚	Suppliers, Industry Associations, Non-Governmental Organizations, own business
	Technical audit program for PFCs	Ongoing	⌚	
	Implementation of Manufacturing Restricted Substances List and technical audit program in 40% of our Bangladesh wet processes Tier 2 suppliers, 60% in China and 40% in India	June 2017	⌚	
Animal Welfare	Implement Responsible Down Standard (RDS): All down styles for Autumn/Winter 2016 shall be certified with the RDS	June 2016	✓	Consumers, suppliers, media, non-governmental organizations, own business
	Maintain RDS certification through maintaining certification status of certified suppliers and ourselves and ongoing training for Buying department	Ongoing	⌚	
Packaging	Switch all Asia Pacific retail stores from using plastic shopping bags to recycled paper.	By December 2015	✓ by August 2016*	Consumers, own business
	Reduce usage of 220,000 cardboard boxes as a result of roll out of reusable shipping boxes to additional European countries	By June 2016	✓	Consumers, franchise and wholesale partners, own business
Carbon footprint	Implement LED lightning in 50 stores globally	End of 2016	⌚	Consumers, own business
	Expand the new sustainable Lighthouse Store Concept ¹¹ from 47% to 59% of all own operated and partner stores globally	End of 2016	⌚	

* Caused by delayed process of finding the right suppliers in the Asia Pacific markets.

⁵ For further information please visit: <https://www.unglobalcompact.org>

⁶ Please find further information about the Business Social Compliance Initiative (BSCI) on p. 30 and at: <http://www.bsci-intl.org>

⁷ For further information please visit <http://www.ilo.org>

⁸ The HIGG Index is a tool that measures the environmental and social performance of an organization.

Please find further information on p. 27 and at <http://www.apparelcoalition.org/higgindex>

⁹ For further information please visit <http://www.hiil.org/project/act-towards-living-wages-in-global-supply-chains>

¹⁰ Please find more information about the ZDHC Group on p. 34 and at: <http://www.roadmaptozero.com>

¹¹ Please find further information about the Esprit store concept on page 38.



02

OUR PRODUCTS



In the design and product development phases sustainability involves a focus on promoting materials that in their origin, usage and disposal, have the lowest possible impact on the environment. Therefore, sustainable design at Esprit begins with choosing sustainable fabrics and materials. With the "Sustainable Fabrics - Esprit Decision Tree" a tool was developed to actively encourage our design teams and our suppliers to use more sustainable materials. Thereby, the tool should help our product teams to identify whether the considered fabrics for new collections has the right composition to be as sustainable as possible. The Sustainable Fabrics - Esprit Decision Tree was a first step to raise more awareness of sustainable fibers in our design and product teams. However, we have experienced that a significant change by using the tool could not be proven. Therefore, we instead decided to focus on cotton and viscose, the main materials used for Esprit garments, to start long-term programs for significant change within these specific fiber areas.

02.1. Sustainable materials

The cotton fiber is one of the most commonly used textile fibers in the world. Worldwide, more than 21 billion kilograms of cotton were produced in 2015¹². At the same time, cotton is one of the most water-intensive crops to grow. As water is increasingly becoming a scarce natural resource, we need to consider our consumption in order to ensure a more sustainable fashion future. Additionally, conventional cotton production often requires a large volume of pesticides, which has a significant impact on the environment. In FY15/16 around 40% of Esprit products contained more than 90% cotton. Thereby, using more sustainable cotton is an issue high on our sustainability agenda. As a result of this, we became a Learning Member of the Better Cotton Initiative (BCI)¹³ in February 2016. With the BCI program we have one year to source and implement Better Cotton fibers into our supply chain and to set targets for the coming years. In addition to the BCI program, we still have an Organic Cotton collection for our Newborn product range, certified by the Global Organic Textile Standard (GOTS)¹⁴. The GOTS certified cotton is traceable throughout the production process and focus on using natural fertilizers, pest control methods, crop rotation and improved water and energy management to reduce potential impacts on the environment.

¹² For further information please visit: <http://www.cottoninc.com/corporate/Market-Data/MonthlyEconomicLetter/pdfs/English-pdf-charts-and-tables/World-Cotton-Production-Bales.pdf>

¹³ For further information please visit: <http://bettercotton.org>

¹⁴ For further information please visit: <http://www.global-standard.org>

Besides cotton, viscose is one of the most used fibers in Esprit garments – around 14% of our styles contained more than 80% viscose in FY15/16. However, viscose is made from wood pulp. To avoid that the wood pulp is coming from endangered forests, Esprit has partnered up with Canopy¹⁵, a non-profit organization, who is aiming at eliminating any wood pulp from endangered forests in the viscose supply chain. At Esprit, we support this aim and have therefore started to analyze the origin and use of viscose in our own supply chain. Hereby, we want to make sure that our viscose products do not support deforestation of endangered forests. As a first step we published our commitment not only on our website¹⁶ but also in our Vendor Portal. Additionally, we contacted all our nominated fabric suppliers to detect their Viscose supply chain and cross-check if they work with producers which support the Canopy program. Our aim is to ensure clear communication of our partnership with Canopy throughout the supply chain in order to support the implementation.



Around 14% of Esprit garments contain more than 80% viscose in FY15/16.

02.2 Product confidence

In addition to the focus on using more sustainable materials in our designs, ensuring product safety is another important part in our product development process. As an international brand with a strong environmental commitment and a long legacy in the textile industry, we are committed to provide products with the most stringent requirements for product safety and quality. Therefore, overall quality assurance is a key point in our corporate strategy. We continually follow developments in legal requirements and monitor stakeholder expectations, as well as technical and design innovations to ensure that we live up to the promise of our brand. To do this, Esprit has developed its own mandatory quality standards, combined in our Restricted Substances List (RSL). The RSL contains all mechanical and chemical tests conducted at Esprit, which are in accordance with global standards and norms, such as REACH¹⁷ and the norms of the International Organization for Standardization (ISO)¹⁸.

In September 2015, Esprit furthermore joined the Partnership for Sustainable Textiles, a multi-stakeholder initiative by the Federal Ministry for Economic Cooperation and Development of Germany, focusing on gathering the textile and clothing industry, retailers, trade unions and civil society. The goal of this initiative is to achieve a more sustainable supply chain. Therefore, all members are currently working on objectives for continuous social, ecological and economic improvement in the textile industry. In different working groups, members come together to discuss common processes in the supply chain and the usage of more sustainable materials. Esprit participates in the working group „Natural Fibers“, which is focusing on cotton and wool. The aim is, to develop a common and practical standard to identify a way for retailers and brands to use more sustainable cotton and wool.

Esprit's Risk Management department supports both suppliers and Esprit employees who are directly involved in the product development, in order to monitor product compliance with all statutory provisions and necessary standards for health and safety. For this purpose, the Risk Management department provides the organization with training plans, focusing on the earliest step of the product development: the Design phase. By evaluating inherent risks in this phase, we enhance our ability to react to unforeseen events and to better ensure sustainable products. This is accomplished by regular product tests on physical and chemical requirements based on our RSL. These tests are conducted by our in-house laboratory as well as external laboratories around the world. Due to our comprehensive testing program, we are more agile in verifying compliance with our standards and we can implement corrective actions immediately.

Aside from our own testing program, Esprit is also a member of AFIRM¹⁹, an industry body dedicated to reduce the use and impact of harmful substances in the apparel and footwear supply chain. This initiative supports us by keeping our RSL up-to-date to provide our consumers with products of the highest quality and safety, which is critical to be a successful fashion business.

¹⁵ For further information please visit <http://www.canopystyle.org>

¹⁶ For further information please visit http://www.esprit.com/press/sustainabilityreport/Canopy_EspritCommitment.pdf

¹⁷ REACH is a system of European Union regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals. For further information please visit <http://ec.europa.eu/growth/sectors/chemicals/reach>

¹⁸ For further information please visit <http://www.iso.org/iso/home.html>

¹⁹ For further information please visit <http://www.afirm-group.com>

We also take care to provide our consumers with all needed information regarding a product, the product content and product care instructions. Furthermore, we ensure that our labels are in accordance with the required law of each country, where we sell our products. In FY15/16, Esprit did not identify any non-compliance with regulations for labelling. Furthermore, as required for some countries, Esprit has included the country of origin on each garment's label. In addition, all non-textile components of animal origin such as leather, horn buttons, feathers and down have to be stated on the care label. The labelling also includes minor components such as applications or leather badges on denim pants. To meet the legal requirements, Esprit has decided to use an additional label stating: "Contains non-textile parts of animal origin". The purpose of this detailed information is to give the consumer a transparent overview of the textile and non-textile components used in our products.

02.3 Animal welfare

It is our conviction that all living creatures deserve to be treated with respect and dignity. Therefore, we have implemented an Animal Welfare Policy, which should ensure that any kind of cruel treatment of animals in our supply chain is strictly prohibited. This also entails that we strive to source raw materials responsibly; all products derived from animals must be sourced in accordance with our Code of Conduct and the Farm Animal Welfare Council's (FAWC) "Five Freedoms"²⁰.



In accordance with our Animal Policy, we strongly condemn any removal of feather and down from live birds or forced-fed animals. To ensure a high level of transparency, we, in FY15/16, started the certification process of our entire supply chain with the Responsible Down Standard (RDS)²¹. It was our goal to finish the certification process by June 2016. However, this goal was already

accomplished in March 2016, three months ahead of schedule. Thus, all Esprit suppliers that provide down styles are now certified with a scope certificate, as well as Esprit itself. In the RDS certification process, all stakeholders in the supply chain – from duck and goose farms to Esprit itself – are audited to ensure that no live-plucked down or feathers are used in Esprit's garments. As a result, 100% of the Fall/Winter 2016 styles, containing down, are now certified by the RDS. Our goal is to maintain this level of transparency and proceed with the RDS certification in the future. Besides the RDS, Esprit is also a fur free company and member of the Fur Free Retailer Program²². This means that we only use fake-fur in our products.

