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

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

This is Esprit Holdings Limited’s (called “Esprit” in this report) Sustainability Report, written in accordance with the Global Reporting Initiative (GRI) G4 “Core” level. The Sustainability Report is produced annually, together with our Annual Report covering our financial performance. This Report covers our identified material aspects, risks and focus areas as well as gives an overview of the sustainability strategy, efforts and projects of Esprit and all its entities that are covered in the Annual Report for the financial year FY16/17, ended 30 June 2016.

We welcome readers’ feedback.
Please send us your thoughts to sustainability@esprit.com
Our focus: PEOPLE and PLANET

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

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

We are Responsible

We are Ethical
Our focus: PEOPLE and PLANET

Our activities under PLANET are guided by these additional commitments:

We Choose Sustainable Materials

We Protect our Planet
Dear Readers,

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

Our Approach

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

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

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

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

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

Transparency: In August of 2017 we published a list of all our direct suppliers and their subcontractors. We incorporated social and environmental sustainability aspects into our supplier evaluation. We use a supplier scorecard system that considers sustainability performance in the overall supplier scoring methodology, and incorporates the Higg Index.

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

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

As we consider the most urgent sustainability topics and set our priorities accordingly, there are several areas in particular where we see our engagement increasing. We believe in implementing cleaner chemistry, and in cleaner production, which is an approach for manufacturing using fewer resources. Beyond manufacturing, we see a role for responsible resource use throughout the life cycle of a garment, from raw material to retail. This covers topics such as water use, pesticide and fertilizer use, and energy use and emissions, as well as chemicals.

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

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

Jose Manuel MARTÍNEZ GUTIÉRREZ
Executive Director and Group CEO
## Background to this report

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Sustainable Business

20 e-shops

666 retail stores

HK$ 15,942 mio. revenue

6037 wholesale POS*

40 countries

HK$ 67 mio. net profit
Our Products

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

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

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

OUR LIFESTYLE WORLD

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

There are 17 goals, accompanied by 169 specific targets. Businesses, alongside governments, are encouraged to implement actions in support of these goals in order to achieve the framework’s ambitious goals by 2030. We at Esprit have decided to take on this challenge.
UN Sustainable Development Goals -
WHY THEY ARE INCORPORATED

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

To plan sustainable and being a successful company also in the future, we want to acknowledge the needs and the interests of the different groups of stakeholders that make up our community. We have identified five main stakeholder groups: employees, shareholders, business partners, external interest groups, and customers. Our goal is to understand and address the different needs of each group. One way we have done that this year is by including these groups in our stakeholder survey, detailed next.
In the spring of 2017, we distributed a survey to our stakeholders to better understand their priorities and concerns regarding our business in general, and sustainability in particular. In the past, we have conducted similar assessments with internal stakeholders, but we are proud to have expanded our outreach to a wider group this year. This shifts some of the results as compared to last year, however we were able to gain a better view as to which social, environmental and economic aspects are most important for all of our stakeholders.

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

- Business Performance
- Responsible Sourcing
- Customer Satisfaction
- Water & Chemical Management
- Living Wage
- Animal Welfare
- Product Safety
- Compliance
- Relationship with our suppliers
- Employee Development
- Sustainable Materials
- Responsible Marketing
- Gender Equality
- Solid Waste
- Carbon Footprint
- Diversity & Equality
- Community & Employee Engagement

02. BACKGROUND TO THIS REPORT
Goals and Progress

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

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

ographer

WE ARE RESPONSIBLE
Verify social performance of 100% of direct suppliers annually

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

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

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

WE ARE ETHICAL
Create a Responsible Marketing Guideline by June 2017
Goals and Progress

FOCUS AREA: PLANET

WE USE RESOURCES RESPONSIBLY

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

100% of our down and feathers are sourced according to the Responsible Down Standard

