



K E R I N G

REFERENCE DOCUMENT 2013

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chapter 1
kering in 2013

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1. *history*

The Kering group was founded by François Pinault in 1963, as a timber and building materials business. In the mid-1990s the Group repositioned itself on the retail market and soon became one of the leading players in the sector.

The acquisition of a controlling stake in Gucci Group in 1999 and the establishment of a multi-brand Luxury Goods group marked a new stage in the Group's development.

In 2007, the Group seized a new growth opportunity with the purchase of a controlling stake in PUMA, a world leader and benchmark in sportlifestyle.

In 2013, the listing of Groupe Fnac and the announced disposal of La Redoute represent a major milestone in the process of divesting mass market retailing assets, a strategic decision made a few years ago.

Kering strategy remains focused on growing apparel and accessory brands that operate within two of the most dynamic sectors – Luxury and Sport & Lifestyle.

1963

- François Pinault establishes the Pinault group, specialising in timber trading.

1968

- Flotation on the Paris Stock Market's Second Marché of Pinault SA, a company specialising in timber trading, distribution and processing.

1990

- Acquisition of Cfao, a group specialising in electrical equipment distribution (through CDME, which became Rexel in 1993) and in trading with Africa.

1991

- The Group acquires Conforama and enters the retail market.

1992

- The Pinault-Printemps Group is born with the takeover of Au Printemps SA, which held 54% of La Redoute and Finaref.

1994

- La Redoute is merged into Pinault-Printemps, and the Group is subsequently renamed Pinault-Printemps-Redoute.
- Takeover of Fnac.

1995

- Launch of the Group's first website, laredoute.fr.

1996

- Acquisition by Cfao of SCOA, the leading pharmaceutical distributor in West Africa, through its subsidiary Eurapharma.
- Creation of Orcanta, a women's lingerie chain.

1997

- Takeover by Redcats (Kering's home shopping business) of Ellos, the leader on the Scandinavian mail order market.
- Creation of Fnac Junior, a concept store for children under 12.

1998

- Takeover of Guilbert, the European leader in office supplies and furnishings.
- Acquisition by Redcats of 49.9% of Brylane, the fourth-largest home shopping company in the US.
- Creation of Made in Sport, a chain of stores dedicated to sports enthusiasts.

1999

- Purchase of the remaining stake in Brylane.
- The Group enters the Luxury Goods sector with the acquisition of 42% of Gucci Group NV.
- First steps towards the creation of a multi-brand Luxury Goods group, with the acquisition by Gucci Group of Yves Saint Laurent, YSL Beauté and Sergio Rossi.
- Launch of fnac.com, the Fnac website.

2000

- Acquisition of Surcouf, a specialised PC retailer.
- Acquisition by Gucci Group of Boucheron.
- Launch of Citadium, the new Printemps sports store.

2001

- Gucci Group acquires Bottega Veneta and Balenciaga and signs partnership agreements with Stella McCartney and Alexander McQueen.
- Conforama enters the Italian market with the purchase of the Emmezeta group, one of the leaders in the home furnishings market in Italy.
- Pinault-Printemps-Redoute raises its stake in Gucci Group to 53.2%.

2002

- The Group raises its stake in Gucci Group to 54.4%.
- Sale of the Guilbert home shopping business to Staples Inc.
- Partial disposal of the Credit and Financial Services division in France and Scandinavia to Crédit Agricole SA (61% of Finaref) and BNP Paribas (90% of Facet).

2003

- The Group raises its stake in Gucci Group to 67.6%.
- Sale of Pinault Bois & Matériaux to the Wolseley group in the UK.
- Sale of the Guilbert *Contract* activity to the US group Office Depot.
- Sale of an additional 14.5% stake in Finaref.

2004

- The Group raises its stake in Gucci Group to 99.4% further to a tender offer.
- Sale of Rexel.
- Sale of the residual 24.5% stake in Finaref.

2005

- Change of corporate name: Pinault-Printemps-Redoute becomes PPR.
- Sale of MobilePlanet.
- Sale of the residual 10% stake in Facet.

2006

- Sale of 51% of France Printemps to RREEF and the Borletti group.
- Sale of Orcanta to the Chantelle group.
- Sale of the Bernay industrial site (YSL Beauté Recherche et Industrie).
- Discontinuation of Fnac Service's activities.
- Acquisition by Conforama of a majority stake in Sodice Expansion.
- Acquisition by Redcats group of The Sportsman's Guide, Inc.

2007

- Sale of the residual 49% stake in France Printemps to RREEF and the Borletti group.
- Sale of Kadéos to the Accor group.
- Acquisition of a 27.1% controlling stake in PUMA. This stake was increased to 62.1% further to a tender offer.
- Acquisition by Redcats USA of United Retail group.

2008

- Sale of YSL Beauté to L'Oréal.
- Sale of Conforama Poland.
- Sale by Redcats UK of Empire Stores.
- Sale by Redcats USA of the Missy division.
- Acquisition of a 23% stake in Girard-Perregaux.

2009

- Acquisition by PUMA of Dobotex International BV.
- Acquisition by PUMA of Brandon AB.
- Sale of Bédar & Co.
- Sale of Surcouf.
- Flotation of 58% of Cfao.

2010

- Acquisition by PUMA of a 20% stake in Wilderness Holdings Ltd.
- Acquisition by PUMA of COBRA.
- Sale of Fnac éveil & jeux.
- Sale of the controlling stake in Conforama to Steinhoff.

2011

- Closing of the sale of Conforama to Steinhoff.
- New organisation of the Luxury Division.
- Acquisition of Volcom.
- Increased stake (50.1%) in Sowind Group (Girard-Perregaux and JEANRICHARD).
- Announced acquisition of Brioni.

2012

- Closing of the acquisition of Brioni.
- Sale of the remaining 42% stake in Cfao to TTC.
- Creation of a joint venture with Yoox S.p.A. dedicated to e-commerce for several brands of the Luxury Division.
- Announced project to demerge and list Fnac.
- Sale of Fnac Italy.
- Sale of Redcats USA business (The Sportsman's Guide and The Golf Warehouse, announced sale of OneStopPlus).
- Announced acquisition of a majority stake in Chinese fine jewellery brand Qeelin.

2013

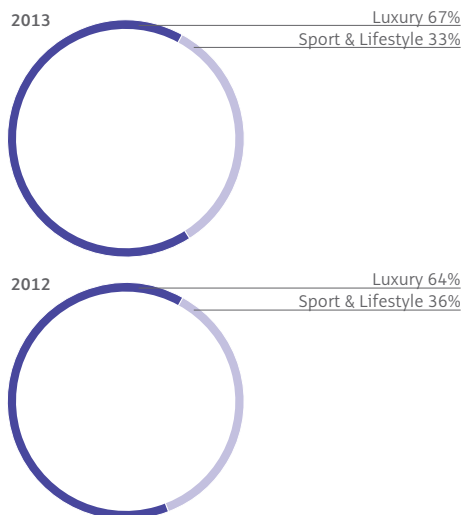
- Closing of the acquisition of a majority stake in Chinese fine jewellery brand Qeelin (January 2013).
- Acquisition of a majority stake in the luxury designer brand Christopher Kane (January 2013).
- Closing of the sale of OneStopPlus (February 2013).
- Sale of the Children and Family division of Redcats, Cyrillus and Vertbaudet (March 2013).
- Acquisition of a majority stake in tannery France Croco (March 2013).
- Sale of the Nordic brands of Redcats, Ellos and Jotex (June 2013).
- Listing of Groupe Fnac (June 2013).
- Change of corporate name: PPR becomes Kering (June 2013).
- Acquisition of a majority stake in Italian jewellery group Pomellato (July 2013).
- Kering enters into exclusive negotiations for the disposal of La Redoute and Relais Colis (December 2013).

2. key consolidated figures

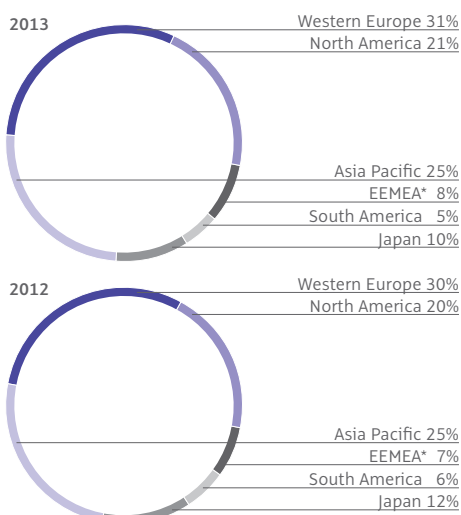
(in € millions)	2013	2012
Revenue	9,748	9,736
o/w generated in emerging countries (as a % of revenue)	37.6%	37.6%
EBITDA	2,046	2,067
EBITDA margin (as a % of revenue)	21.0%	21.2%
Recurring operating income	1,750	1,792
Recurring operating margin (as a % of revenue)	18.0%	18.4%
Net income attributable to owners of the parent	50	1,048
o/w net income from continuing operations excluding non-recurring items	1,229	1,269
Gross operating investments⁽¹⁾	678	442
Free cash flow from operations⁽²⁾	858	930
Average number of employees	31,415	29,378
(1) Purchases of property, plant and equipment and intangible assets.		
(2) Net cash flow from operating activities - net acquisitions of property, plant and equipment and intangible assets.		
Per share data (in €)	2013	2012
Earnings per share attributable to owners of the parent	0.39	8.32
o/w continuing operations excluding non-recurring items	9.76	10.07
Dividend per share ⁽³⁾	3.75	3.75
(3) Subject to the approval of the Annual General Meeting on May 6, 2014.		

revenue

Breakdown by Division



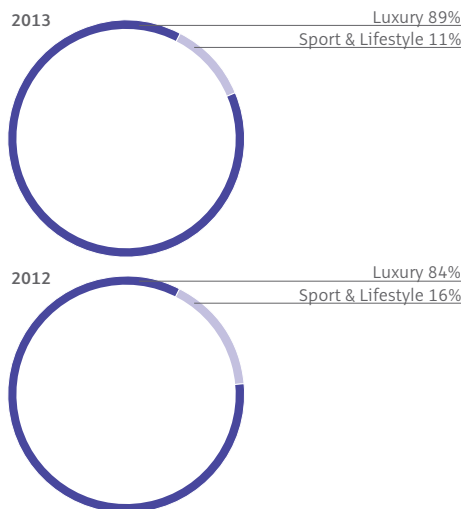
Breakdown by region



* EEMEA: Eastern Europe, Middle East and Africa.