Since November 2013, Esprit has banned angora wool in its products as a response to reports of live-plucking. The ban will remain in effect until proper controls and transparency can be established

in angora farms. Furthermore, we have, since 2012, prohibited the use of surgically mulesed wool in our products. With regards to our use of conventional wool, Esprit is member of an industry working group in the Partnership for Sustainable Textiles focusing on the use of "Natural Fibers". Here we are working close together with other brands and non-profit organizations to develop a standard for obtaining a more sustainable and animal-friendly supply chain for wool.

We have also strict rules for the use of leather used in our products. Firstly, we require that the leather should be a by-product of the food industry and secondly, our suppliers must be able to trace raw hides and skins back to their country of origin. To support a greater transparency we started to map all tanneries for our garments, shoes and accessoires in FY15/16. Additionally, we do not source leather from endangered or threatened species that appear on the lists of the International Union for the Conservation of Nature (IUCN)²³ or the Convention of International Trade in Endangered Species of Wild Fauna and Flora (CITES)²⁴.



²⁰ For further information please visit: <https://www.gov.uk/government/groups/farm-animal-welfare-committee-fawc>

²¹ For further information please visit: <http://responsibledown.org>

²² For further information please visit: <http://www.furfreetailer.com>

²³ For further information please visit: <http://www.iucn.org>

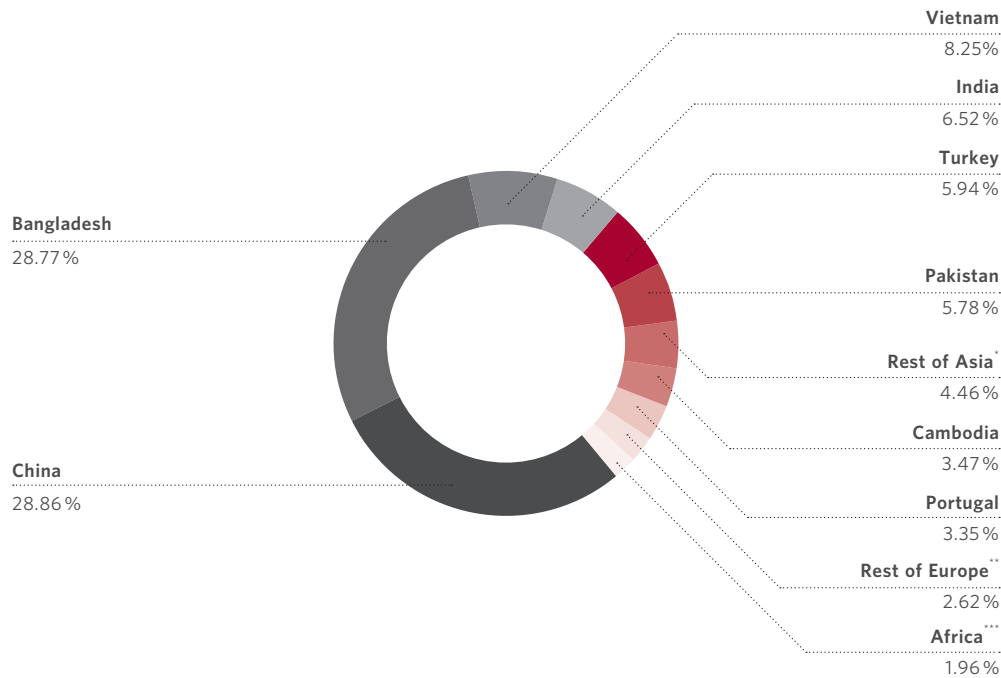
²⁴ For further information please visit: <http://www.cites.org>



03

MANAGING OUR SUPPLY CHAIN

Countries of origin for Esprit products in FY15/16 based on ordered quantity



* Including Indonesia, the Philippines and Sri Lanka

** Including Belarus, Bulgaria, Italy, Lithuania, Macedonia, Netherlands, Poland, Romania, Serbia, Spain and Ukraine

*** Including Madagascar, Morocco and Tunisia

03.1 Supplier relationship

Procurement and manufacturing are some of the most important phases of our supply chain. Therefore, responsible supply chain management has a high priority at Esprit. We strive to operate according to the highest ethical, social and environmental standards, and we are aware of our responsibility towards our suppliers, the people making our products, and society in general. In our Materiality Assessment (on page 19) we found that expectations among our stakeholders are particularly high, when it comes to this issue.

The textile industry is exceptionally labor intensive and creates millions of jobs in developing countries across the world. Combined, the factories we work directly with approximately employ 360,000 people across the world. As an international brand, we therefore seek to always ensure that our products are made in factory facilities that operate in accordance with local law and international standards regarding working hours, wages, health, safety and respectful treatment of workers, as well as a focus on upholding environmental standards.

In FY15/16 more than 97.6 million garments, 6.5 million accessories and 3.3 million shoes were produced for Esprit. Our finished goods were sourced from 25 countries throughout Asia, Africa and Europe. The main sourcing countries for finished garments are Bangladesh, China, India, Pakistan, Portugal, Turkey and Vietnam.



Building and maintaining strong relationships with our suppliers are a first step to a more sustainable supply chain. In FY15/16, we continued to concentrate on a narrow base supply chain model strategy. This entails that we, on an ongoing basis, conduct assessments of our supplier portfolio. With a supplier performance rating, we keep track of our suppliers' social compliance, quality standards, on-time delivery, price and assessment of the overall quality of the manufactured products. This performance rating ensures that we have a tool that compares suppliers on objective performance measures. Our narrow base supply chain model strategy, furthermore, means that production is concentrated on a few high performance suppliers. With this strategy, we want to build sustainable, long-term partnerships with our strategic suppliers. As a result of this effort, our supplier base has decreased by 36%. In FY15/16, Esprit produced finished garments, shoes and accessories in a total of 501 factories.

03.2 Measuring sustainability

Transparency and strong partnerships are both equally essential parts of our strategy for responsible supply chain management. Only through a trust-based relationship between Esprit and our suppliers can we achieve the level of transparency in our supply chain that we require. Related to sustainability, we, together with a group of other brands from the apparel and footwear industry, founded the Sustainable Apparel Coalition (SAC)²⁵ in 2010. From the launch of SAC, Esprit has supported the development of an industry-wide tool to measure the sustainability of any given product. The outcome of this initiative has so far been the introduction of the HIGG Index in 2012.

On the HIGG Index platform suppliers and brands have the ability to connect and share environmental and social performance data. In FY15/16, Esprit conducted a comprehensive analysis of the sustainability achievements with the Social and Environmental Brand Modules of the HIGG Index. After this analysis, we published our findings online on the HIGG platform, so that the learnings and results became visible for all connected facilities. With these analyses, which we will conduct from now on every year, we want to motivate our suppliers to be open about their achievements, but also detect potential maladministration and potential challenges and areas of improvements.

Some of the findings from the analysis in the Brand Module of the HIGG Index, showed that Esprit has some areas to be improved, in particular related to; transportation, carbon footprint and product end-of-lifecycle. To find solutions to these issues, we have in FY15/16 conducted internal trainings for all management levels at Esprit. Firstly, the aim of the trainings has been to present the HIGG Index as a measurement tool for sustainability and to raise more awareness of sustainability topics. Secondly, the trainings have also given the participants an opportunity to brainstorm and gather ideas for making their work more sustainable.



Furthermore, we in FY14/15 started to connect with more suppliers in the HIGG Index. In the past, it was common practice in the textile industry that companies only knew their Tier 1 suppliers, who are generally considered to be factories providing the finished garments. Initially, Esprit used the HIGG Index mainly with direct Tier 1 suppliers. Today, Esprit compiles much more information and we are therefore able to, besides measuring the performance of Tier 1 suppliers, map their subcontractors, like dye houses, weaving and spinning mills, laundries and other processors – commonly known as Tier 2 suppliers. This higher level of transparency allows us to maintain better control of our supply chain.

²⁵ Please find further information about the SAC and the HIGG Index on page 27 or please visit: <http://www.apparelcoalition.org>

In FY15/16, we conducted a Tier 2 supply chain mapping to further our knowledge of our suppliers' direct subcontractors and thereby gain a deeper understanding of our supply chain and the risks and opportunities we face. However, to map our Tier 2 suppliers, we first had to define how we distinguish between Tier 1, Tier 2 and Tier 3 suppliers:

Esprit supply chain definition

Area	Definition	Esprit engagement
Tier 1	Place of fabrication: garment sewing, finishing and packaging	Direct contact
Tier 2	Spinning, weaving/knitting, dyeing, printing, finishing	Direct and indirect contact
Tier 3	Raw material providers: chemical suppliers, yarn supplier, machinery suppliers.	Direct and indirect contact

In Tiers 2 and 3, a significant and increasing portion of Esprit production is through nominated fabric, yarn and chemical suppliers. Esprit does not place orders directly with these suppliers, but we require that materials used in our products be purchased from them.

Our goal is to support our suppliers in the on-boarding process for the HIGG Index. In FY14/15, we set the target to have our key suppliers using the tool by December 2017, which is currently in progress. In addition, we are from FY 16/17 onwards requiring that our new Tier 1 and Tier 2 suppliers start with the Facility Modul of the HIGG Index and thus get familiar with using the tool.

Using the HIGG Index helps us to identify opportunities as well as to reduce any negative social and environmental impacts. Consequently, we are improving our long-term sustainability throughout our entire supply chain – from design to manufacturing to our stores.