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

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

WE PROTECT OUR PLANET

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

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

Publication of a Care Guideline for our customers by March 2017

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

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

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

**GOALS AND PROGRESS**

= ongoing

100%

- Verify social performance of 100% of direct suppliers annually

95%

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

80%

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

82%

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

**Our Accomplishments**

- We completed 343 factory audits in FY16/17.
- We have reduced the number of factories we partner with by 11% in comparison to FY13/14 enabling stronger relationships and better supply chain management.
- 75% of our products are produced in 114 factories.
- We have developed a transparent supplier scorecard that incorporates sustainability criteria.
- We know the compliance status of 100% of our supplier factories.
- We are part of the Business Social Compliance Initiative (BSCI) program and we are a Global Buying Partner in the Better Work program.
- We are a member of ACT (Action, Collaboration, Transformation), a multi-stakeholder initiative that is working to support living wages in the textile and garment supply chain.
- We have developed a transparent supplier scorecard that incorporates sustainability criteria.
- We have completed 343 factory audits in FY16/17.

**Overview audits per country in %:**

- Albania: 100%, Bangladesh: 100%, China: 100%, India: 100%, Indonesia: 100%, Lithuania: 100%, Madagascar: 100%, Macedonia: 100%, Netherlands: 100%, Pakistan: 100%, Romania: 100%, Serbia: 100%, Spain: 100%, Sri Lanka: 100%, Tunisia: 100%, Ukraine: 100%, Vietnam: 100%.
We are Responsible

OUR APPROACH

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

USTRONGER RELATIONSHIPS

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

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

TRANSPARENCY

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

The score card drives home to suppliers that sustainability is a priority for Esprit. It explicitly links sustainability performance with the suppliers’ ability to receive orders from Esprit. Additionally, in August 2016 we published our Tier 1 and Tier 2 supplier list, according the requirements of our Detox Commitment and in alignment with our push toward greater transparency. In November, Human Rights Watch (HRW) contacted us about participating in their Pledge on Supply Chain Transparency. We think transparency is a crucial part of being a fair and sustainable company, so we added additional details to our supplier list, such as the amount of workers in a factory, to align with HRW’s requirements. When we updated this list in February, we became one of the original group of brands to fulfill the HRW Pledge on Supply Chain Transparency. We will update our supplier list every six months and make it publicly available on our website. It is our goal to cover all suppliers we know of.
WHERE OUR PRODUCTS ARE MADE*
*based on quantity

Bangladesh 32.69%
- 45 factories

China 26.37%
- 152 factories

Vietnam 7.05%
- 37 factories

Indonesia 3.06%
- 7 factories

Indonesia

Pakistan 5.56%
- 13 factories

Africa 2.17%
- 16 factories
Including Madagascar, Morocco and Tunisia

Portugal 3.18%
- 40 factories

Rest of Europe 2.46%
- 48 factories
Including Albania, Belarus, Bulgaria, Italy, Lithuania, Macedonia, Netherlands, Poland, Romania, Serbia, Spain and Ukraine

Rest of Asia 3.56%
- 26 factories
Including Cambodia, Myanmar, Philippines and Sri Lanka

India 6.83%
- 52 factories

Turkey 7.07%
- 36 factories

Pakistan

WHERE OUR PRODUCTS ARE MADE*
*based on quantity

03. PEOPLE

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

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

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

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

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

²Better Work is a collaboration between the United Nation’s International Labour Organization (ILO) and the International Finance Corporation (IFC) – is a comprehensive program bringing together all levels of the garment industry to improve working conditions and respect of labor rights for workers, and boost the competitiveness of apparel businesses. As a result of their participation in Better Work, factories have steadily improved compliance with ILO core labor standards and national legislation covering compensation, contracts, occupational safety and health and working time. This has significantly improved working conditions and, at the same time enhanced factories’ productivity and profitability.
While Esprit has very clear requirements for factory working conditions based on local law and International Labour Organisation (ILO) standards, a constant challenge in our industry is monitoring compliance. We work closely with factories to ensure that they meet and maintain our requirements, however virtually every factory that is audited has one or more findings requiring remediation. Often, these findings are relatively minor. Esprit’s approach to factory compliance is that we set minimum standards and focus on working collaboratively with our supply chain partner to meet these requirements and resolve issues in their factories. All factories that are audited receive a corrective action plan that lists any problems that were found, outlines the actions they must take to address the problem, and provides a timeline within which improvements must be completed. We support our suppliers for improvement beyond our minimum standards, focusing on helping factories to build better management systems so that they can be better equipped to maintain their progress.