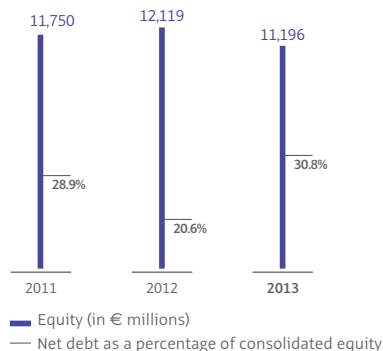
recurring operating income

Breakdown by Division*



* Excluding Corporate.

financial position debt-to-equity ratio



Net debt⁽¹⁾ (ND) (in € millions)

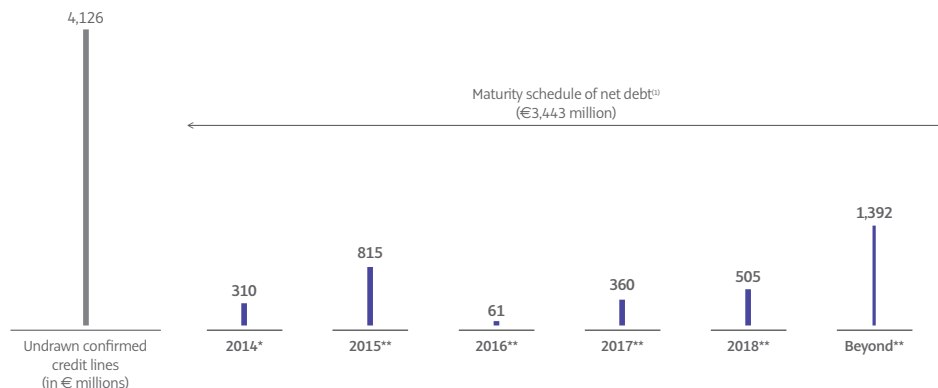
3,396	2,492	3,443
2011	2012	2013

Solvency ratio (ND/EBITDA)

1.78	1.21	1.68
2011 ⁽¹⁾	2012	2013

(2) Published, not restated.

liquidity



* Gross borrowings after deduction of cash equivalents and financing of customer loans.

** Gross borrowings.

(1) Net debt defined in page 156.

3. *kering empowering imagination*

owner of some of the world's most desirable luxury and sport & lifestyle brands, kering is well positioned for sustainable, profitable growth

Kering's ambition is to be the world leader in apparel and accessories by concentrating on the two fastest-growing segments: Luxury and Sport & Lifestyle.

Our mission is to offer products that enable our customers to express their personality and to fulfil their dreams. To achieve this, we empower an ensemble of robust, complementary brands to reach their potential by constantly pushing them against the limits, in the most imaginative and sustainable manner.

Since its inception in 1963, Kering has continuously transformed itself, constantly seeking growth and creating value with the same entrepreneurial spirit. With the acquisition of Gucci in 1999, Kering initiated a major strategic move, amplified in 2007 with the takeover of PUMA. These two milestones have enabled Kering to benefit from the changes in the global economy and capture the growth of emerging markets.

Since 2005 the Group has been evolving from a diverse conglomerate into a cohesive international group. In 2013, as we reached the final stage of our transformation we exited our remaining, legacy mass-retail businesses. The change in the name of the Group, approved by the Annual General Meeting on 18 June 2013, from PPR to Kering, therefore reflects this new identity.

Kering can be pronounced and understood as "caring". The new name stands for more than a change in scope or activity. It portrays the way we take care of our businesses, people, customers and stakeholders – as well as the environment.

We have a long-term entrepreneurial vision and a clear growth strategy to capitalise on consumer trends. We put sustainability at the core of everything we do. We embrace e-business and any means of dialogue with our customers around the world. Kering's role is to release the full potential of our brands while ensuring they stay true to their values and identity – that is what we call "empowering imagination".

kering's strategy is to create value by liberating the organic growth potential of its brands

The Kering of today and tomorrow is an integrated group with a coherent business mix. We concentrate exclusively on the design, manufacture and distribution of apparel and accessories in two major segments: Luxury and Sport & Lifestyle.

The Luxury and Sport & Lifestyle sectors are fuelled by solid demographic and social trends, notably in emerging regions. To capture this growth, we have built up a unique ensemble of complementary brands. The considerable organic growth potential each one of them enjoys is based on powerful brand equity, leading market positions, global recognition, huge consumer appeal and significant pricing power.

The success of our strategy rests on three main pillars.

First, our brands are in the step with major societal trends: people wish to enjoy and express themselves through what they wear, and to look and feel good.

Second, a well-balanced geographical spread is core to the strength of our brands: we carefully manage their growth

locations and ensure maximum flexibility to keep pace with changing market conditions.

And third, the markets we are tapping are forecast to record unprecedented growth in the coming years. In the past 50 years, 800 million consumers in the USA, Western Europe and Japan have generated most of the world's growth. Over the next 50 years, China, India, Brazil, Indonesia and Mexico, with a combined population of more than three billion, will drive global economic expansion⁽¹⁾. Furthermore, the younger generations in these countries continue to enjoy increasing levels of disposable income.

Because of the inherent dynamics of our markets, our growth strategy relies on the development of our existing brands, which can take one or several forms:

- we nurture the international development of our brands by selectively entering new countries. For example, Brioni, which remains primarily Europe and North America driven, enjoys huge growth potential

(1) Source: *The \$10 Trillion Prize*, Harvard Business Review Press, 2012.

outside its home market, with plenty of room to broaden its international presence of directly-operated stores. A similar opportunity exists for two of our British luxury designer brands, Alexander McQueen and Stella McCartney, both of which have recently embarked on more ambitious expansion plans outside the UK and North American markets.

- we strengthen our distribution channels. In Luxury, we are constantly adjusting and consolidating our network of directly-operated stores to optimise the sales mix; in Sport and Lifestyle, we build relationships with third-party retailers who enjoy robust positions in their respective markets.
- we expand into new product categories. For example, at Volcom, which was acquired in 2011, we have launched the first closed-toe footwear styles this year, and a brand like Bottega Veneta is clearly looking to further expand its men's category, which is a promising source of growth for the future.
- we aim at exploiting the huge potential of e-commerce. Our joint-venture set up in 2012 with Yoox, a leader in online premium consumer goods shopping, will accelerate the growth of e-commerce at most of our Luxury brands.

Kering has employed an original approach and strategy in developing its portfolio of businesses. We have focused on two segments, Luxury and Sport & Lifestyle, with a multi-brand approach within both divisions. Each brand has its own specific positioning, complementary with the others. There is therefore no direct competition between the brands. This is how we have built the Luxury Division, while generating substantial synergies between the brands and, since 2007, the Sport & Lifestyle Division.

Although organic growth remains the Group's underlying focus, we have made acquisitions of small- to medium-sized brands in order to strengthen and complement the existing brand portfolio, and therefore contribute to an increase in revenue and earnings. While they may not always be central to Kering's immediate value creation, they act as a catalyst for Group enlargement and international development.

We rely on the same strict acquisition criteria to consolidate our positions, as follows:

- we seek brands that have a truly distinctive identity: well rooted values and a sought-after legacy; a unique scope of expression through lasting codes and language; an ability to broaden their territories independently or through alliances; an aptitude to gradually expand their markets beyond their current borders.
- the Group only considers targets that offer genuine potential to significantly improve financial performance, which it can identify and exploit in the long term, and which will go beyond the potential that the assets had before being brought into the Group.

- external growth may be achieved through acquisitions that change or even reshape the Group – in which case the investment will be made directly by Kering SA or a holding company from among its subsidiaries – or through targeted, tactical acquisitions aimed at bolstering an existing brand within a product category or in its operations – in which case the investment will be made directly by the brand in question.

Our ambition for the two divisions can be characterised as follows:

- for its Luxury brands, Kering aims at expanding them while striking the right balance between growth and each brand's exclusivity. The Group plans to continue to develop its Luxury brands along defined paths, such as expanding selectively their networks of directly-operated stores, launching new product categories, and improving their long-term top-line performance, notably through ever-more efficient merchandising, effective communications, operational store excellence and deeper customer knowledge.
- for its Sport & Lifestyle brands, Kering's strategy is based on expanding into new markets while bolstering growth in the most mature ones, developing distribution, launching new products that are consistent with each brand's distinctive characteristics, and continuing to identify and foster synergies between the brands, particularly in sourcing, logistics and knowledge-sharing in the areas of product development, distribution and marketing.

Consistent with this strategy, in December 2012 (the transaction was finalised in January 2013) Kering acquired a majority stake in Qeelin, a Chinese fine jewellery maker based in Hong Kong. Kering thus increased its portfolio in the hard luxury segment and its presence in the Chinese market. Qeelin has tremendous intrinsic growth potential and Kering will enable it to accelerate its expansion, notably through store openings in mainland China and Hong Kong.