03.3 Responsible sourcing

As we do not own any production facilities, and therefore rely on external parties to manufacture our products, it is particularly important for Esprit to carefully choose partners in the supply chain. We therefore have certain expectations to our suppliers, which have been formulated in our Supplier Code of Conduct²⁶. The Supplier Code of Conduct references the Core Conventions of the International Labour Organization (ILO) and the ILO Declaration on Fundamental Principles and Rights at Work, in order to ensure that we, in all parts of our supply chain, strive to obtain human- and worker rights. Before we start any business collaboration, we therefore always share our Supplier Code of Conduct with the potential supplier. The Supplier Code of Conduct has to be signed prior to the launch of the collaboration, as part of our general supplier agreement. Esprit expects all suppliers and all participants in the supply chain to respect the key values and principles stated in the Supplier Code of Conduct.



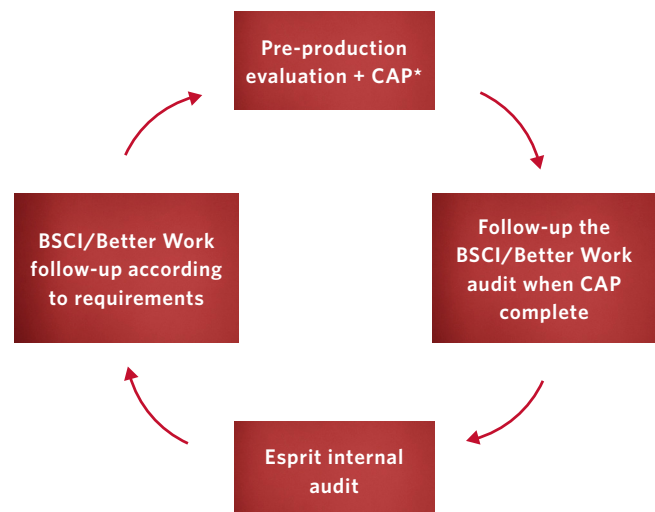
Esprit's Supplier Code of Conduct Main Principles

1. Ethics: Anti-corruption and fair business practices
2. Legal compliance
3. No child labor
4. No forced, bonded, indentured and prison labor
5. Freedom of association and collective bargaining
6. No discrimination, harassment and abuse
7. Wages and benefits: fair and legal compensation
8. Working hours: no involuntary and excessive overtime
9. Safe and healthy working conditions
10. Responsible animal treatment, use of chemical substances and environment
11. Implementation of management systems

To ensure and monitor that the principles of our Supplier Code of Conduct are met, we have a comprehensive social compliance program in place that covers an audit program and on-boarding process in place to detect any serious violations.

Social compliance on-boarding

Presently, it is difficult to find manufacturing factories globally that meet all our social compliance requirements and standards. As a consequence, we look for factories that are already fully engaged or show willingness to work with social compliance and environmental standards. We believe that comprehensive audits to assess how working conditions meet local and international law are fundamental to improve working conditions in factories. To ensure this, our on-boarding process is supported by third party, such as the Business Social Compliance Initiative (BSCI)²⁷ or Better Work²⁸. However, an audit program does not ensure factory improvement by itself, but they are the first step to analyze where the problems are occurring. Likewise, it is equally important to follow up and monitor the detected problems and their improvement to ensure that these are mitigated and handled in the best possible way.



* CAP: Corrective Action Plan

²⁶ For further information please visit: <http://www.esprit.com/downloads/supplier-code-of-conduct.pdf>

²⁷ For further information please visit: <http://www.bsci-intl.org>

²⁸ For further information please visit: <http://betterwork.org>

In the FY15/16, 96% of our new suppliers were audited on labor practices and human rights standards, before we placed an order at the supplier. The missing 4% corresponds to so called “low-risk” facilities, predominantly based in Europe. New facilities that are placed in areas with higher risks were fully screened in FY15/16. Our goal is to maintain this level of vigilance.



“Esprit has been a long-standing participant of the Business Social Compliance Initiative (BSCI). For over a decade, it has committed to collaborating with other BSCI participants and cascading responsible business practices to business partners towards improved working conditions in the global supply chain. Esprit’s active engagement in BSCI has been instrumental over the years. The company is now represented in the BSCI Steering Committee where it provides valuable advice and has actively contributed to the enhanced BSCI 2.0 system.”

Darrell Doren
Senior Director Sustainability at Foreign Trade Association²⁹

Esprit relies on a combination of Business Social Compliance Initiative (BSCI) audits, Better Work audits and internal audits in order to achieve the right balance of audit quality, follow up remediation work, and recognition of the effort by multiple factory consumers. However, applying different programs in the countries where we operate, adds significant complexity to Esprit’s social compliance effort. Yet, we believe that flexibility in choosing the best program available in a given region is vital to improve factory working conditions.



²⁹ For further information please visit: <http://www.fta-intl.org>

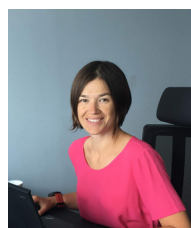
Auditing & remediation program

After on-boarding a new supplier, Esprit's audit program does not end. With unannounced audits led by the BSCI and Better Work, or internal audits, conducted by Esprit's Social & Environmental Sustainability team, which is based in the headquarters in Germany as well as in Bangladesh, China, Hong Kong, Turkey and Vietnam, we want to ensure that our social compliance standards as well as requirements for working conditions are met and that our suppliers evolve over time. In these audits, our Social & Environmental Sustainability team has the chance to conduct interviews, not only with the factory management, but also with workers, to detect any non-compliance issues and to ensure that modern management systems are in place. If we find any violations after a factory visit, a Corrective Action Plan (CAP) is generated by staff of the Social & Environmental Sustainability team. This entails that the supplier is given then a set time-frame to establish the changes and improve any detected violations. Moreover, the Social & Environmental Sustainability team supports the factories in realizing the prescribed changes. This is accomplished through knowledge sharing and trainings that can assist factory management in implementing recommendations from previous audits. In FY15/16, all Esprit supplier factories are working on CAPs to improve their performance.

In FY14/15, Esprit started a pilot project to focus the auditing effort. Instead of using 19 BSCI auditing bodies to conduct the audits, we in the pilot project required BSCI audits in Turkey to be conducted by a single auditing company, in order to achieve more consistent results. Esprit Social & Environmental Sustainability staff worked closely with the auditors to ensure that they understood Esprit's expectations and were prepared to deliver the quality that we demand. The findings from the pilot project has improved the level of detail we get from audits and auditors. Non-compliance issues are explained much more in detail, which allows our Social & Environmental Sustainability team to follow up more precise on corrective actions and remediations. With better audit quality the Social & Environmental Sustainability team has the chance to immediately ask for Corrective Actions Plan (CAP). The increased level of details in the CAPs makes them more realistic and give us the chance to evaluate the level of improvement, which is basically the reason behind why we conduct audits.

After the successful pilot in Turkey, we in FY15/16 extended the program to 20 more countries: Bangladesh, Belarus, Bulgaria, China, India, Indonesia, Lithuania, Macedonia, Madagascar, Morocco, Pakistan, Poland, Portugal, Romania, Serbia, Spain, Sri Lanka, Tunisia, Ukraine and Vietnam. The Social & Environmental Sustainability team meets the designated auditors every time they visit the facilities in these countries to have the opportunity to collaborate more closely. Meeting with the auditors on a regular basis also provides us more detailed insight into the country situation, especially in countries where we have a limited number of factories and suppliers.

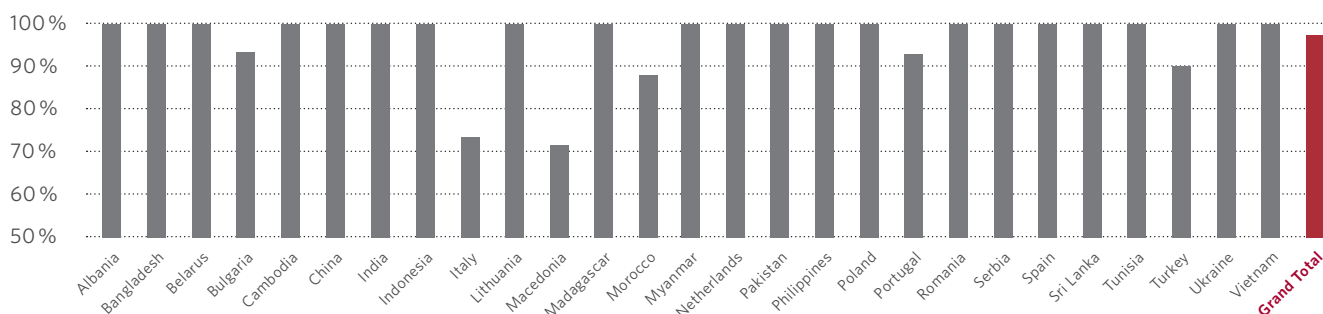
From July 2015 to June 2016, the Social & Environmental Sustainability team conducted 462 audits. It is our target to visit and audit each factory at least once a year, and more often where warranted. Non-compliance with Esprit's Supplier Code of Conduct requirements can lead to a termination of business with immediate effect, depending on the seriousness of the violations and the willingness of factory management to work on improvements. In FY15/16, four factories (0.9% of all factories) were dropped because of inconsistencies between payroll, attendance and production records. We believe that problems cannot be solved by just pulling out of factories and we therefore, wherever possible, prefer to develop solutions for compliance violations together with our suppliers. In FY15/16, significant findings were found and addressed through CAPs in 69% of our factories – a decrease by 5% points in comparison to FY14/15.



“It is the factories that improve, which gives you the energy to keep going. We all know nothing is ever perfect and changes that directly affect workers are what puts a smile on my face.”