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

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

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

Zero Tolerance findings in factories are relatively rare. The most common non-compliances in our factories include:
- Inconsistencies between compensation policies and wage calculation (incorrect wage calculation)
- Inconsistencies between factory policies and information obtained in worker interviews
- Excessive overtime
- Inadequate machine safety (e.g. missing safety guards, etc.)
- Lack of effective grievance procedures
- Insufficient oversight of subcontractors’ compliance
We are Responsible
SOURCING RESPONSIBLY

**BANGLADESH ACCORD**

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

**ESPRIT’S RESPONSE TO REFUGEES IN TURKISH TEXTILE Factories**

Refugees are particularly vulnerable populations, and while job opportunities in the apparel industry in many cases are a much-needed opportunity, these people are also vulnerable to exploitation, including child labor or low wages. In Turkey, refugees often struggle to secure the proper documentation needed to work. Our aim is to support refugees in Turkey in securing the opportunities, and the services, they need to rebuild their lives. Early on, Esprit saw the problem and joined with other brands to help lift administrative roadblocks preventing refugees from working legally. In 2015, we joined with the Fair Labor Association (FLA) to pressure the Turkish government to allow people under “temporary protection” to be granted work permits. When this was successfully passed, in 2016, we formulated a policy which has guided our actions in cases where we have found refugees working in our supplier factories. Esprit’s policy includes the following key points:

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

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

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

In addition to support for collective bargaining, ACT members aim to support productivity improvements, and to review buying practices to ensure that actions support payment of a living wage. As an initial step, in March 2017 our buying team took part in a pilot self-assessment study on buying practices. These first results will be anonymized, analyzed and compared with the other brands. This pilot is a start for a bigger round of self-assessments on buying practices to identify what needs to be changed in the future to help achieve a living wage in factories.
ONE WAY ESPRIT LIVES OUT OUR COMMITMENT TO SUPPORTING POSITIVE LIVES, SELF-EXPRESSION AND SELF-DETERMINATION, IS THROUGH OUR SUPPORT FOR INITIATIVES THAT EXPAND OPPORTUNITIES FOR YOUNG PEOPLE, AND ESPECIALLY FOR YOUNG WOMEN.

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

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

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

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

#### OUR ACCOMPLISHMENTS

<table>
<thead>
<tr>
<th>We provide regular <strong>Anti-Corruption and Anti-Trust trainings</strong> for all departments and regions with high risk.</th>
<th>2029 employees in Europe and Asia have been invited to evaluate their <strong>391</strong> team leads.</th>
<th>People from more than <strong>57</strong> countries work at Esprit.</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have created a <strong>Responsible Marketing Guideline</strong>.</td>
<td>100% apprentices successfully finished the apprentice program.</td>
<td><strong>109</strong> trainees globally successfully finished the trainee program.</td>
</tr>
<tr>
<td>All new employees have signed our <strong>Code of Conduct</strong> and received dedicated trainings.</td>
<td><strong>62%</strong> apprentices stayed at Esprit.</td>
<td><strong>90%</strong> of the trainees in our Headquarters in Ratingen stayed at Esprit.</td>
</tr>
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</table>
We are Ethical