Similarly, in January 2013 Kering acquired a 51% interest in luxury designer brand Christopher Kane in order to develop the business in partnership with its eponymous Scottish creator and designer. By doing so, Kering is fulfilling its mission to empower new creative talent, while further strengthening its portfolio of luxury brands. The Group has a strong track record of backing rising designers and has enjoyed great success with brands such as Alexander McQueen and Stella McCartney. Kering will enable the brand to accelerate its expansion by providing the support it needs to grow to the next level.

In July 2013, Kering acquired a majority stake in Pomellato, one of Europe's major jewellery groups. It has two brands: Pomellato and Dodo, the former positioned in the fine jewellery segment and the latter in accessible jewellery. Kering is thus extending and reinforcing its portfolio of luxury brands in the high-growth jewellery market and will support the development and international expansion of the Pomellato group.

In September 2013, Kering became a minority shareholder of the New York-based Altuzarra luxury fashion brand. This investment marks the beginning of a relationship in which Kering will contribute to the growth of the brand, which was founded in 2008 by young Franco-American designer Joseph Altuzarra.

In November 2013, Kering and Tomas Maier entered into a joint venture to develop the business of the Tomas Maier brand in partnership. Tomas Maier will continue to be Creative Director of Bottega Veneta, a position he has held since 2001.

As part of the repositioning process, Kering carried out many disposals of retail assets in 2013, as follows:

- in February, Kering finalised the sale of the Redcats business in the US, with the disposal of OneStopPlus Group, its plus-size business, having already completed

the disposal of The Sportsman's Guide and The Golf Warehouse in December 2012.

- in March, Kering completed the disposal of Cyrillus and VertBaudet, its children and family brands belonging to the Group's Redcats division, and in June, it completed the sale of Ellos and Jotex, its Nordic brands.
- also in June, the demerger and flotation of Fnac, through the distribution of Fnac shares to the shareholders of Kering was achieved.
- in December, the Board of Directors entered into exclusive negotiations with the chairman and CEO of La Redoute and the Chief administrative officer of Redcats to acquire La Redoute and Relais Colis (in the best interests of the company, its employees and the region where it is based). The sale is expected to be concluded in the first half of 2014.

the kering effect – bringing group power to the service of each of our brands

Each of our brands enjoys the high degree of autonomy and responsibility it requires to preserve its creative freedom, its product and sourcing strategy, and its distinctive image and positioning towards its customers.

At the same time, at the Group level, we set out the guidelines under which our individual brands operate. We provide all the "behind-the-scene" services that are more efficiently and economically carried out at a shared level. And we ensure consistency across all our operations, notably when it comes to financial management. We describe the way we manage our operations as "freedom within a framework".

This approach is consistent with our mission of "empowering imagination", which means giving our brands the autonomy and encouraging the creativity and market agility required to move beyond their natural limits. We nourish our brands in terms of financial and managerial support, but we also challenge them on their strategy. We push them to go beyond their limits by developing new business, and also to share talent, expertise and best practice amongst themselves.

Empowering imagination also means providing our brands' executives and Creative Directors with the vision to achieve ambitious targets, to develop talent and to fulfil their potential.

Organisational improvement

Regarding governance, the Kering Executive Committee reflects the integrated nature of the Group. Thus, the principal operational officers, the CEOs of Gucci, Bottega Veneta and PUMA, are all members.

In order to meet the needs of the brands more effectively, we have strengthened a number of functions, including real estate, e-business, indirect purchasing, intellectual property (IP), strategic marketing and media management.

Because our people are the force behind our transformation, we are developing a more ambitious, more integrated, worldwide human resources policy, based on increased mobility across the brands. The idea behind the HR strategy is for our brands to flourish through accessing and sharing, among other things: a talent pool, expertise, standards, information systems and best practice. Kering is already making this new HR policy happen, which will largely affect our top 200 managers.

To further empower our brands as they expand internationally, we have established Kering Americas and Kering Asia Pacific (effected in 2011). Based respectively in New York and Hong Kong, these entities are staffed by local functional specialists (audit, HR, taxation, real estate, legal), which provide support to the brands' operations and facilitate their geographic expansion.

In addition, in 2013 we adapted the governance of Group shared services, in particular management information systems and transactional finance, to improve their effectiveness in our three most important regions: Europe, Americas and Asia Pacific.

Digital approach

Kering has embraced the digital revolution. It is speeding up the brands' e-business projects and increasing digital use in an integrated programme across all Group-wide activities, including HR, merchandising, distribution and sales. For example, the Kering *Digital Academy* facilitates best-practice exchange, expertise and professional development in this field. We have also created a Group-wide dashboard and an internal web watch community to share internal and external benchmarking.

E-business is a strategic priority for Kering. This is not only for the business we conduct online but also because it influences demand across all sales channels, with more and more shoppers affected by digital, regardless of where they purchase. Also, since our brands are global, we need online flagship stores to be accessible all over the world.

In Luxury, Gucci has the size, resources and expertise to have developed its own platform and is, in fact, a pioneer in luxury e-commerce. This was less the case for the other Luxury brands in our portfolio, which is the reason why we created (in August 2012) a joint venture with Yoox, to establish a series of single-brand e-commerce websites for a number of our brands. Called E_lite, the Yoox partner brings its technology and worldwide logistics expertise

in this field. The joint venture is improving existing e-commerce sites, accelerating e-commerce development of their global digital presence and offering exclusive online shopping to customers.

By year-end 2013, all of the Group's Luxury brands (Bottega Veneta, Saint Laurent, Sergio Rossi, Stella McCartney, Brioni, Balenciaga and Alexander McQueen) had their own e-commerce sites, marking the first milestone of the programme. Some of these sites will be redesigned in 2014. Each brand remains in control of its brand image and merchandising, whilst Yoox brings superior design knowledge, web business intelligence and performance marketing.

sustainability is at the heart of kering group and brand strategy

Kering believes sustainable business is smart business. It gives us an opportunity to create value while helping to make a better world – economically, socially and environmentally.

The same vision that drives the Group's business strategy (empowering an ensemble of brands to reach their potential in the most imaginative and sustainable manner) also drives our commitment to environmental and social sustainability.

It is our wish to give meaning to our business. Our approach to sustainability is therefore at the heart of the strategy that guides the Group, our brands and all its constituent parts. Further, we believe sustainability is inherent in quality. Because quality is the quintessence of our brands, the challenge of sustainability stimulates us to create products that are more imaginative, longer lasting and more desirable.

We believe our approach to sustainability represents long-term differentiation and competitive advantage by offering new business development opportunities, stimulating innovation and in many cases helping reduce costs. It is also a motivating factor for our employees, helping us attract and retain the best.

Every employee has a part to play in making sustainability a reality. It is built into our structure, from the sustainability committee of the Kering Board of Directors to the commitment of the CEO of every brand, and in the everyday decisions and actions of our teams. A variable part of the remuneration of the CEOs of Kering brands is now partly based on the degree to which they meet sustainability objectives. Our Chief Sustainability Officer sits on the Executive Committee, which ensures decision-making on sustainability is consistent and integrated across the Group.

The Kering sustainability department acts as a platform of resources to complement the brands' own activities. It provides support in the form of 15 in-house experts in sustainable sourcing, alternative materials, biodiversity,

energy, supply chain performance and change management, as well as social aspects. The sustainability department facilitates change by providing knowledge and guidance, operational synergies and economies of scale that help the brands develop more sustainable practices. A network of sustainability leads in each brand facilitates this process.

In 2013 Kering set up the sustainability technical advisory group (STAG) with the objective of providing technical advice and guidance to Kering's board-level Sustainable Development Committee. Composed of external technical and business environmental experts and internal business leaders, STAG is helping the Group advance its overall sustainability strategy.

Kering has defined a number of quantifiable targets for its brands to reach ambitious environmental and social measures for 2016. These relate to raw materials sourcing, including alternatives; paper and packaging; water use, waste and carbon emissions and hazardous chemicals; while offsetting our remaining CO₂ emissions and supporting suppliers in their progress. These targets highlight our attention to sustainability at two intertwined levels: process and product.

By 2016, we will have rolled out a Group Environmental Profit & Loss (EP&L) account across all of our brands. Firstly it will measure the environmental impact across our own operations and entire supply chain, from sourcing raw materials to selling our products. Secondly, it will provide a monetary valuation of the impact: the profit and loss for the environment. It serves as a tool for deeper understanding and better decision-making. This is the first time that a global Group of companies has undertaken such an analysis. Pioneered by PUMA, the EP&L will lead us to new business models and solutions that take nature into account.

Our social responsibility goes beyond compliance. We work with our suppliers through our social audits and

help them reach the standards laid out in our Code of ethics. We consider diversity, which is endorsed in our HR procedures, to be a source for creativity and innovation. Social sustainability encompasses attention to working conditions, which includes third-party workshops, and the need to preserve artisanal businesses. Which is why Kering brands support a network of highly skilled craft workers, providing training schemes and founding technical schools.

In 2013, for its first year of participation in the review, Kering was added to the Dow Jones Sustainability Indices (DJSI) World and Europe. These indices track the best-in-class sustainability performers amongst the 2,500 largest companies in the Dow Jones Global Total Stock Market Index. Each year, applicant companies are rated against an industry-specific questionnaire. Only the top ten per cent of leading performers in terms of sustainability assessed against predefined criteria are listed in the DJSI.

At the same time, Kering leads the 2013 Carbon Disclosure Project (CDP) survey in the Luxury and Apparel Industry. Kering is also listed in the ethical rating indices FTSE4GOOD, Aspi and Ethibel Excellence. In addition, Kering's sustainability reporting complies with Level A+ of the Global Reporting Initiative (GRI).

The Kering Corporate Foundation is dedicated to combating violence against women. The Kering Foundation is a separate legal entity with its own slogan: Stop violence. Improve

women's lives. Since its inception in 2009, it has supported 47 NGOs and social entrepreneurs and benefited more than 140,000 women.