Bayramhan Boyer
Social & Environmental Sustainability Manager - EMEA, Esprit

Supplier factories audited in FY15/16



Building safety

After the Rana Plaza building collapse in 2013, the Bangladesh Accord on Fire and Building Safety was established and signed by more than 200 brands, unions and non-profit organizations, to assure safe factory buildings in Bangladesh. Esprit was one of the first brands that signed onto the Accord, and we are committed to doing, what we can to ensure that such a tragedy never happens again. The Accord has, to date, focused on the findings of structural, electrical and fire safety assessments of all of our factories in Bangladesh, as well as additional findings added to the plan during later visits by Bangladesh Accord auditors. By the end of FY15/16, all 39 factories that Esprit works with in Bangladesh had finished their remediation programs. Fifteen factories had completed over 90% of their audit findings. The average completion rate for all Esprit supplier factories as of end of FY15/16 was 79% of findings, with our slowest progressing factory having completed 59% of their findings. We currently expect all Esprit supplier factories, but one, to have completed all of the required work by May 31, 2017. The remaining factory will complete its agreed improvements by December 31, 2017. This rate of progress among our supplier puts Esprit in the top 10% of all brands in the Accord.



“At Esprit we believe that sustainable development of worker management and environmental management practices in factories can be achieved by continuous improvement and implementation of the management systems impacting workers’ lives and environment. Being a part of this continuous development process inspires me to work every day. Joining Accord has brought us new opportunities to participate in the improvement of the safety conditions of our suppliers’ factories in Bangladesh. At the initial stage, we have worked with the factories to ensure that they read and understand the findings in the Accord’s reports. At the factories where we have been nominated as lead brands, we have developed a worker communication system. The worker communication system is launched to ensure that the workers have the basic understanding of the Accord related activities in their factories and that they know, who they could ask, if they have additional inquiries. In these factories, we are furthermore facilitating the communication between factory management, Accord personnel and other brands sourcing from the factory, in order to ensure that the factory gets access to the necessary knowledge and guidance from experts and that they take the necessary steps to complete the remediation activities. Overall, we are tracking the progress of all our supplier factories’ Accord related work, periodically. At any factory, if the progress seems to be slower than expected, we are contacting them to know the reason for the slower progress and to work with them to find out ways to expedite the remediation progress. Achieving 79% correction rating of our overall suppliers’ factories, is better than average progress, but we have to keep pushing forward until that rating reaches 100% and we can be assured that all the necessary safety measures are in place at all our suppliers’ factories in Bangladesh.”

Mehbab Hossain
Social & Environmental Sustainability Manager – South Asia, Esprit

Esprit's supplier summits

In June 2015, Esprit started an initiative to further and deepen the dialogue with our suppliers. The reason for these meetings has been to support our suppliers in understanding our social compliance standards, the Supplier Code of Conduct as well as our requirements for product quality and safety. Therefore, the departments Social & Environmental Sustainability, Quality Assurance and Risk Management launched the supplier summit program together. In FY15/16, six vendor summits have been held in Hong Kong, Shanghai, Turkey, Vietnam and Bangladesh. With different summits in different countries, we want to make it as easy as possible for our suppliers to participate and engage in the dialogue. The aim is hereby to promote a closer collaboration between Esprit and our suppliers as well as to provide a platform to further strengthen the understanding and communication between the different parties in our supply chain.



Living wage

Like many brands in the fashion industry, Esprit is increasingly aware of the importance of assuring that the workers who make our products earn a decent living. For many years, the topic of living wage has been controversial. The question of how to calculate living wage is not settled and it has essentially brought the work to deliver an industry-wide, agreed living wage to a standstill. In September 2015, Esprit found a way around this obstacle, when we joined 17 other brands in signing a Memorandum of Understanding with IndustriALL Global Union to form the Action, Collaboration, Transformation (ACT)³⁰ program. In this program, brands and IndustriALL work together to increase wages, while maintaining the overall health of the industry that supplies the workers' job.

This entails that, rather than calculating a living wage, the members of ACT believe that living wage is best achieved by facilitating the development of nation- and industry-wide collective bargaining agreements in key garment and textile producing countries, where workers' representatives and factory management can negotiate wages and any other aspect of working conditions deemed appropriate by both parties. As a key part of this effort, ACT also strives to improve brand purchasing practices and to provide expertise to enhance factory productivity to support increased wages within a healthy local textile industry. We understand that this approach is ambitious, but allowing workers to negotiate wages on their own behalf is to Esprit really the only viable long-term solution to this difficult problem.



“Living wage is an important topic, but most companies have been unable to make significant progress toward assuring that the workers making their products are paid a decent wage. Defining living wage is complex, and the fact that multiple brands generally share factories means that simple, across-the-board wage increases are not feasible. Esprit is glad to collaborate with IndustriALL to improve wages in supplier factories by promoting nation-wide, industry-wide collective bargaining agreements. This approach is ambitious, but it is really the only way we see that can create sustainable solutions to the problem of low wages in the apparel industry.”

Lary Brown³¹
Vice President Social & Environmental Sustainability, Esprit

³⁰ For further information please visit <http://www.hiil.org/project/act-towards-living-wages-in-global-supply-chains>

³¹ Besides his position at Esprit, Lary Brown is also a member of the BSCI Steering Committee.

For further information please visit: <http://www.bsci-intl.org/content/bsci-steering-committee>

03.4 Chemical management

Environmental problems caused by the fashion industry are, besides social compliance issues, more and more in the focus of society and media. At Esprit, we are also very aware of the environmental side of ensuring sustainability in the long run. Fabric manufacturing, several laundries, cutting and dying processes are important to create fashionable garments, but these activities also cause a lot of waste and – if not treated responsibly and sustainable – a lot of pollution. In order to keep these processes as environmental friendly as possible, they need to be managed properly. Especially in times of climate change, heavy pollution and water scarcity, we have to rethink our operations and find solutions to preserve our planet. We want to ensure that our products are not only safe, but also that we in the making of them, protect the environment and local communities in the best way possible. Therefore, we focus on how we use and reduce chemicals in the manufacturing processes. This focus is executed through the support of external agencies, who can help us identify chemicals of concern and apply the precautionary principle in our evaluation. We endeavor to follow the principles in the UN Global Compact concerning the environment.

Since December 2014, our products have been free of poly- and perfluorinated chemicals (PFCs). PFCs are used for a water-repellent surface on garments and decompose very slowly. Therefore, PFCs' impact on not only the environment, but also on the health of people and animals, is very negative. Through our ongoing chemical management program, it is our goal to work closely with our suppliers to keep this achievement.

In FY15/16, we conducted a chemical assessment with 17 Tier 2 suppliers to check the usage of alternative non-PFC chemicals in the production. This entailed that the Fabric Management team

visited the 17 Tier 2-facilities that were identified to manufacture all water repellent products for Esprit. Our audit protocol focuses on several aspects, such as proper storage and labelling of chemicals, availability of safety data sheets for all chemicals, cleanliness at the workspace, marked escapes and chemical management training for employees. The results from these audits were generally successful, 16 mills already reached an advanced level, while the results from one mill were ranked in the middle area. After the audit, the mills received a Corrective Action Plan (CAP), which defined the areas of improvement. After four weeks, our Fabric Management team conducted a second round of audits in August 2016. With this ongoing audit process, we want to ensure that all Esprit products also in the future will be free of any PFC chemistry.

Since 2012 Esprit has been a member of the Zero Discharge of Hazardous Chemicals (ZDHC)³² Group, which is working alongside like-minded industry peers to develop the tools and protocols to empower the entire supply chain and eliminate chemical discharges. The long-term target of the ZDHC Group is zero discharge of hazardous chemicals by 2020. To achieve this ambitious goal, Esprit continues to work alongside the ZDHC Group on the development of a holistic system by adopting the Manufacturing Restricted Substance List (MRSL)³³ to minimize chemical hazards in our supply chain.

The next step in our chemical management program is to actually visit our Tier 2 facilities and get a deeper understanding of their chemical usage. Therefore, we created a technical audit protocol so that every visit is guided by the same process and procedures. For FY16/17 we set the target to audit 40% of our wet processes Tier 2 suppliers in Bangladesh, 60% in China and 40% in India.



³² For further information please visit: <http://www.roadmaptozero.com>

³³ For further information please visit: <http://www.roadmaptozero.com/pdf/MRSL.pdf>



04

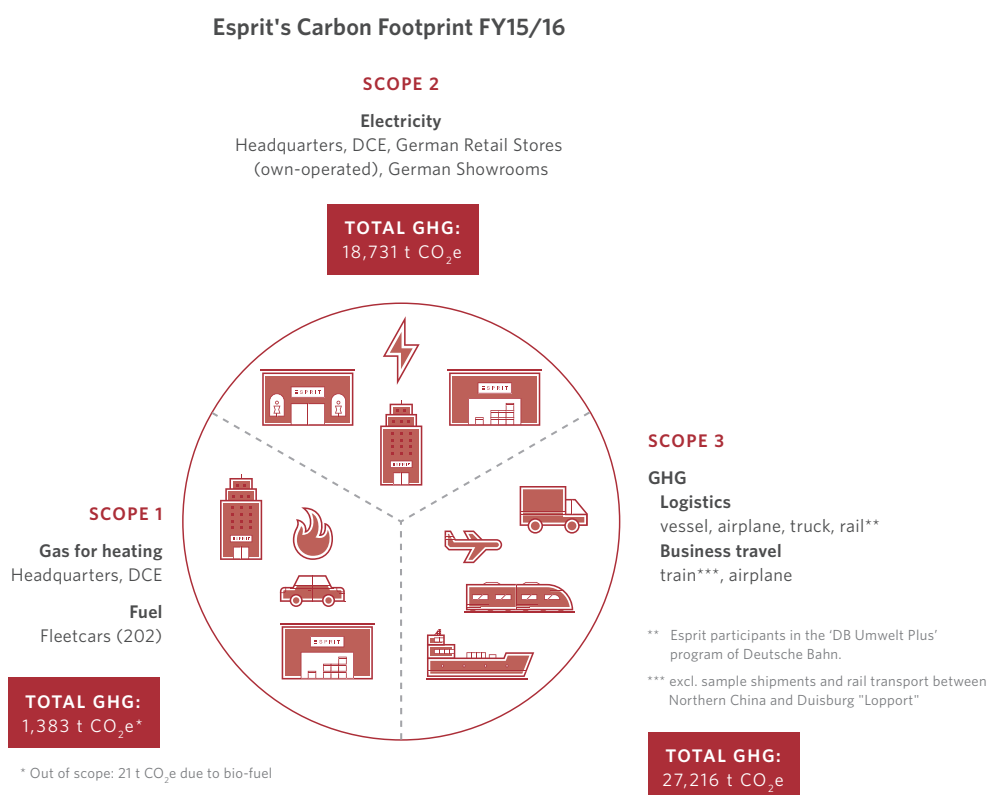
EMISSIONS & WASTE

In the aftermath the 2015 United Nations Climate Change Conference in Paris, global warming and its effects have been more widely discussed than ever before. To reach the goals stated in the Paris Climate Agreement³⁴ – limiting global warming to less than 2°C compared to pre-industrial times – everybody has to take their part, because changes in our climate is an issue affecting all of us. At Esprit, we have for many years been committed to acting responsibly to reduce our energy consumption and greenhouse gas emissions (GHG). As a brand with 761 own operated stores and 6,332 total wholesale POS (point of sales), there is great potential to work towards sustainability at the point of sale, and hence both our store concept and equipment have been influenced by our focus on sustainability.