Our Approach

Compliance and ethical behavior is a top priority for Esprit. Esprit stands for lawful and ethical business practices and zero tolerance for unethical or illegal conduct. This requires every one of us to pay attention every day not only to how we do business, but also to how we interact with each other in the workplace. To ensure our behavior and our communications align with our values we have developed clear compliance policies. The core of these policies is captured in our Code of Conduct. In the following chapter we want to highlight our compliance program as well as our newly-developed guideline on Responsible Marketing.
Our Code of Conduct is the heart of all our policies. It must be signed by all our employees before they start at Esprit. Esprit strongly believes that free and fair competition forms the basis of commercial activity. Therefore we have implemented a clear Anti-Corruption policy for all employees as well as an Anti-Trust Policy that prohibits certain agreements, practices and conduct which are against anti-corruption law and competition law. To ensure that the policies are fully understood and that our employees feel confident complying with our expectations, we train all employees in high-risk departments and regions on anti-corruption and anti-trust. In order to encourage people to bring any issues to our attention, we have a Whistleblowing Helpline in place. The Whistleblowing Helpline is open for all Esprit employees worldwide as well as for the employees of our customers, suppliers, and business partners. In addition, we have appointed a dedicated Compliance department, who can be contacted either directly or through the Whistleblowing Helpline at any time to give guidance in sensitive situations. All cases are handled strictly confidentially.

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

OUR GUIDELINES

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

• **Campaigns:** Claims and messages of our campaigns are chosen carefully

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

• **Choosing models:** We focus on selecting models who portray a healthy look, and on presenting them in an appropriate way

• **Kids campaigns:** For photo shootings with kids we follow the international and local laws and requirements. There is always at least one representative of Esprit to make sure that all requirements are obtained

• **Animals:** When animals are used in our production, we follow the international and local laws and requirements. No animals are harmed during a production and they have professional guidance

GOAL AND PROGRESS

Create a Responsible Marketing Guideline by June 2017

100%
As a real people company, we believe that we are defined by our people, and we are only as successful as they are. This is one reason we support our people grow in their careers. In December 2016, we launched the Esprit Learning Center platform, an internal site available to our employees around the world.

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

Please find more information here.
We are Ethical
OUR PEOPLE

TRANSPARENCY

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

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

MZWANELE THABISO MILO,
SALES ASSOCIATE

I’ve been with Esprit for three years now. I actually started as a temporary store assistant while I was studying to be a teacher. I ended up staying with Esprit because I enjoyed my job so much! I love how open and friendly everyone on the team is. We are all very happy in our jobs, and we have great team spirit. I also really like working directly with the customers. Often people come and ask my advice because they need an outfit for a special occasion, and I will immediately have an idea for what could be right for them. Seeing a happy customer motivates me every day!
What makes Esprit a unique company? We think it is the over 9,000 unique people who make up our team, all of whom bring unique perspectives, adding to the innovative, creative, and welcoming environment we strive for. In order to protect this atmosphere, we have developed an internal Code of Conduct that applies to every employee in every country where Esprit operates. This code lays out Esprit’s expectations that each employee must be treated with respect and dignity; harassment or any kind of intimidation will not be tolerated. Our top priority is the protection of our team members, so violations of our Code of Conduct are rigorously pursued. We have implemented a confidential whistle-blower hotline so that employees can anonymously notify management if they suspect or know of incidents.

We are proud of our diverse team, with 57 countries represented just at our headquarters office in Ratingen. In Germany, where around half of our employees are based, the Equality Act provides the legal framework for extensive protection against discrimination. The purpose of this Act is to prevent and stop discrimination on the grounds of race or ethnicity, gender, religion or belief, disability, age or sexual orientation.
Esprit's heritage of social awareness continues to inspire our teams today. “Esprit Cares,” an initiative launched by Esprit employees in 2014, enables our teams to volunteer in various community initiatives wherever Esprit is present. The intention is to create tangible impact within our communities around the world, and to empower employees to determine what is meaningful to them. This platform also creates a space where everyone from different departments and levels can interact beyond the office, bringing everyone closer to the heritage of Esprit, further instilling the values of sustainability, community development, and social impact.

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

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

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

Continue reading to learn more about our goals, activities, and our progress so far.
We Choose Sustainable Materials

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

**GOALS AND PROGRESS**

100%

- 50% of our virgin sheep wool will be sourced according to the \textit{Responsible Wool Standard (RWS)} by 2022.

10%

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

0%

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

0%

- 50% of our down and feathers are sources according to the \textit{Responsible Down Standard (RDS)}

*Including BCI cotton, organic and recycled cotton
Esprit is a fur free company and part of the Fur Free Retailer Program.