Integrated in the Kering sustainability department, the Foundation embodies the social commitment of the Group. For example, in November 2013 Kering and the Kering Foundation signed a Charter with the Italian NGO *Donne in Rete contro la violenza* (Di.Re). The Charter aims to raise the awareness of all 6,000 employees of the Group in Italy regarding domestic violence and help them comprehend this issue that affects all social classes. This partnership echoes a similar one signed in France in 2010 with the NGO *Fédération Nationale Solidarité Femmes* (FNSF). There are plans to expand this action to other regions of the world where the Group operates.

In addition, many of our brands have been running their own social-support programmes for some time. For instance, in February 2013 Gucci, with the support of the Kering Foundation, launched Chime for Change, a global campaign to raise funds and awareness for girls' and women's empowerment with a focus on education, health and justice.

In line with the Group's new identity, the Foundation has refocused its action on three geographic areas and will prioritise one cause in each: sexual violence in the Americas, harmful traditional practices in Western Europe and domestic violence in Asia.

in a still unsettled economic environment, kering is confident in its outlook for 2014

In a context of slowing GDP trends, particularly in some key emerging markets such as China, and in the absence of a strong rebound in Europe and the United States, growth in the global economy has remained muted throughout 2013. Only Japan has seen a material pick-up in consumption, fuelled by a more accommodating monetary policy.

Against this uncertain and volatile back drop, Kering has demonstrated the pertinence of its multi-brand portfolio in Luxury. While Gucci has carried on making major investments aimed at further reinforcing its high-end positioning, Kering's other luxury brands have acted as incremental drivers, allowing the Group to look to the future with confidence, thanks to its solid fundamentals. In Sport & Lifestyle, the arrival of a new management team at PUMA will provide a new impetus to the brand, as it rejuvenates its product range and refocuses its overall positioning. Such a far-reaching turnaround process should provide long-lasting benefits and establish a more solid foundation for PUMA to grow its sales and profits in the mid-term.

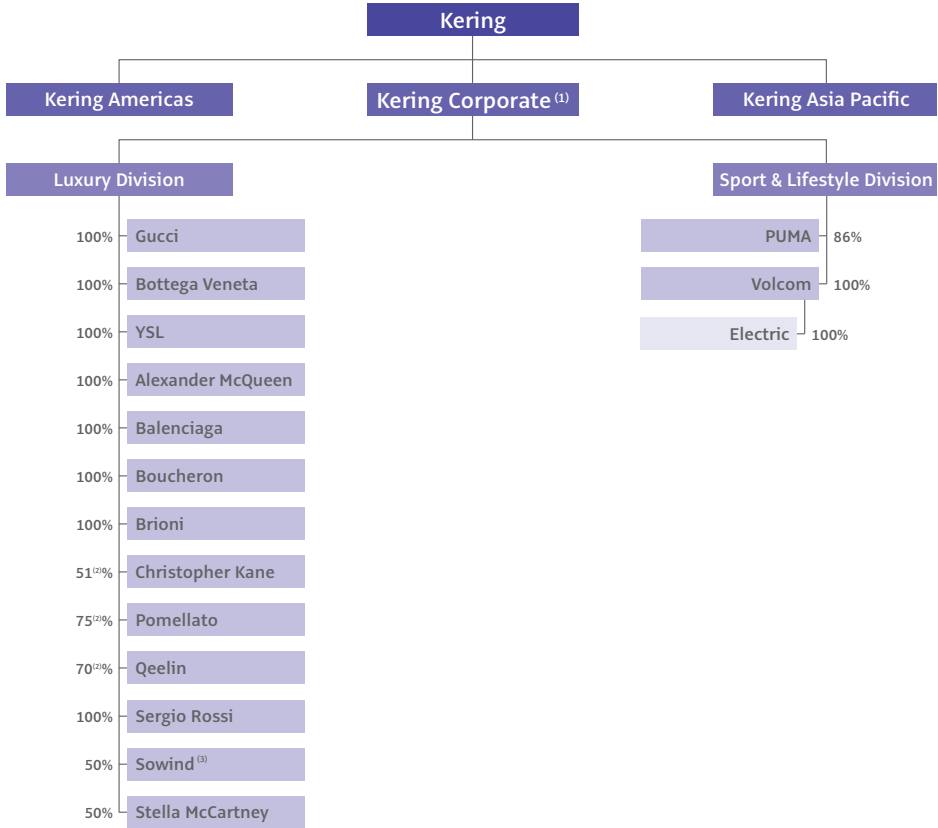
Kering enjoys healthy growth prospects. Its activities are aligned with today's consumer trends and aspirations, which will enable Kering to benefit from distinctive growth trends. At the same time, the Group's Luxury brands are expected

to consolidate their store network expansion, selectively extending their footprint in those regions and for those brands where potential has been identified. By constantly striving to make the products of each of its brands more attractive and streamline operations, Kering should continue its long-term trend of improving sales and margins.

In addition, Kering is supporting the digital strategies of its brands by systemising the fostering of inter-brand synergies, co-ordinating e-business projects and encouraging knowledge sharing. Kering has thus pooled expertise in support of its brands, to identify and share best digital practices, encourage innovation, improve the technical capacities and customer functionalities of websites, and increase Internet penetration for the Group's activities.

In 2014, Kering intends to pursue its policies to attract new talent, promote skills and career development, and encourage fruitful exchanges within the Group. We continue to devote energy to corporate environmental and social sustainability, including people diversity, all of which are crucial to our business objectives and to our long-term performance.

4. *kering group simplified organisational chart as of december 31, 2013*



(1) Corporate defined page 174.

(2) Excluding put options.

(2) The Sowind group owns the Girard-Perregaux and JEANRICHARD brands.

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our activities

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worldwide personal luxury goods market overview

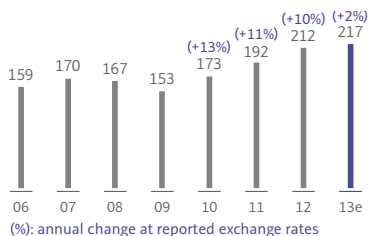
This section contains information derived from studies conducted by organisations, such as Altagamma and Bain & Company. Unless otherwise indicated, all historical and forecast statistical information, including trends, sales, market shares and growth levels, comes from the *Bain Luxury Study – Altagamma Worldwide Market Monitor*, published in December 2013. Luxury Goods industry segments and product categories correspond to the definitions used in the *Bain Luxury Study – Altagamma Worldwide Market Monitor*.

In this document the global personal Luxury Goods market includes the following categories: apparel, accessories, watches and jewellery, and perfumes and cosmetics.

market overview: size, trends and main growth drivers

The global personal Luxury Goods market has enjoyed significant growth over the past few years. In 2013, the global personal Luxury Goods market generated estimated revenue of €217 billion, up 2% on 2012 as reported and up 6% at comparable exchange rates after three consecutive years of double-digit growth.

Worldwide personal Luxury Goods market trend (2006–2013e, in € billions, reported exchange rates).



Although the personal Luxury Goods market has seen strong growth since 2010, outpacing the global economy, it is however tied to changes in worldwide GDP, as evidenced by the fall in 2009.

In addition to economic factors, structural influences are also impacting demand and growth on the personal Luxury Goods market, including:

- positive demographic trends, especially in emerging markets;
- the emerging middle class in these countries, where the average disposable income and purchasing power of consumers has continued to grow;

- growth in the global population of high-net-worth individuals ("HNWIs")⁽¹⁾. Although the majority of HNWIs live in developed countries, the number of HNWIs in high-growth countries has increased rapidly in recent years. In 2012, the HNW population rose 9.2% to 12 million. At the same time, the wealth of HNWIs grew 10% to a record USD 46.2 trillion in 2012

(Source: Capgemini/RBC 2013 World Wealth Report);

- increased tourism and the growing relevance of tourist spending on Luxury Goods: according to the latest data from Global Blue, tourist spending was up 10% in 2013, driven by Chinese and Russian tourists, with countries like France, Italy and the United Kingdom among the leading destinations for shopping abroad.

Nevertheless, some factors could weigh down personal Luxury Goods market development in the short term, such as:

- high import taxes on Luxury Goods in some emerging countries;
- new, more restrictive regulations on travel and the acquisition of luxury goods.

competitive environment

The global personal Luxury Goods market is highly fragmented and is characterised by the presence of a few large global players, often part of so called "multibrand groups", and a large number of smaller independent players. These players compete in different segments both in terms of product category and geographic location. Kering operates within the global personal Luxury Goods market alongside some of the most global groups, prominent among which are LVMH, Hermès, Prada, Burberry, Chanel and Richemont. A number of brands with more accessible prices have appeared, which could compete with recognised Luxury brands.

(1) HNWIs are defined as those having assets of USD 1 million or more, excluding primary residence, collectibles, consumables, and consumer durables.

product categories

The global personal Luxury Goods market can be evenly spread into four product categories as shown below.

Worldwide personal Luxury Goods market: breakdown by category (2013)

	Market value 2013 (in € billions)	YoY change at reported exchange rates	2013 market share
Accessories	61	+4%	28%
Apparel	55	+1%	25%
Watches and jewellery	48	+2%	23%
Perfume and cosmetics	43	+2%	20%
Other	10	+0%	4%
Total	217	+2%	-

Accessories

This category includes shoes, leather goods (including handbags and wallets, and other leather products), eyewear and textile accessories.

In 2013, this category represented 28% of the total personal Luxury Goods market with total sales of €61 billion. It recorded the fastest overall year-on-year growth in 2013 at 4%.