04.1 Carbon footprint

Besides focusing on using sustainable materials, upholding social compliance and having rigorous chemical requirements in our supply chain, sustainability at Esprit also means that we focus on our own facilities and processes and the related carbon footprint. We believe that we have a potential to decrease our impact on the global climate by minimizing the emissions that are generated during the transportation and sale of our apparel and footwear. This aim is aligned with the Paris Climate Agreement of 2015³⁵ and high on our agenda for sustainability for the coming years.

For our carbon footprint reporting, we use the Greenhouse Gas (GHG) Protocol standards³⁶, which categorize a company's emissions into direct and indirect emissions. Direct emissions should be seen as emissions from sources that are directly owned or controlled by Esprit, e.g. emissions from our company headquarters, whereas indirect emissions are emissions occurring as a result of our supply chain activities, e.g. emissions generated during transportation of Esprit garments from a supplier's facility to the Esprit warehouse. This categorization into direct and indirect emissions is further split into scopes 1, 2 and 3. Scope 1 comprises all direct GHG emissions, such as emissions that are generated by burning gas for heating in our main headquarters building. Scope 2 covers all emissions coming from the production of the electricity and heat purchased by Esprit. Scope 3 includes Esprit's other indirect emissions, such as those generated by business travel via airplane, waste disposal or by shipping of purchased materials. In order to calculate the relevant emissions from our energy consumption data, Esprit follows the international accepted reporting principles and methods of the Department for Environmental Food & Rural Affairs of the United Kingdom (DEFRA)³⁷. As we are still internally focusing on developing and implementing strong environmental management systems, in order to collect, calculate and monitor our environmental data and progress, the main focus of the reporting of our carbon footprint will be on those emissions that can be influenced more or less directly by Esprit. These are the following:



³⁴ For further information please visit http://ec.europa.eu/clima/policies/international/negotiations/paris/index_en.htm

³⁵ For further information please visit: <https://unfccc.int/resource/docs/2015/cop21/eng/109r01.pdf>

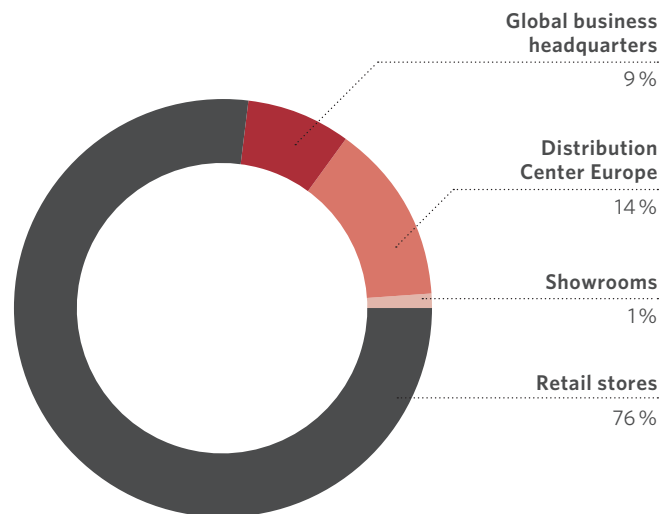
³⁶ For further information please visit: <http://www.ghgprotocol.org>

³⁷ For further information please visit <http://www.ukconversionfactorscarbonsmart.co.uk>

Electricity consumption in german operations

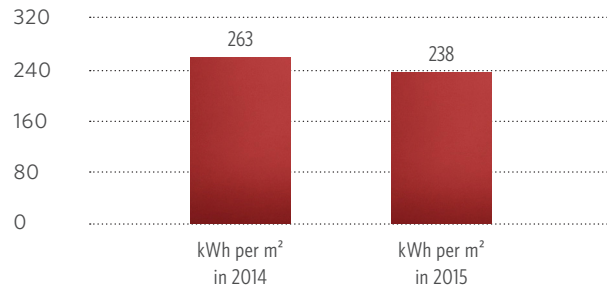
With regards to our electricity consumption, we were in 2015 able to keep the consumption in our German operations stable, in comparison to 2014. The total consumption is split in the following way:

Distribution of electricity consumption in German operations in 2015



With Germany being one of Esprit's core markets, we believe it makes sense to focus our efforts on our own operated stores in Germany, and then hereafter transfer our knowledge to other Esprit stores. As the vast majority of electricity in Esprit's own operated stores is used for lighting and air conditioning, we started to replace conventional lighting systems by LED lighting already in 2014. The respective goal was to implement LED lighting in 40 Esprit stores globally by the end of 2016. This goal is expected to be achieved in time. In the future, decisions on whether to implement LED lighting will be made store by store, depending on a variety of factors and timelines connected to the overall distribution concept. The implementation of LED lighting has already shown to be a success, as we have been able to identify a few major and some minor energy savings already. For example, in the Esprit store in Heidelberg, the energy consumption per m² in 2015 was reduced by 10% in comparison to 2014.

Comparison of energy consumption in Esprit's retail store in Heidelberg

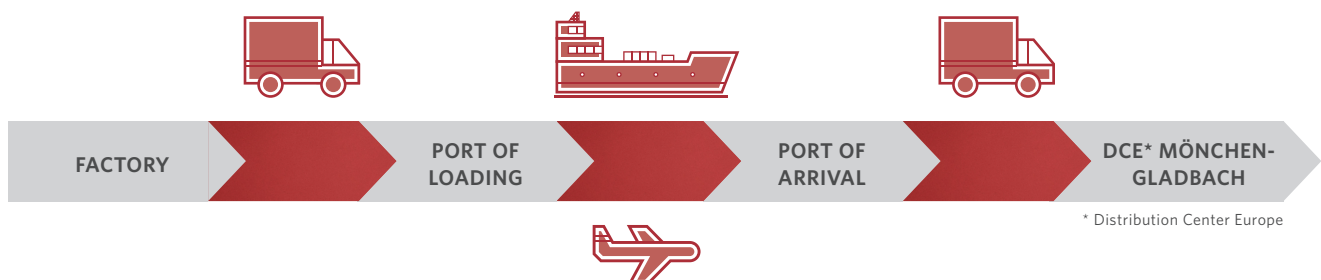


Thus, LED lighting system does not only help Esprit to save energy and thereby reduce the emissions of greenhouse gases, but the system is also manufactured and transported in a sustainable way.

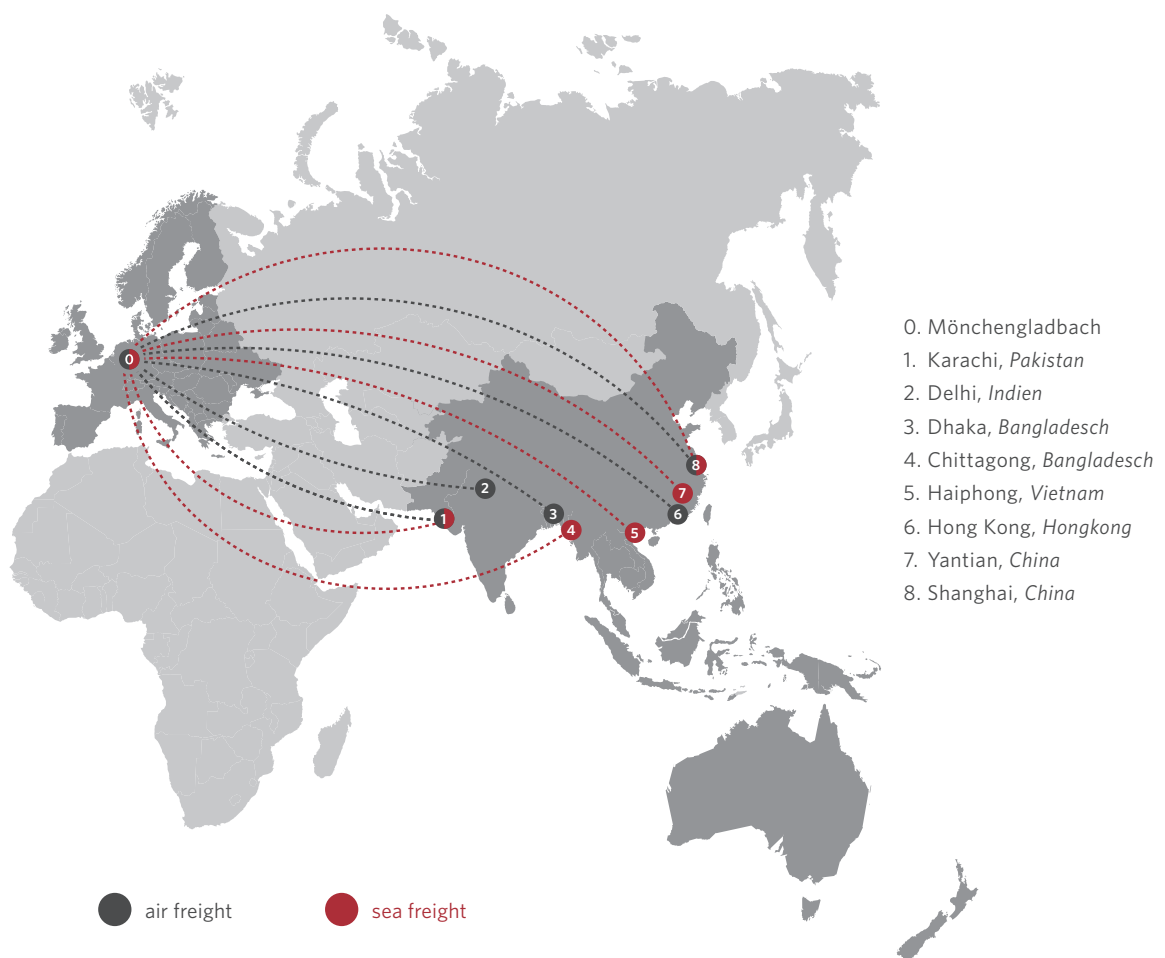
- ✓ The system is manufactured in Germany, which ensures short transportation from our supplier to Esprit's directly managed stores in Germany.
- ✓ The housing of the single LED light is designed to ensure that the generation of heat caused by the lighting is minimized. This is a decisive point, because most of the energy in the stores is used for cooling purposes.
- ✓ The lighting system is shipped in cartons made of recycled cardboard or in reusable wooden boxes and at the end of its lifecycle, the LED lights can also be completely recycled.
- ✓ The supplier of the LED lighting system guarantees a lifecycle of 50,000 hours of operation, which is about 15 years in one of Esprit's store.
- ✓ The supplier of the LED lighting system focuses on social responsibility and and therefore, among other initiatives, cooperates with sheltered workshops.