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

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

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

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

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

SUSTAINABLE FIBERS

OUR APPROACH

The materials we use to make our products come from nature; what we choose and how we source these materials has implications for environment. Responsible use of these resources is not only a business imperative in the long term, it is how we demonstrate our values. We consider things such as water use, land use, animal welfare, chemical use, and human health in our approach to sustainable materials, which prioritizes our most commonly-used fibers and materials. This includes cotton, viscose, polyester, wool, and leather. See more detail on each of these materials on the following pages.
Conventional cotton growing often requires large quantities of pesticides, herbicides and fertilizers, which can have a negative impact on the environment. In addition, cotton needs a lot of water to grow, which is an increasingly scarce natural resource in many cotton-producing regions.

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

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

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

More broadly, Esprit participates in the natural fibers working group of the Partnership for Sustainable Textiles, a German government sponsored multi-stakeholder initiative seeking to improve sustainability in the textile industry.
100% organic cotton

Grown without the use of pesticides or synthetic fertilizers

Made in Portugal

Certified with the Organic Content Standard (OCS)

Zero waste: out of the cutting waste new yarn has been made.

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

Cellulosic materials, such as viscose, rayon and lyocell are manufactured artificial fibers, as opposed to natural fibers like cotton, or synthetic fibers like polyester. The raw material is derived from natural sources of cellulose, often trees. In order to responsibly source these fabrics, the cellulose needs to come from properly managed forests, as opposed to endangered or old-growth forests, and the chemical processes should be as efficient as possible, aiming for a closed-loop system. We partnered with the environmental non-profit organization CanopyStyle in September of 2015 to ensure that our cellulose fabrics do not come from at-risk forests. We support a future that does not exploit ancient and endangered forests to create man-made cellulosic fabrics. For more information, please see Esprit's Policy on Protecting Forests Through Fabric Choices.
Synthetic leather, which is generally polyurethane-based, allows us to create leather-like products without animal-derived materials. However, the challenge is that the manufacture of conventional polyurethane (PU) requires a solvent called DMF, which can be hazardous for workers and can pollute the environment. We are working to shift our production from conventional PU to water-based PU that does not use DMF.

This is a challenge for a number of reasons:
• Suitable alternatives need to be further developed
• Any alternatives must continue to meet Esprit’s quality standards and provide good technical performance
• Costs remain high for new and innovative alternatives
• We must address all potential sources of cross-contamination

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

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

OUR COMMITMENT

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

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

One challenge we see in this area is that there only a few certification standards considering animal welfare. To ensure that all animals in our supply chain are treated with respect and in accordance with the principles of the Five Freedoms.
Esprit is a fur free company and part of the Fur Free Retailer Program. This means that we only use fake fur in our products.

**DOWN**

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

ANIMAL WELFARE

WOOL

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

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

RESPONSIBLE WOOL KICKSTARTER PROGRAM

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

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

• Show farmers that brands have a strong and sustained commitment to responsibly raised wool
• Give supply chain players the confidence to invest in RWS inventory and create buffer stocks that will allow them to respond quickly to demand
• Provide one-time financial support to selected farmers embarking on certification
Esprit has strict rules for the use of leather in our products. We require our leather to be a by-product of the food industry, and our suppliers must be able to trace raw hides and skins back to their country of origin. We do not source leather from endangered or threatened species that appear on the lists from the International Union for the Conservation of Nature (IUCN) or the Convention of International Trade in Endangered Species of Wild Fauna and Flora (CITES).

LEATHER ADVISORY GROUP

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

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

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

GOALS AND PROGRESS

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

Publication of a Care Guideline for our customers by March 2017

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

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

16% 100% 72%

57%
We Protect our Planet

OUR ACCOMPLISHMENTS

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

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

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

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

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

Esprit is a member of the ZDHC Group, working collaboratively with other brands to achieve the Detox goals by 2020.
In the production of clothing, water, energy and chemicals are linked closely together. At Esprit, we feel that the greatest impact we can have on these issues is by promoting cleaner production, which is a way of working that emphasizes measurement, process control, resource management, and optimization so that water, energy and chemicals can be minimized. We support this approach through our work with the Sustainable Apparel Coalition’s Higg Index, our membership in the Zero Discharge of Hazardous Chemicals (ZDHC) Joint Roadmap, and our shifts to safer chemicals, detailed here. Overall, throughout these various initiatives, we emphasize measurement, improvement, and transparency.