The two biggest sub-categories were:

- a) Leather goods, with estimated revenue of €36 billion in 2013. Leather goods were the fastest growing sub-category between 2012 and 2013 with 5% growth, driven by outperformance in men's products. Kering operates in this product category mainly through the Gucci brand, but also through Bottega Veneta, Saint Laurent and Balenciaga.
- b) Shoes, with estimated 2013 revenue of €13 billion. The shoes sub-category grew at a rate of 4% between 2012 and 2013. Kering operates in this product category mainly with Sergio Rossi, the shoe specialist brand, with most of the larger brands, including Gucci, Bottega Veneta, Saint Laurent and Balenciaga also offering shoes.

Apparel

This category includes ready-to-wear for both women and men. It represented 25% of the total personal Luxury Goods market in 2013 and was worth an estimated €55 billion. The market is evenly spread between men's and women's products, with a recent outperformance of the high-end segment of menswear driven by made-to-measure and high demand in emerging countries.

All Kering brands operate in this product category especially Stella McCartney, Alexander McQueen, Christopher Kane and Saint Laurent, in addition to Brioni for menswear.

Watches and jewellery

The watches and jewellery category generated revenue of €48 billion in 2013, representing 23% of the total personal Luxury Goods market, and grew by 2% between 2012 and 2013.

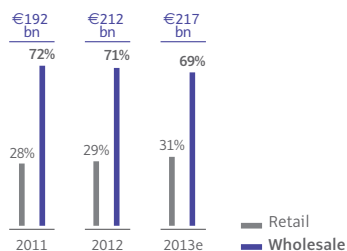
Kering operates in this category across different price points with Gucci Timepieces, Girard-Perregaux and JEANRICHARD for luxury watches, Boucheron, Pomellato and Qeelin for luxury jewellery.

Perfume and cosmetics

The perfume and cosmetics category represented 20% of the total personal Luxury Goods market in 2013 and was worth an estimated €43 billion. Kering operates in this product category through royalty licencing agreements between its main brands and leading industry players such as L'Oréal, Procter & Gamble, Coty and Interparfums to develop and sell fragrances and cosmetics.

distribution channels

Worldwide personal Luxury Goods market:
breakdown by distribution channel (2011-2013e)



Retail channel

A strong directly-operated store network is important for the success of a luxury brand as it allows greater control over the consumer shopping experience and over product assortment, merchandising and customer service. In 2013 the retail channel accounts for sales amounting to 31% of the total global personal Luxury Goods market.

Wholesale channel

The wholesale channel typically includes department stores, independent high-end multi-brand stores and franchise stores, and accounted for approximately 69% of the total global personal Luxury Goods market in 2013.

E-commerce

Online sales of Luxury Goods reached a record of around €10 billion (65% wholesale and 35% retail) in 2013 (up 28% versus 2012), representing about 5% of total global personal Luxury Goods sales.

For *Kering's Luxury Division*, the retail channel is predominant (68% of sales at the end of 2013), in particular for Gucci, Bottega Veneta, Saint Laurent, Balenciaga and Boucheron, while other luxury brands are generally distributed through wholesale channels. All Kering brands are present online with e-commerce websites, either operated internally, as is the case for Gucci, or managed by a joint venture signed with Yoox, E_Lite.

regional overview

Worldwide personal Luxury Goods market: breakdown by region (2013e)

	Size (in € billions)	Reported YoY change	YoY change at comparable exchange rates	2013 market share
Europe	74	+2%	+3%	34%
Americas	69	+4%	+7%	32%
Japan	17	-12%	+9%	8%
Asia Pacific	46	+4%	+5%	21%
Rest of the world	11	+6%	+8%	5%

The ten largest countries in terms of global personal Luxury Goods revenue in 2013 are as follows:

2013 Rank	Country	Size (in € billions)	Reported YoY change	YoY change at comparable exchange rates
1	United States	62.5	+4%	+7%
2	Japan	17.2	-12%	+8%
3	Italy	16.1	-2%	-2%
4	China	15.3	+2.5%	+3.5%
5	France	15.1	+4%	+4%
6	United Kingdom	12.1	+4%	+9%
7	Germany	9.9	+3%	+3%
8	South Korea	8.3	+1%	+0%
9	Hong Kong	7.7	+10%	+13%
10	Russia	5.8	+5%	+10%

Europe is the leading Luxury market with 2013 revenue up 3% on 2012 at comparable exchange rates. Growth was fuelled by rising global tourism, as “travelling consumers”, particularly from China, made significant purchases in Paris, London and Milan.

The Americas is the second largest geographical region, with the United States accounting for the vast majority of revenue. The Americas accelerated to 7% growth at comparable exchange rates thanks to greater consumer confidence, strong momentum from tourism in major cities and brand expansion in cities such as Miami, Las Vegas and Los Angeles.

The Asia Pacific region, excluding Japan, was up 5% at comparable exchange rates, and represented 21% of the global personal Luxury Goods market. Within the Asia Pacific region, **Greater China**, which encompasses Mainland China, Hong Kong, Macau and Taiwan according to the aforementioned study, is the largest personal Luxury Goods market in terms of sales, accounting for approximately €28 billion in revenue in 2013, up 4% compared to 2012, but down from the 19% growth figure reported in 2012.

Japan represented 8% of the global personal Luxury Goods market in 2013. Japan is the second largest country in terms of personal Luxury Goods consumption after the United States. Since the beginning of 2013, the depreciation of the Japanese yen has redirected consumption locally. At comparable exchange rates, the market registered very positive trends, driven by strong internal consumption, while Japanese tourist spending abroad declined.

The **rest of the world** represented 5% of the personal Luxury Goods market, with €11 billion in revenue in 2013. The rest of the world mainly comprises the Middle East and Northern African markets.

market outlook

Bain and Altagamma forecast that the global personal Luxury Goods market will reach between €245 billion and €255 billion by the end of 2016, representing 3% to 5% average growth at comparable exchange rates over the next three years.

Growth is expected to be driven by:

- new emerging countries: according to Bain and Altagamma, in addition to China, the Middle East, Brazil, Australia, Africa and India are key to the growth of the global personal Luxury Goods market. Within the Asia region, Indonesia, Malaysia, Vietnam and Thailand are the new drivers of luxury growth;
- the continued expansion of tourism;
- development of new distribution channels such as e-commerce;
- increase in high-spending consumer classes such as high-net-worth individuals (HNWIs):
 - the HNWI population is forecast to grow by 6.5% per year to USD 55.8 trillion by 2015, driven mainly by growth in Asia Pacific HNWI wealth (Source: Capgemini/RBC 2013 World Wealth Report),
- the development of new high-end products and services;
- the robustness of the American market.

luxury division

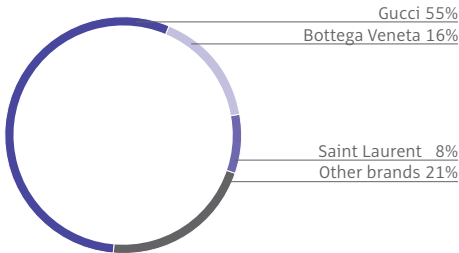
Gucci	22
Bottega Veneta	25
Saint Laurent	28
Other brands	31

Alexander McQueen	
Balenciaga	
Boucheron	
Brioni	
Christopher Kane	
Girard-Perregaux and JEANRICHARD	
Pomellato and Dodo	
Qeelin	
Sergio Rossi	
Stella McCartney	

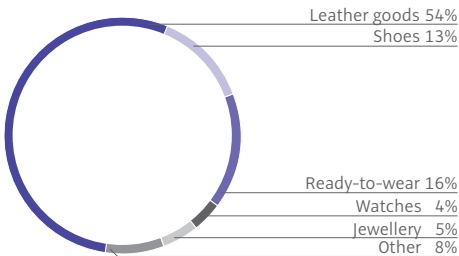
2013 key figures

€6,470 million
in revenue

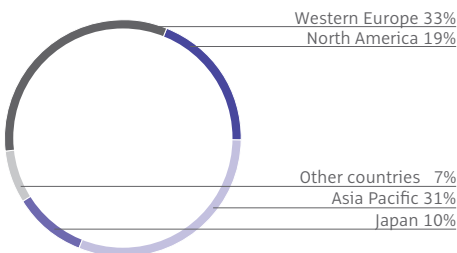
Breakdown by brand



Breakdown by product category

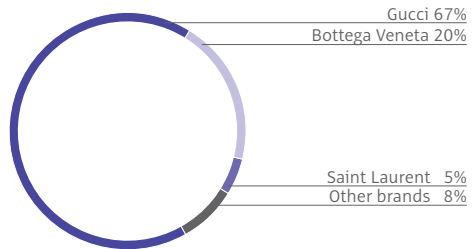


Breakdown by region

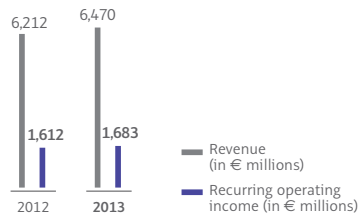


€1,683 million
in recurring operating income

Breakdown by brand

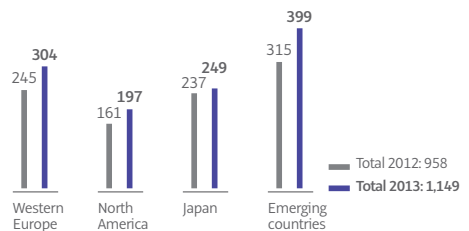


Revenue and recurring operating income



19,050
average number of employees

1,149
directly-operated stores



GUCCI

2013 key figures

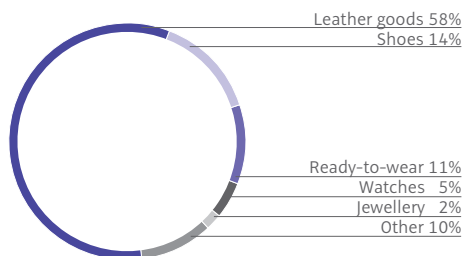
€3,561 million
in revenue

€1,132 million
in recurring operating income

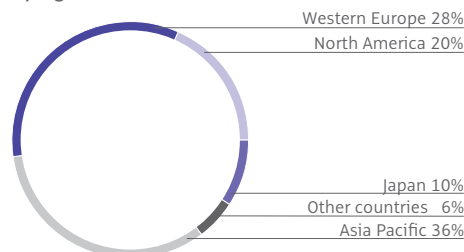
9,415
average number of employees

474
directly-operated stores

Breakdown of 2013 revenue
by product category



Breakdown of 2013 revenue
by region



business concept

Founded in Florence in 1921, Gucci is one of the world's leading luxury fashion brands.