Furthermore, in many cases, our roll-out of the "Lighthouse store concept" is being accompanied by replacing the conventional lighting system by LED lighting. This concept goes back to Esprit's Californian roots to create a store space based on renewable construction materials, such as wood and metals. By the end of 2016, we expect to have implemented the "Lighthouse store concept" or a slightly trimmed version of it – the so-called "Pole System" – to 59% of our own operated stores and of our global partnership stores. The "Pole System", which allows more flexibility in store configuration due to modular clothing racks and store components, is implemented in every own operated store and partner store that we opened or refurbished in FY15/16. In the future, decisions on whether to implement LED lighting will be made store by store, depending on a variety of factors connected to the overall distribution concept.

In order to transport our products from our supplier factories worldwide to our European Distribution Center (DCE) in Mönchengladbach, Germany and to the smaller regional hubs in Germany, Esprit applies several transport modes, including combined transport, where necessary or recommendable. When talking about Esprit's inbound logistics, we mainly refer to the following scheme:



As indicated in this graph, the largest part of the total distance between the place of manufacturing and DCE is mainly covered via sea and air transportation. These transportation modes have been chosen in order to fulfil Esprit's requirements with regards to speed, volume and costs. Only for factories located in Europe, which are closer to our DCE, it makes sense to transport the goods by truck. In FY15/16, 13% of our goods were shipped by air. That being said, we are always trying to keep airfreight on the lowest possible level. The following map gives an overview on the common routes for maritime shipping and air transportation.



When maritime shipping is used as the applicable transport mode for the main part of the distance, the goods arrive at the German ports of Hamburg or Bremerhaven, or at the port of Rotterdam in the Netherlands. On-carriage is being conducted by truck or rail. In case where air transportation is applied for the main leg, the Esprit goods are mainly dispatched at the airports of Delhi, Dhaka, Hong Kong, Karachi and Shanghai, and mainly arrive at Frankfurt Airport. On-carriage for the goods is being conducted by truck or rail. Furthermore, a considerable portion of our goods that are dispatched in Northern China is transported by rail to the "Logport" in Duisburg, a city that is located close to Esprit's German headquarters.

For the upcoming Sustainability reports, we intend to widen the scope for our reporting on energy consumption and GHG emissions on an ongoing basis, and we especially intend to include figures for our operations outside of Europe.

04.2 Waste

In FY14/15, Esprit started the switch from plastic bags to paper bags. The reason for this switch is that the United Nations Environment Program (UNEP)³⁸ estimates that more than 13,000³⁹ pieces of plastic litter floats on each square kilometer of ocean surface. The plastics decompose very slowly under the influence of salt water and sun, releasing toxins that are harmful to the animals that live in the ocean. In FY14/15 we started to switch our plastic bags into paper bags in the European and Asia Pacific market. In Europe, we accomplished this switch in FY14/15, followed by our Asia Pacific stores, where the switch was set to be accomplished by December 2015. However, due to more structural complexity, this switch was delayed and instead finished by August 2016. By the end of FY15/16, all European and Asia Pacific retail stores, excluding outlets and stores in Malaysia, as well as wholesale POS use paper bags.

Due to the switch to recycled paper bags, we could save around 17 million paper bags in the European market in FY15/16.

In FY15/16 we started a project to label the Esprit hangtags with the Forest Stewardship Council (FSC) logo. In the past, Esprit already sourced hangtags made in FSC-certified paper, but to work towards more transparency and an improved consumer and partner communication of our sustainability efforts, we decided to print the FSC logo on our price hangtags of our Casual, Collection, Trend, edc, accessories and shoes collections from August 2016 onwards.

In FY15/16, we saved more than 520,000 cardboard boxes.

Back in 2011, we started a project in our Distribution Center Europe in Mönchengladbach, to prevent the use of cardboard boxes and hereby reduce our waste significantly. The cardboard boxes that have previously been used for delivering Esprit products to our retail stores have been replaced by robust and reusable plastic boxes. In FY15/16, we furthermore rolled-out this project to Austria, Belgium, Luxembourg, Netherlands and Switzerland. Therefore, the amount of reusable boxes increased to 75,000. In order to also cover the delivery of products to our retail stores in France, Poland and Sweden, we ordered 14,000 reusable boxes to roll-out the project to these countries in FY16/17. This roll-out was actually planned to happen in FY15/16 as well, but it took longer time than expected to accurately estimate the number of reusable boxes. To avoid that we buy more, than we need, or run out of boxes during peak seasons, we conducted a comprehensive calculation, which took more time than estimated. Only in FY15/16, we saved more than 520,000 cardboard boxes by using only 75,000 reusable boxes. After the roll-out to France, Poland and Sweden we expect in total a saving of around 600,000 cardboard boxes per year – a switch that will have a positive impact on the environment, while also cutting our costs.



³⁸ For further information please visit: <http://www.unep.org>

³⁹ For further information please visit <http://www.unep.org/regionalseas/marinelitter/about/distribution>



05
OUR PEOPLE

05.1 Diversity and equality

Esprit is active in around 40 countries and employs around 11,000 people worldwide. At our global headquarters in Ratingen, Germany, people from 41 nations work together. We are proud to be a global company and we are convinced that an international, diverse workplace influences innovation and the outcome of the work of our employees in the best possible way.

In such a multi-cultural workspace, a focus on mutual respect is indispensable. Discrimination has no place in our work environment. Therefore, Esprit has established a Code of Conduct, which applies to every employee in every country, where Esprit operates. As stated in our Code of Conduct, each Esprit employee must be treated with respect and dignity and harassment or any kind of intimidation will not be tolerated. Regardless of our colleagues' national origin, gender, religion, whether they are disabled or not, their age or sexual orientation, everybody is equally important and should thus be equally respected. With the Code of Conduct, we strive on a daily basis to conduct our business in a socially conscious manner, which ensures a more productive working environment. Violations of our Code of Conduct are rigorously pursued to protect all employees at Esprit. For any potential incidents of discrimination or harassment, we have implemented a confidential whistle-blower hotline, where employees anonymously can notify management, if they suspect or know of reportable incidents.

In Germany, where around 44% of our employees are based, the Equality Act⁴⁰ 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.