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

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

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

MAPPING

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

ASSESSING

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

IMPROVING

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

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

To follow-up on improvements, we hand over a corrective action plan to each supplier that has been audited. After a set time frame we visit the factory again and make sure that all measurements have been implemented.
CHEMICALS
The first step to fulfill the Detox Commitment is the adoption of a Manufacturing Restricted Substances List (MRSL) which each supplier has been required to follow since 2013. At that time, we merged the MRSL together with our existing Restricted Substances List (RSL). The RSL defines the international requirements as well as our own standards beyond legal requirements that finished products and packaging must meet with regard to chemicals. Whereas the RSL focuses on the amount of restricted chemicals in the final Esprit product, the MRSL focuses on hazardous chemicals that have to be phased out from chemical formulations used during the manufacture of Esprit products. These chemicals are often washed during the manufacturing process. We also included the limits in terms of chemicals in wastewater into this combined list.

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

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

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

CONTROL OF WASTEWATER
Esprit adopted the ZDHC Wastewater Guidelines in February 2016. The ZDHC Wastewater Guidelines have been adopted by most leading brands in the industry. By adopting those guidelines, rather than developing our own, Esprit is able to take advantage of experience across the industry and to allow our factories to work on one standard instead of a separate standard for each of their customers.

In November 2017, the ZDHC wastewater and chemical requirements will become part of the Higg Index 3.0. The next step is that we will require our suppliers to upload their wastewater testing data on the IPE or ZDHC platforms by April 30, 2018. This is an ambitious step; we know that by the end of the FY16/17, only around 16% of our wet process suppliers uploaded their data. Esprit is cooperating with a third-party testing laboratory to develop a training and testing program. This program will provide factories with the training they need to manage chemicals and wastewater treatment appropriately, and to have wastewater testing done in compliance with the adopted Wastewater Testing Guidelines by the ZDHC.

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

Our water-repellent products are produced without perfluorinated chemicals (PFCs) since December 2014. Learn more about our journey to become PFC-free here.
Overall quality assurance is a key point in our corporate strategy and our commitment to our customers. We continually follow developments in legal requirements and social expectations, as well as technical and design innovations, to ensure that we live up to our brand’s promise.

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

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

We implemented processes, to ensure that our products are safe:
• All Esprit products are tested by independent and certified laboratories before leaving the factory
• Our in-house laboratory also checks goods as they are delivered to our distribution center
• These physical and chemical tests are in accordance with global standards and norms. The tests include compliance with our Restricted Substances List (RSL)

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

As a Fabric Quality Manager, I spend a lot of time visiting our Tier 2 suppliers, where our dyeing and finishing happens. We do this to keep an eye on quality and to make sure we understand the processes and the chemicals being used, and to assess a factory’s practices. During a visit, I make sure the factories understand our expectations, our approach to sustainability, and how we will assess them. After an assessment, we leave the mill with a Corrective Action Plan, which they use to improve their operations and to address any concerns we might have.

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

The biggest challenge is making sure our suppliers understand why sustainability is so critical. Our intention at Esprit is to support our partners wherever we can, educate them as much possible, help them take ownership and responsibility for sustainability, and bring greater awareness to throughout the supply chain.
Sustainability does not stop after the production process. Environmental responsibility is also important when the garment is in the hands of the customer. Esprit wants to raise customers’ awareness on the sustainable use of textiles. To do so, we aligned our care labels with the Clevercare instructions. Clevercare provides information about more sustainable washing, drying and ironing of garments. Small things, such as reducing washing temperature to cut down on overall energy consumption, can have an impact on the environment. Clevercare also provides detailed information about the common care symbols. The link to the Clevercare website can be found on the care labels of all our apparel products.