Gucci's legacy began more than 90 years ago with the founder, Florentine artisan Guccio Gucci. Initially, the product was primarily focused on handcrafted leather luggage, then expanded into all kinds of leather goods and accessories. In a time before marketing and brand positioning existed, Guccio Gucci set the tone for the brand and what it would represent: a combination of tradition and modernity, craftsmanship and innovation.

From its foundation in the 1920s through the late 1970s the brand stayed loyal to its values of superior Italian craftsmanship and innovation, and Gucci became the expression of Italian-made luxury for the international jet set. The following decades were the years of the brand's international expansion, first in the US, then in Japan and Asia, while, in the 1990s, the brand became recognized as one of the most influential of its time.

Since Frida Giannini took over as Creative Director in 2006, the brand has turned full circle to restore the vision of Guccio Gucci and find the right balance between fashion and heritage.

Gucci today designs, manufactures and distributes highly desirable products for men and women, including leather goods (handbags, small leather goods and luggage), shoes, ready-to-wear, silks, timepieces and fine jewellery. Eyewear and fragrances are manufactured and distributed under license by global industry leaders in these two sectors. Gucci products are sold exclusively through a network of 474 directly-operated boutiques (77% of total Gucci revenues), a directly-operated e-commerce website (with more than 3,000 products available to customers) and a limited number of franchisees, as well as selected department and specialty stores.

competitive environment

Gucci is one of the few luxury brands with truly worldwide operations alongside Hermès, Chanel and Louis Vuitton. In a challenging environment Gucci is maintaining its position as one of the world's largest Luxury Goods brands in terms of both revenue and profitability.

strategy

The luxury sector has grown strongly in the last few years, despite a challenging macroeconomic climate. In each market, customers are at different stages in their appreciation of luxury, yet most are adopting much more prudent and thoughtful spending behaviours. They are looking to be discreet, and they are seeking authentic values and an individual approach, accompanied by a unique brand experience.

Anticipating this shift in demand, over the last five years the team led by Patrizio di Marco, Gucci President and CEO, and Frida Giannini, Gucci's Creative Director, has continued to move the brand towards a higher positioning, with a focus on products with a higher average value (driving higher profitability), encapsulating Gucci's quality, creativity, innovation and Italian craftsmanship. The long-term goal is to recapture the mid-high end of the market, re-attracting the most sophisticated and exclusive luxury consumers with a more balanced product offer and a series of tactical actions on communication and distribution.

Looking at distribution, a key element of the strategy worldwide has been the implementation of ongoing actions to reduce the proportion of indirect distribution, taking direct control wherever possible of the brand's store network and further enhancing the consistency of the consumer's experience across different markets.

In this environment, Gucci intends to continue achieving best-in-class profitability and long-term sustainable growth across product categories and geographic regions, while always maintaining high standards of social responsibility.

2013 highlights and outlook for 2014

Gucci's fashion authority – a fundamental part of the brand's DNA – was again on full display in 2013. During the year Gucci introduced a series of new, iconic and successful products, including the very sophisticated no logo leather handbags, the Lady Lock and Bamboo Shopper, which both contain signature details such as the bamboo handle. Launched in the Fall/Winter 2013–14 collections, the Lady Lock and Bamboo Shopper quickly joined the top-selling bags in most regions. 2013 was also the sixtieth anniversary of Gucci's legendary horsebit loafer, which was celebrated with the reinterpretation of the classic loafer for both women and men, in seasonal colors and fine materials, supported by an innovative 360-degree communication effort.

Across most regions, the effective implementation of Gucci's strategy was confirmed by the solid top-line growth posted by the retail business in most of the world's regions. In some countries – notably China – this strategy is currently being implemented and therefore requires further time to be reflected in the sales trend. However, as already seen in regions where this strategy was first implemented, such as the US, Japan and Western Europe, it should bring tangible benefits to the sales trend over time.

During the year, Gucci's distribution strategy has been driven by the goal to ensure coverage in untapped markets, such as Brazil, while also bolstering its presence in key Western European countries such as France. This came together with the effective roll-out of an ambitious refurbishment plan, in order to bring the store network to the same high standard as Gucci's products and to create a consistent brand image across regions.

Gucci also continued its buyback strategy across different markets. In North America the process has been completed in many department stores, while in others there is still room to convert its presence into directly-operated stores. As of today, the most recent and evident achievements of Gucci's wholesale conversion strategy are in North America (with the completed buyback of SAKS and Holt Renfrew doors this year).

To meet the growing customer appetite for specific product categories, 2013 saw an increased number of new stores dedicated to the Children's Collections and Men's World. Specifically, in June Gucci opened its first men's flagship in Europe, in Milan's historic Brera district. The store was also the first to offer the capsule Made to

Measure collection designed by Creative Director Frida Giannini and Lapo Elkann, a contemporary statement of classic tailoring conceived as "Lapo's Wardrobe".

Respect for the House's heritage and traditions goes hand-in-hand with the desire to keep the brand relevant and vibrant for new generations of customers. In this regard, Gucci has indeed been successful in reaching new customers thanks to the attention paid to the internet in the last ten years. Through the various and diversified digital channels, Gucci is able today to reach a broad audience – more than 25 million of people – in a very direct and content-rich way. As of today, Gucci operates e-commerce in 28 countries.

In 2013, Gucci again introduced several product innovations as both a continuation of Gucci's leadership in social responsibility and a way to satisfy the modern consumer's desire for ethically-produced, sustainable fashion products. In July, Gucci also announced that it had developed an innovative methodology to reduce the environmental impact of the leather tanning process.

Indicative of the company's attention to its Florentine roots and in line with its strategy of showcasing the excellence of Italian-manufactured products all over the world, in April 2013 Gucci finalised the acquisition of Richard Ginori 1735, the leading Italian brand in fine china tableware. The goal of the acquisition is to re-launch in the medium and long-term the historic Florentine brand – which has always been synonymous with quality, craftsmanship and made in Italy, the same values that lie at the heart of the Gucci brand's success.

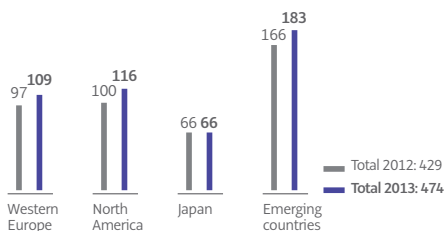
In February, Gucci announced the foundation of CHIME FOR CHANGE, a global campaign to raise funds and awareness for girls' and women's empowerment. On June 1, the London concert "THE SOUND OF CHANGE LIVE" attended by more than 50,000 people and broadcast in over 150 countries – gathered together some of the world's most talented artists and renowned activists to give a voice to girls' and women's empowerment issues worldwide, and in doing so raised almost USD 4 million in ticket sales for around 210 projects in over 70 countries around the world.

In 2014, Gucci's management team will continue investing to consolidate the uniqueness of the brand positioning to build its brand equity and drive long-term sustainable growth, enhance its commitment to customers, and focus on nurturing further its higher-end product offering, both through novelties and carry-overs.

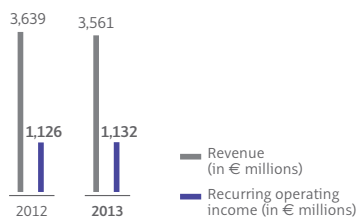
Gucci will also continue to enhance its retail excellence, both through selective store openings and by pursuing

retail excellence, either through wholesale conversions in Eastern Europe and South-East Asia, or through retail store refurbishments in key cities.

Number of directly-operated stores by region



Revenue and recurring operating income



BOTTEGA VENETA

2013 key figures

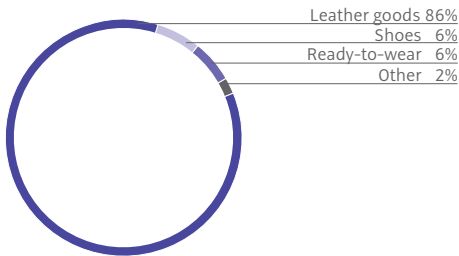
€1,016 million
in revenue

€331 million
in recurring operating income

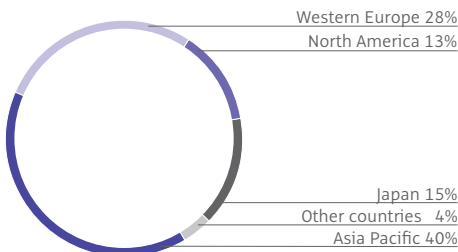
2,891
average number of employees

221
directly-operated stores

Breakdown of 2013 revenue
by product category



Breakdown of 2013 revenue
by region



business concept

Founded in 1966 in the Veneto Region of Italy, Bottega Veneta began as a leather goods House made famous through its signature *intrecciato*, a unique leather weaving technique used by Bottega Veneta's artisans as a way to strengthen the soft leather, and to achieve products that are not only made of the utmost quality materials, but also long lasting. The brand led the way in introducing soft, deconstructed handbags – as opposed to the usual rigid structure that originated with the French school – and quickly became well recognised and appreciated in the market. Bottega Veneta has evolved through the years from being a luxury leather goods House into an absolute luxury Lifestyle brand by expanding its product range respecting both the desires of the customer and the aesthetic sensibility of the brand. The brand's famous motto, "When your own initials are enough", now applies to a range of products including leather goods (handbags, small leather goods and a complete luggage collection), women's and men's ready-to-wear, shoes, jewellery, furniture and more.