FTE/Headcount by Region & Country as of June 30, 2016

Region/Country	Total staff				Heads											
	FTE***	Heads	male	female	permanent contract			temporary contract			full-time			part-time		
					Total	male	female	Total	male	female	Total	male	female	Total	male	female
Europe/NA	5,055	7,207	16%	84%	77%	17%	83%	23%	16%	84%	42%	26%	74%	58%	9%	91%
Austria	232	337	11%	11%	100%	11%	89%	0%	0%	0%	37%	21%	79%	63%	5%	95%
Belgium	302	377	10%	10%	90%	9%	91%	10%	23%	77%	36%	15%	85%	64%	8%	92%
Denmark	41	48	16%	16%	83%	19%	81%	17%	0%	100%	75%	20%	81%	25%	8%	92%
Finland	38	55	4%	4%	69%	3%	97%	29%	6%	94%	42%	4%	96%	58%	3%	97%
France	410	461	25%	25%	68%	23%	77%	32%	30%	70%	64%	28%	72%	36%	20%	80%
Germany*	3,206	4,809	18%	18%	74%	19%	81%	26%	14%	86%	42%	29%	71%	58%	10%	90%
Great Britain	2	2	0%	0%	100%	0%	100%	0%	0%	0%	50%	0%	100%	50%	0%	100%
Italy	14	14	36%	36%	100%	36%	64%	0%	0%	0%	86%	33%	67%	14%	50%	50%
Luxembourg	26	33	12%	12%	94%	13%	87%	6%	0%	100%	30%	20%	80%	70%	9%	91%
Netherlands	298	429	13%	13%	73%	12%	88%	27%	15%	85%	30%	23%	77%	70%	8%	92%
Poland	84	97	19%	19%	57%	20%	80%	43%	17%	83%	66%	23%	77%	34%	9%	91%
Spain	74	82	4%	4%	93%	3%	97%	7%	17%	83%	30%	8%	92%	70%	2%	98%
Sweden	52	76	16%	16%	84%	16%	84%	16%	17%	83%	31%	26%	77%	69%	12%	88%
Switzerland	271	384	7%	7%	88%	7%	93%	12%	11%	89%	38%	12%	87%	62%	4%	96%
USA	4	4	25%	25%	100%	25%	75%	0%	0%	0%	100%	25%	75%	0%	0%	0%
APAC incl. Group	3,251	3,714	20%	80%	51%	28%	72%	49%	11%	89%	80%	21%	79%	20%	16%	84%
Australia	203	349	5%	5%	53%	8%	92%	47%	2%	98%	25%	12%	88%	75%	3%	97%
China	1,677	1,841	11%	11%	16%	15%	85%	84%	10%	90%	87%	9%	90%	13%	20%	80%
Hong Kong**	524	566	40%	40%	100%	40%	60%	0%	0%	0%	86%	42%	58%	14%	29%	71%
India	23	23	65%	65%	100%	65%	35%	0%	0%	0%	100%	65%	35%	0%	0%	0%
Macao	77	86	17%	17%	100%	17%	83%	0%	0%	0%	85%	15%	85%	15%	31%	69%
Malaysia	306	308	43%	43%	89%	43%	57%	11%	40%	60%	98%	42%	58%	2%	80%	20%
New Zealand	36	57	4%	4%	100%	4%	96%	0%	0%	0%	21%	0%	100%	79%	4%	96%
Singapore	171	188	23%	23%	83%	24%	76%	17%	16%	84%	84%	24%	76%	16%	17%	83%
Taiwan	234	296	27%	27%	89%	25%	75%	11%	38%	63%	72%	24%	76%	28%	33%	67%
Total	8,306	10,921	17%	83%	68%	20%	80%	32%	13%	87%	55%	23%	77%	45%	10%	90%

* including the quality & compliance office in Turkey

** including the sourcing offices in Bangladesh, Cambodia, Indonesia, Pakistan and Vietnam

*** Full-time equivalent

⁴⁰ For further information please visit <http://www.gesetze-im-internet.de/agg/index.html>

Workers' council and collective bargaining

At Esprit, we believe that it is important to have a regular and open dialogue with our employees. We therefore respect every individual employee's 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, wherever we operate. We apply the terms and conditions stated in collective bargaining agreements around the globe, wherever subsidiaries and employees are bound by it. Worldwide, 53.8% of our employees have been covered by collective bargaining agreements by end of FY15/16.

05.2 Talents

We believe that our people are Esprit's most important assets and we are therefore committed in investing and developing our employees. The dynamic environment of the fashion industry requires a high competency level from all our employees. We continuously seek to identify and meet the needs of our business and people, analyzing the requirements and applying adequate measures to further develop our employees. Therefore, we seek to support and motivate our people with new development paths and activities, to enable them to further develop their strengths and skills.

Esprit has an internal training and employee development program in place, covering all management levels. One of these trainings is a leadership and communication training in form of interactive, short and intense training modules. This is an important initiative to ensure that our leaders are continuously up to date with the best practices, when it comes to leading and motivating their teams. In FY15/16, we also provided an extensive textile training program to our Buying, Sourcing and Product teams. We organized internal trainings sessions on yarn and fabrics, dyeing and finishing, flat knits, circular knits, wovens and denim. Esprit technical staff lead the textile trainings, which included 29 separate training sessions. We aim at fostering a positive work environment for all our employees and we have therefore also arranged various functional and soft skills trainings to help our employees grow with the company. Our internal e-campus offers a variety of courses and training sessions, such as supervisory skills, product knowledge, service and sales management, performance management, communication and intercultural awareness trainings. In total, 42,600 training hours were conducted in FY15/16.

Esprit Summer School

The Esprit Summer School program started in the summer of 2015 in our headquarters in Germany. After the program's success, it was extended to our Distribution Center in Mönchengladbach, Germany. During the six weeks where the program runs, Esprit employees have the chance to get insights regarding Esprit's strategic initiatives and to raise their questions in an open forum, where dialogue, knowledge sharing and brainstorming is the main purpose. The aim of this knowledge exchange is to help colleagues from other departments to get an overview of the big picture of the different processes at Esprit and to support a better understanding of the various functions and professions. As the program returned in the summer of 2016, the focus areas were "Esprit Strategy Update", "We are Omnichannel! Update 2016", "Supply Chain & Sustainability", "Product, Product, Product - our product direction", as well as "Brand: our consumer, our focus, our heritage etc." Most of the program sessions are offered in both German and English to cater to our international workforce. To bring the Esprit Summer School to employees globally, we have furthermore in 2016 organized online-sessions.



Apprentices and Trainees

In order to ensure a sustainable supply of talents for Esprit's future growth and to fulfil our corporate social responsibility, Esprit continues to offer trainee and apprenticeship programs in our key markets. The aim is to train young graduates as well as individuals without tertiary education to start their career or to gain exposure in the business world. Our training programs are updated on an ongoing basis and we engage qualified trainers and mentors to coach and develop our trainees and apprentices.

In FY15/16, the following trainee programs were organized in Germany and Hong Kong:

- ✓ Design Trainee
- ✓ Technical Product Development Trainee
- ✓ Technical Design Trainee
- ✓ Buying/Sourcing Trainee
- ✓ Retail Store Management Trainee
- ✓ Sales Trainee
- ✓ Human Resources Trainee

Furthermore, our apprenticeship programs were in FY15/16 organized in Austria, Belgium, Germany, Luxembourg, the Netherlands and Switzerland:

- ✓ Apprentice for Retail Business
- ✓ Apprentice for Wholesale and Export



“The decision to start my apprenticeship at Esprit was perfectly right for me. I am thankful for all the different things and skills I learn in the daily-business – not only from a career perspective but also for my personal growth. Due to the concept of the apprenticeship, where we change departments on a regular basis, I get various insights and learn how processes within different departments connect with each other. Furthermore, I am able to find out which organizational area suits me best.

I would like to pursue my career in a creative department, such as Graphics. Actually, this is not a typical department for an apprentice for wholesale and export, but my supervisor is always very supportive and tries to consider my interests and strengths, as best as possible.

During my apprenticeship I was already encouraged to take on my own projects. My favorite project was the creation of a logo for Esprit's internal Spring Action, whereby employees surprised their colleagues with flowers. Even months after this project, many employees had my logo in their email signature, which made me really proud.”

Lyn Schmidt
Apprentice for Wholesale and Export, Esprit

We believe in the principle of "Growth from within". The trainee and apprentice programs are therefore a diverse and challenging opportunity, offering graduates and young professionals a platform to start a career at Esprit. In FY15/16, 39 apprentices and trainees successfully completed the programs and more than 74% decided to stay in with Esprit.



"For more than nine years, I have been responsible for our apprentices at the Esprit Headquarters in Ratingen, Germany. It is great for me to see the development of these young people and it makes me proud, when most of them decide to stay with Esprit. This makes our apprenticeship program a truly successful recruiting model at Esprit. Working with talented and engaged young people is the best job I could imagine!"

Angelika Hannig
Specialist Learning & Development, Esprit

05.4 Community and employee engagement

Acting responsibly in terms of our partners, the working conditions in our supply chain and towards the environment are important elements of the Esprit culture. As a company with a heritage of social awareness, we however want to go beyond that. On a voluntary level, a group of colleagues built "Esprit Cares" in 2014 – a volunteer program, dedicated to local community service and social engagement. In Esprit Cares, employees from all organizational levels and departments globally, joining in, engage and support others in need and to participate in social activities, beyond departmental or work-related matters.

One activity for example was in December 2015 the recurrent Christmas donation for two homeless shelters in Düsseldorf, Germany. Esprit employees prepared presents, such as gloves, warm socks and sanitary products, which were sent for Christmas Eve to the homeless shelters. Furthermore, employees supported several refugee homes in Düsseldorf, Cologne and Ratingen by building furniture and donating garments.

The Esprit Cares team in Hong Kong is also very active. In December 2015, they visited a retirement home with their friends and families in order to supply the residents with warm clothes.

In Shanghai, the Esprit Cares team invented the project "Magic of Ping-Pong". Table tennis is a popular sport in China and every summer, Esprit Cares China organizes some charity events especially for children. The Chinese colleagues, recently, as part of the project "Magic of Ping-Pong" organized several Ping-Pong games, where Esprit's employees bet on the winner – if they bet on the losing part, the double of the waged amount was donated to the charity. A lot of employees actively participated in this event and more than RMB 20,000 (~ 2,800 €) were raised to good causes.

Esprit is very proud about the different projects initiated on a volunteer basis of the employees.



06

BRINGING OUR PRODUCTS TO THE MARKET

06.1 Esprit Friends & consumer service

Satisfied and loyal consumers are indispensable for the success of the Esprit business. In order to keep our consumers pleased with our service and products, we started to establish seamless cross-channels operations to become a digital centric Omnichannel company. To achieve this target, we identified areas that need to be linked in order to have smooth processes between our different distribution channels and to give our consumers the ability to switch in between them and have the best purchase experience with Esprit⁴¹.

Our consumer loyalty program Esprit Friends⁴² is the base of our Omnichannel strategy. To become a Friend, consumers can register online in our e-shops, in our retail stores, or partner stores. The program provides exclusive advantages for its members, such as birthday presents, invitations to events, tailored mailings and free alterations. A close relationship with our Friends, listen to them and bring them the best of Esprit is our every day mission. At the end of FY 15/16 we counted more than 6 million active Esprit Friends who generate 70% of our retail sales.