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

Esprit’s in-house quality department watches over quality during production and after shipment to our warehouse, but this does not end with the sale of a garment. We watch over quality even while the garment is in the hands of the customer by empowering them to better care for their items so they last for a long time. Proper care has a great impact on the durability of garments. Our Care Guideline helps our customers to make sure that their Esprit clothes last a long time. The Guideline explains, for example, how to properly care for silk or wool garments and explains the care symbols.
When the life of our products comes to an end, we seek to keep them out of the landfill. Esprit wants to close the loop and actively push for a circular economy. Recycling and reusing garments is a more sustainable solution to extend the life of a textile.

Together with our partner PACKMEE we want to give people the chance to extend the life of their garments by donating the items they are no longer using. PACKMEE collects donations of usable clothing and shoes and provides user-friendly and free shipment by parcel service in the German market. The initiative aims to extend the life of clothing and to create a sustainable cycle in the textile industry. Over half of the proceeds from the program are donated to the German Red Cross. Customers can choose an Esprit voucher for a 10% discount in exchange for donating their old clothes. Around 95% of the donated garments could be reused or recycled.
Because of the global nature of our business, one area we need to consider carefully when working toward greater sustainability is transportation. The main modes of transport we use to move our garments from the factories to our distribution centers are sea, air, combined sea/air, truck, and rail.

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

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

Smarter Packaging

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

Our approach to better management of packaging included three phases:

1. Auditing
2. Certification of packaging suppliers
3. Control & follow up

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

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

E-Commerce

Smarter packaging and transport are even more important in our e-commerce business, where six different package sizes and shipments to thousands of individual home addresses make operating responsibly a complex matter. All of the boxes and envelopes that Esprit uses are made of recycled cardboard or paper. Whenever possible, we try to use envelopes, which are smaller and compactable, as well as easier for our customers to carry. To reduce the impact of our shipments, we set an ambitious target: 90% of our European e-commerce shipments will be carbon-neutral or shipped via reduced emissions programs by the end of June 2018. To achieve this goal, we focus on developing more sustainable shipping programs with our carriers. 65% of our shipments in Europe are already sent via such programs. In 2016, we were able to neutralize more than 1,646 t CO₂e due to more sustainable shipping.
With over 650 directly-managed retail stores and over 6,000 partner stores, there is great potential to work towards sustainability at the point of sale.

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

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

**OUR CARBON FOOTPRINT IN FY16/17**

**SCOPE 1**
- Gas for heating
  - Headquarters • DCE
- Fuel
  - Fleetcars (202)

**TOTAL GHG:** 1,424 t CO₂e*

**SCOPE 2**
- Electricity
  - Headquarters • German Retail Stores (own-operated)
  - German Showrooms • DCE

**TOTAL GHG:** 15,976 t CO₂e

**SCOPE 3**
- GHG
  - Logistics airplane, truck, rail**
  - Business travel train, airplane

**TOTAL GHG:** 28,778 t CO₂e

* Out of scope: 20 t CO₂ due to bio-fuel
**  Esprit participants in the ‘DB Umwelt Plus’ program of Deutsche Bahn

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

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*Esprit has no global collective bargaining agreements. Therefore this data cannot be provided.*

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*Regular performance and career development review; Product and service information labeling; Reporting Period; Spill; Significant operational changes*

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*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.*
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"Our [Esprit Friends] program offers our customers to collect e-points for every purchase and receive a bonus. The program provides exclusive advantages, such as exclusive offers, invitations to events and birthday surprises. Additionally Esprit offers a customer service in different languages via email, chat or telephone."
Corporate Information

Chairman
- Raymond OR Ching Fai
  Independent Non-executive Director

Deputy Chairman
- Paul CHENG Ming Fun
  Independent Non-executive Director

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

Non-executive Director
- Jürgen Alfred Rudolf FRIEDRICH

Independent Non-executive Directors
- José María CASTELLANO RIOS
- Alexander Reid HAMILTON
- Carmelo LEE Ka Sze
- Norbert Adolf PLATT

Company Secretary
- Florence NG Wai Yin

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

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

Stock code
- SEHK: 00330
- ADR: ESPGY

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Bermuda

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