Over the years, the brand has also been engaged in collaborations with strategic partners that share the same values and commitment to quality and craftsmanship, such as Poltrona Frau (seating), KPM (porcelain), Victor Mayer (fine jewellery), Girard-Perregaux (watches), Coty Prestige (fragrances), Safilo (eyewear), and Rizzoli (books).

Bottega Veneta products are sold exclusively through a distribution network of directly-operated stores, complemented by exclusive franchise stores and strictly-selected department and specialty stores worldwide. In addition, Bottega Veneta products are now available through the brand's online store in 46 countries.

competitive environment

Bottega Veneta is one of the only Italian brands to offer truly handcrafted products made with the expert know-how of its master Italian artisans, and a rare example of an absolute luxury Lifestyle brand, never compromising the quality of its products, while always providing an unsurpassed level of service to clients, which places the brand at the top of the luxury pyramid in terms of positioning, therefore competing with a very limited number of brands.

strategy

Bottega Veneta's strategy, implemented under the creative direction of Tomas Maier and the leadership of President and CEO Marco Bizzarri, aims to position Bottega Veneta as a high-end and exclusive luxury Lifestyle brand, for which consistency and continuity are the key elements to maintaining differentiation in the industry.

The core of the business historically lies in the leather goods product categories, characterised by the attention to details and the use of the highest quality of materials, progressively integrating a wider range of products appealing to a sophisticated clientele of women and men, through contemporary functionality and timeless design.

The predominant trait of exclusivity has been transferred to the distribution network; through a significant worldwide expansion, Bottega Veneta consolidated its presence in the emerging markets, without compromising the investments in the mature markets, especially Europe, origin of Bottega Veneta's tradition and craftsmanship.

Always focused on nurturing core values, the brand operates mainly through directly-operated stores, while a small part of the business is covered by a distinctive selection of franchise boutiques and department and specialty stores.

2013 highlights and outlook for 2014

In 2013, the careful execution of the international development strategy, consistent with the exclusive positioning of the brand, resulted in growth recorded in all geographic areas, of which mature markets account for 56% of total sales, and for both retail and wholesale channels, which respectively account for 81% and 19% of total sales. Leather goods continue to be the core for the brand, constituting 86% of total sales.

Iconic leather goods products, also in new seasonal variations, continued to represent a very important part of the business in 2013, while men's categories performed exceptionally well, underlining Bottega Veneta's strategic effort to expand in this clientele segment.

Consequent to the successful 2011 introduction of its signature women's fragrance, in June 2013 Bottega Veneta launched its first fragrance for men, Bottega Veneta Pour Homme, further leveraging the Bottega Veneta brand and expanding its brand awareness.

Bottega Veneta opened the new Atelier in Montebello Vicentino in 2013, marking a new milestone for the development of the brand. The new site, a 55,000 square metre park with a historical villa, includes the Scuola Della Pelletteria Bottega Veneta, where young artisans are trained and taught Bottega Veneta's exceptional craftsmanship capabilities. In this way the company will secure the presence of the tradition and know-how for years to come.

In 2013, Bottega Veneta enhanced its retail network with selective store openings worldwide, in both emerging and mature markets, reaching 221 compared to 196 at the end of 2012. The new stores were equally distributed in emerging and mature markets (14 new stores in APAC and 11 new stores among Europe, Japan and America).

As a further step in the implementation of its absolute brand positioning strategy, Bottega Veneta opened the brand's first Maison in the world in September 2013. Located in the prestigious Milan location of Via Sant'Andrea 15, the design and approach to the customer renders the brand's largest store in the world unique among the entire retail network, and represents an addition to the historic flagship located at Via Montenapoleone 5. The Maison showcases the entire Bottega Veneta product range, while maintaining the level of intimacy and utmost quality of service that characterises the brand.

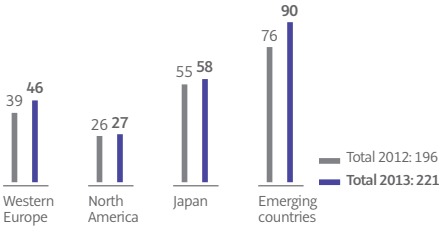
In addition, in 2013 Bottega Veneta opened a gallery-like boutique in Los Angeles on Melrose Place. The boutique, measuring 2,727 square feet, illustrates the retail evolution of the brand, and is part of Bottega Veneta's approach to the shopping experience for cities in which the brand is already established. This concept has been tailored to meet proclivities and tastes of the clientele in those specific local areas.

During the year, following the success of a similar initiative organised at the Shanghai Yfeng Galleria Flagship store in the previous year, Bottega Veneta brought artisans from its Italian atelier to Japan for the first time, in order to spread the knowledge of its unique craftsmanship in one of its key mature markets. The occasion was the Bottega Veneta World Exclusive for the Japanese department store Isetan, a two-week event that kicked off in May 2013, during which an extensive presentation of the brand's product range was exclusively displayed throughout the Shinjuku flagship location and in all 15 windows, ultimately becoming for Isetan and the brand the first installation of this scale.

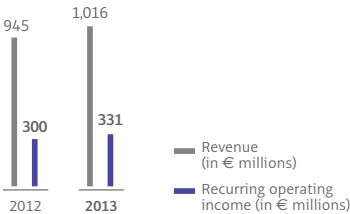
In 2014, Bottega Veneta will continue to build on its accomplishments and positioning, supported by further

strategic openings worldwide. The company will continue to selectively enlarge its store base with a focus on Europe, the US and Japan, as well as emerging markets, as it aims to reinforce its overall brand awareness and regional balance. To provide the best possible luxury retail experience, besides further enhancements to the existing network of directly-operated stores, e-commerce will continue to be strengthened in partnership with E_lite, the company that manages the mono-brand online stores of several Kering luxury brands.

Number of directly-operated stores by region



Revenue and recurring operating income



SAINT LAURENT PARIS

2013 key figures

€557 million

in revenue

€77 million

in recurring operating income

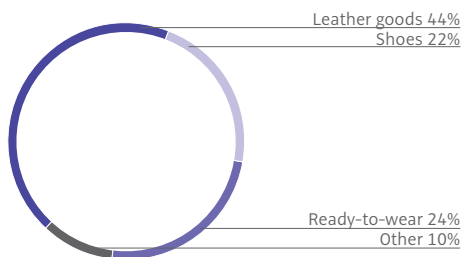
1,445

average number of employees

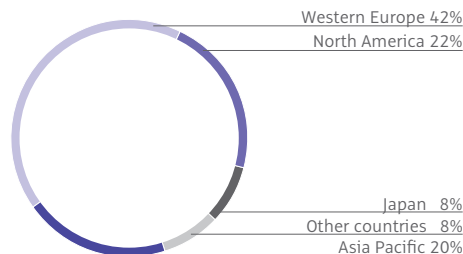
115

directly-operated stores

Breakdown of 2013 revenue
by product category



Breakdown of 2013 revenue
by region



business concept

Founded in 1961, Yves Saint Laurent is one of the most prominent fashion houses of the 20th century. Originally an haute couture House, in 1966 Yves Saint Laurent revolutionised modern fashion through the introduction of luxury ready-to-wear under the name Saint Laurent *Rive Gauche*.

Saint Laurent designs and markets a broad range of men's and women's ready-to-wear, handbags, shoes, small leather goods, jewellery, scarves, ties and eyewear. Production is divided between Italy and France, where an historic workshop manufactures ready-to-wear garments. Under worldwide licence agreements, the House also produces and distributes eyewear through Safilo as well as fragrances and cosmetics with L'Oréal.

In March 2012, the House of Yves Saint Laurent announced the appointment of Hedi Slimane as Creative Director. Leading Yves Saint Laurent into a new era, Hedi Slimane recaptured the impulses of 'youth, freedom and modernity' that inspired the founder to launch Saint Laurent *Rive Gauche* ready-to-wear in 1966.

As of December 31, 2013, Saint Laurent retail network consists of 115 directly-operated boutiques which together generated 56% of total revenue for the year and include flagships in Paris, London, New York, Hong Kong, Shanghai, Beijing and Los Angeles. the house is also represented in select multi-brand boutiques and department stores around the world.

At the end of 2013, the Saint Laurent business was very well balanced in terms of both geographic markets and product categories, with leather goods and shoes accounting for 66% of business and ready-to-wear posting the fastest growth at 51% compared to last year.

competitive environment

Since its inception, Yves Saint Laurent has held enormous influence within and outside the fashion industry. Through the years, its founder, the couturier Yves Saint Laurent, secured a reputation as one of the 20th century's foremost designers and personalities.

Saint Laurent now competes globally with other French high-end exclusive luxury brands and occupies a leading position in ready-to-wear, fashion and leather goods sectors.

strategy

Saint Laurent's primary objective is to create and market highly desirable products, which embody the core values of the brand through innovation and unparalleled quality and design.

Since his arrival, Hedi Slimane has entirely redefined the men's and women's collections and worked on new lines for all categories. The collections for men and women have been repositioned and made even in terms of depth of the offer and product ranges. This repositioning is accompanied by a rejuvenation of the style, in line with Yves Saint Laurent's original message of 1966. Ready-to-wear is therefore once again becoming a strong component of Saint Laurent's overall product offer, across both genders. At the same time Saint Laurent aims to further nurture the development of its leather goods, shoes and other accessories offering.

2013 highlights and outlook for 2014

Under the leadership of Hedi Slimane and Francesca Belletini, appointed CEO in September of last year, 2013 has been a very rich year for Saint Laurent, with a particular focus on new product launches, across all the main categories.