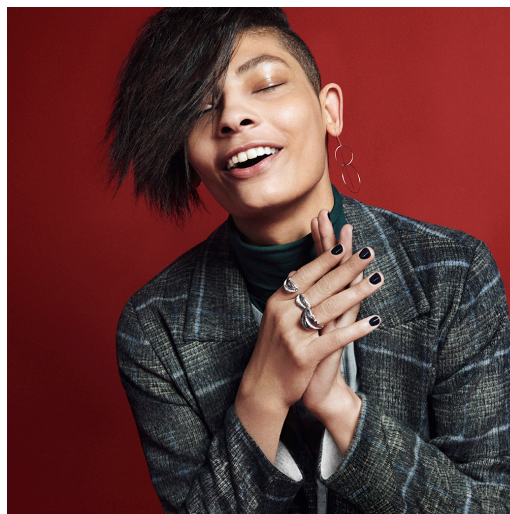
A further step towards accomplishing our goal of becoming a digital centric Omnichannel company, has been to establish seamless cross-channels operations. In the past, we identified the problem, that especially our partner stores could not see an advantage of the Esprit Friends program. In order to find a solution, we invented a partner program in 2015. For each purchase in our e-shop of an Esprit Friend, who was recruited in a partner store, the particular partner receives 5% of the purchase turnover. With this program, we want on one hand, to increase the advantage for a partner to recruit Esprit Friends and on the other hand, to support systematically the different distribution channels online and offline.

Feedback on our products and services are key drivers for a successful business for Esprit. Therefore, we have a feedback system for our consumers and wholesale partners in place, as especially these stakeholders have a major impact on our commercial success. Even though these groups get special attention, we strive to engage in a constant and open dialogue with all our stakeholders.

Being in direct contact with our consumers is for Esprit and our business model indispensable. Esprit offers a consumer service to wholesale partners and end consumers, to support and collect direct feedback. Our consumer service team for our end consumers takes care of all incoming calls and emails. Our hotline for our e-shop consumers is available in Europe from 8AM – 10PM, 365 days a year. From July 2016, the hotline is extended to all end consumers, including consumers who bought our products in partner stores and wholesale areas. Our diverse consumer service team can respond in ten languages: Czech, Danish, Dutch, English, Finnish, French, German, Italian, Polish, Spanish and Swedish. Polish was added in FY15/16, after the opening of our Online shop. In FY14/15, we aimed to ensure that 80% of all end consumers' emails are answered within seven hours. Due to structural changes, we were able to improve this time to six hours in FY15/16. On top of this, we also provide a chat function on our website where our team is available to respond to inquiries in real time. Moreover, we started our Whatsapp-Test-Pilot in Austria in August 2016. In order to create our consumer service as convenient as possible, end consumers can with this pilot contact us in the textmessaging app "Whatsapp". The test pilot will be conducted for two months and afterwards the results will be analyzed. If the pilot is a success the Whatsapp function will be extended to other European markets as well.

We provide our consumers with the opportunity to rate our consumer service in grades from 1 (= very good) to 6 (= insufficient). This data is used internally to constantly improve our service. In FY14/15, our consumer service achieved on average a score of 1.83. In FY15/16, this score slightly decreased to 1.87. However, with the changes we will implement in FY 16/17 we hope to improve our score again.

80% of all consumers' emails receive a response within six hours.



⁴¹ For further information on the Omnichannel strategy please read our Annual Report FY15/16

⁴² For further information please visit: <https://www.esprit-friends.com/> or in our Annual Report FY15/16



06.2 Responsible marketing

In the fall of 2015, Esprit started the #ImPerfect campaign⁴³. This entailed that we asked ourselves, who is perfect? At Esprit, we believe that a person's little imperfections render an individual memorable, making them able to stand-out from the crowd. With the #ImPerfect campaign we want to celebrate this diversity and encourage our consumers to embrace, who they are. #ImPerfect is a message that aims to empower the individual to love all those little imperfections and different ways of being, qualities which render each of us perfect in our own right. With its simplicity and double meaning, the campaign allows viewers to make up their own minds concerning what #ImPerfect means to them. Therefore, the

#ImPerfect campaign represents a lively cast of unique looking characters instead of typical models. The diverse faces and styles clearly dispel the notion that one 'ideal' look reigns supreme, or that one fashion approach wins out.

We believe that there is nothing more rare, or more striking than a person being unapologetically themselves. For Fall/Winter 2016, the selected looks represented the sentiment of unbridled freedom of expression characteristic of the 1970s and the early founding days of Esprit. This is the true essence of a life lived unbounded and the simple message behind **#ImPerfect**.



“With the #ImPerfect campaign, we are connecting back to the roots of Esprit communication and the early days of the brand, reinstating the empowerment, the passion for a cause and the human spirit that has always been in our DNA. We believe that the campaign will resonate with today's younger generation in a distinctive and authentic way. We are excited about the positive momentum we built with the first campaign cycle, which strengthened Esprit in terms of both brand and business aspects.”

Arnd Müller
Chief Brand Marketing Officer, Esprit

⁴³ For further information please visit: http://www.esprit.com/press/news/news_detail?identity=178



07

PERFORMANCE DATA

General standard disclosures

		Page	Notes and Omissions
Strategy and analysis			
G4-1	CEO statement	8-10	
Organizational profile			
G4-3	Name of organization	11	
G4-4	Primary brands, products, and services	13	
G4-5	Location of the organization's headquarters	11	
G4-6	Number of countries where the organization operates, and names of countries where the organization has significant operations	11	
G4-7	Nature of ownership and legal form	11	
G4-8	Served markets	11	
G4-9	Scale of organization	11	
G4-10	General employee-related disclosures	42	
G4-11	Percentage of total employees covered by collective bargaining agreements	43	
G4-12	Organization's supply chain	26-34	
G4-13	Significant changes during the reporting period	-	No significant changes during reporting period
G4-14	Precautionary approach	14; 33; 39	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	20; 22-24; 27-28; 29-33; 34; 36; 42	
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.
Identified material aspects and boundaries			
G4-17	List of all entities	7; 11	This report covers all organization's entities as the Annual Report
G4-18	Process for defining the report content	17-19	
G4-19	Identified material aspects	19	
G4-20	Material aspects and aspect boundaries within the organization	17-19	
G4-21	Material aspects and aspect boundaries outside the organization	17-19	
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	19	
G4-25	Basis for identification and selection of stakeholders	17-19	
G4-26	Organization's approach to stakeholder engagement	17-19	
G4-27	Key topics and concerns raised through stakeholder engagement	18	
Report profile			
G4-28	Reporting period	7	
G4-29	Date of most recent previous report	-	FY14/15 (financial year from July 01, 2014 - June 30, 2015)
G4-30	Reporting cycle	7	
G4-31	Contact point for questions	7	
G4-32	Chosen 'in accordance' option	7	
G4-33	External assurance	-	This report has not been externally assured.
G4-34	Governance structure	3; 14	
Governance			
G4-56	Organization's values, principles, standards and norms of behavior	15; 29; 42	

Specific standard disclosures

Material aspect	GRI G4 material aspect	DMA and indicators	Page	Notes and omissions
1 Sustainable business	Economic performance	G4-EC1: Direct economic value generated and distributed	11-12	Please find the disclosure on p. 44-57 and 91-96 in our Annual Report FY15/16.
		G4-SO3: a. Global anti-corruption assessment	15	Reason for omission: Confidential information.
2 Anti-corruption	Anti-corruption	G4-SO4: a. Anti-corruption policy and its communication within the organization	15	Reason for omission: Confidential information. Reason for omission: Numbers are not available because there are currently no data collection systems in place.
	Own aspect	Learning Membership in Better Cotton Initiative	22	
3 Sustainable materials	Own aspect	Participation in Canopy program	23	
	Social	G4-PR3: Type of product and service information required by the organization's procedures for product and service information and labelling	23	
4 Product confidence	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.
5 Animal welfare	Own aspect	Implementation of the Responsible Down Standard	24	
6 Supplier relationship	Own aspect	Narrow base supply chain strategy	27	
7 Measuring sustainability	Own aspect	Using the Environmental and Social Brand Modules of the HIGG Index	27-28	
		G4-LA14: Percentage of new suppliers that were screened using labor practices criteria.	31	
		G4-LA15: Significant actual and potential negative impacts for labor practices in the supply chain and actions taken (Social Compliance Assessment)	31	
8 Responsible sourcing	Social	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.	31	
		G4-HR10: New suppliers that were screened using human rights criteria (Social Compliance Assessment)	31	
		G4-HR11: Significant actual and potential negative impacts for human rights impacts in the supply chain and actions taken (Social Compliance Assessment)	31	
9 Chemical management	Own aspect	ZDHC-Group: Elimination of all hazardous chemicals in the supply chain until 2020	34	
	Own aspect	Audit & Training program to keep our supply chain PFC-free	34	
		G4-EN15: Direct greenhouse gas emissions (Scope 1): Headquarters, DCE, fleetcars	36	
10 Carbon footprint	Environmental	G4-EN16: Indirect greenhouse gas emissions (Scope 2): Headquarters, DCE, German retail stores, German showrooms	36	
		G4-EN17: Indirect greenhouse gas emissions (Scope 3): Logistics (vessel, airplane, truck, rail), business travel (train, airplane)	36	
11 Waste	Own aspect	Savings of plastic bags due to exchange to recycled paper bags	40	
	Own aspect	Save of cartons due to usage of reusable boxes in logistics	40	
12 Diversity & equality	Own aspect	Implementation of Esprit's Code of Conduct	42	
13 Talents	Own aspect	Implementation of communication, leadership, soft-skills and textile training sessions	43	
14 Community & employee engagement	Own aspect	Implementation and projects of the Esprit Cares group	45	
15 Esprit Friends & consumer Service	Own aspect	Establish seamless cross-channel operations	47	
16 Responsible marketing	Own aspect	Imperfect campaign	48	