During the year, the brand's sales were fuelled by the extremely strong growth figures posted by ready-to-wear in both retail and wholesale channels. Accessories and shoes transitioned smoothly into the new brand aesthetic, driven by the success of new styles, such as the *Sac de Jour* handbag and *Paris* shoes. Notable success and critical acclaim were also achieved for Saint Laurent fashion collections during 2013, which received significant exposure through editorials and global celebrities.

Saint Laurent also marked a year of investment in 2013, enhancing its retail network with selective store openings worldwide, in both emerging and mature markets, and key refurbishments and relocations.

In May 2013, the opening of the Avenue Montaigne flagship in Paris was a significant step in the evolution of Saint Laurent under Hedi Slimane. Being located in one of the most prestigious districts for luxury shopping, it was an important move for Yves Saint Laurent as a couture House that is deeply rooted in Paris. In June 2013, Saint Laurent – which operates an Uptown store on New York's East 57th Street – opened a store in Soho.

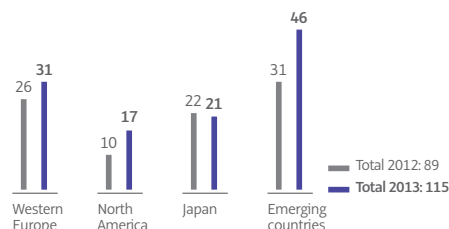
The establishment of the new ysl.com website has also played a key role – redesigned at the end of 2012, it features rich content and is a dynamic e-commerce platform that also forms part of the overall cross channel retail strategy. From June 2013, ysl.com added 30 additional countries, and now offers e-commerce to 60 countries around the world. Furthermore, ysl.com moved onto the Yoox platform as part of E_lite, the joint venture between Kering and Yoox signed in 2012, whereby the latter provides the infrastructure for managing operations while Saint Laurent remains in full control of the image, product assortment, editorial content and art direction of the site.

Social media initiatives were met with extraordinary success as social platforms were fully integrated into global communications practices and strategies. As of December 2013, Yves Saint Laurent had nearly 1.8 million fans on Facebook and was one of the most popular luxury brands on Twitter with over 1.7 million followers.

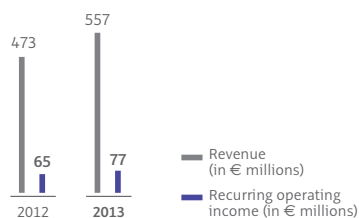
Continuing a tradition of close relationships between the House and rock icons from its earliest days, the interplay between music, art and fashion is important to the Saint Laurent vocabulary, where collaborations are instinctive. In March 2013, Saint Laurent announced its ongoing Music Project, a growing portraiture campaign of rock stars and artists such as Courtney Love, Daft Punk and legendary musicians such as Chuck Berry, styling themselves in iconic and permanent pieces of the Saint Laurent collection. Those initiatives contribute to conveying a holistic universe around the Saint Laurent brand, while generating a positive marketing halo from fashion shows down to press editorials, as well as contributing to further bolstering the House's awareness globally.

In terms of distribution, the company pursues an ambitious expansion of its retail network, which started in 2012 with the initial launch of its new store concept. In 2014 and going forward, the focus will not only be on emerging markets, such as Middle East, China or South East Asia, but also on further development in the US, Japan and Europe, with openings in key international cities. Existing stores will also be progressively refurbished with the new concept globally.

Number of directly-operated stores by region



Revenue and recurring operating income



other brands

- Alexander McQueen
- Balenciaga
- Boucheron
- Brioni
- Christopher Kane
- Girard-Perregaux and JEANRICHARD
- Pomellato and Dodo
- Qeelin
- Sergio Rossi
- Stella McCartney

2013 key figures

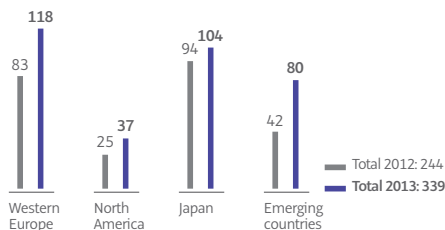
€1,337 million
in revenue

€144 million
in recurring operating income

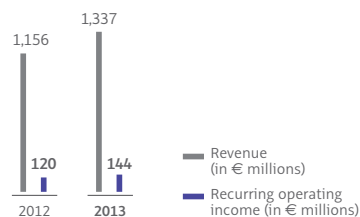
5,299
average number of employees

339
directly-operated stores

Number of directly-operated stores by region



Revenue and recurring operating income



ALEXANDER MCQUEEN

Founded in 1992 by Lee Alexander McQueen the brand quickly gained a reputation for conceptual design and a strong brand identity which led to a partnership with Kering in 2001. The brand is now fully owned by Kering since the passing of Lee Alexander McQueen in 2010.

Renowned for its unbridled creativity, Alexander McQueen – under the leadership of the CEO, Jonathan Akeroyd and the vision of Sarah Burton, Creative Director since 2010 – has strongly developed its business internationally through both wholesale and retail channels over the past decade with wholesale being a key driver of growth. In recent years there has been an escalation of retail openings which has enabled the brand to strengthen its position in the luxury arena.

Alexander McQueen currently has a total network of 24 directly-operated stores across all regions. This year five new stores were opened in Tokyo, Dallas, Shanghai, Hong Kong and San Francisco. In September 2013, the brand relocated its New York flagship to Madison Avenue. Its London flagship was refurbished to complement a new store concept that has helped to communicate a more luxurious positioning for the brand. All collections are also sold online in most countries, through the joint venture established with Yoox.

On the distribution side, the brand is sold in over 50 countries and across more than 450 doors. Key partners are Saks and Neiman Marcus in the US, Harrods and Selfridges in the UK and Lane Crawford in Asia. In all of these doors Alexander McQueen is considered a successful brand. This has enabled the brand to open numerous shop-in-shops over recent years which has helped establish a stronger brand image and business.

Franchises are also an important part of the distribution channel and there are today 10 franchise boutiques, most of which are concentrated in the Middle East and Eastern Europe.

Main product categories are women's ready-to-wear and leather goods, although another strength of the brand is that it has a good spread across all categories which gives it the opportunity to develop business further in many areas. Silks and menswear have both developed strongly in recent years and two men's only stores were opened in 2012 to help this category to develop further. There is also an eyewear licence with Safilo and a fragrance licence was signed in 2013 with Procter & Gamble which will give the brand an important platform to build on in coming years.

The company has also successfully developed McQ, an additional brand which started as a licence in 2006 and was re-launched as an in-house brand in 2011. The McQ brand has quickly established itself in the popular contemporary market and is not only an important contributor to the overall Alexander McQueen business but also an important player in the contemporary sector.

McQ is distributed at a broader level and is sold primarily as a wholesale business internationally with a total of more than 500 doors. Franchises are an important part of the business with nine openings in 2013 including Shanghai, Beijing and Seoul, leading to a total of 11 franchise stores mainly in Asia and the Middle East. A freestanding directly-operated store was opened in Dover Street London in 2012 to help support the positioning of the brand to the market.

The development of McQ will enable the brand to push further in the growing contemporary market and also enable the Alexander McQueen brand to remain very exclusive.

In 2014 both brands will continue to develop further with a continued focus on product development especially in the accessories categories. There will also be further retail openings for Alexander McQueen. Marketing activities will also be strengthened to build on the current momentum and improve brand awareness following on from the hugely successful brand exhibition "Savage Beauty" that was held at the Metropolitan Museum in New York and which will be shown in London in 2015.

BALENCIAGA

Founded in 1919 by Cristóbal Balenciaga and established in Paris in 1936, the brand defined many of the greatest movements in fashion from the 1930s to the 1960s. The mastery of techniques and cut, together with constant innovation in fabrics, marked out a special place for Balenciaga in the hearts and minds of its customers and followers.

In the 1990s and early 2000s, the brand experienced a re-birth, which saw an extension of its product universe onto a broader range of products, with particular focus on iconic handbag launches, together with increased focus on fashion shoes as well as accessories, without compromising the core ready-to-wear segment. The brand also witnessed a significant expansion of its retail network, further contributing to bolstering its brand awareness around the globe. Reflecting this, Balenciaga is now equally distributed through directly-operated stores and e-commerce, as well as through franchisees and leading multi-brand stores.

While the brand's identity is firmly anchored on its highly symbolic ready-to-wear collections, its bag and shoe lines have also enjoyed phenomenal worldwide success. The women's and men's ready-to-wear collections span a wide price range, from the most emblematic items to more universal products, thus opening Balenciaga's style to a wider public.

In fragrance, the brand has established a solid license partnership with Coty and has released some successful perfumes: *Balenciaga Paris*, *L'Essence* and *Florabotanica*. More recently, a similar partnership with Marcolin has been built up in eyewear with a first promising collection launched at the end of 2013.

With his proven talent and cosmopolitan vision of design, Alexander Wang – appointed Creative Director in December 2012 – has embraced the heritage of this fashion House.

Over the past years, under CEO Isabelle Guichot's leadership, Balenciaga has been developing a project aimed at consolidating a directly-operated store network worldwide. Today Balenciaga has a retail network of 81 stores well developed in both mature markets (Western Europe, US and Japan) and Asia (Greater China and South Korea). In addition, Balenciaga e-commerce currently covers 91 countries and since May 2013 has been operated through the E_lite platform, under a new joint venture created by Kering and Yoox.

2013 has been another milestone in Balenciaga's retail strategy, with the setup of direct operations in South Korea (seven directly-operated stores) and the opening in November of two new flagships (one dedicated to Women and the other to Men) in New York's Soho District, giving complete access to Balenciaga's entire range of products for the first time in such a premium retail location and unveiling the first version of its new retail concept under Alexander Wang's vision.

Balenciaga also continued to strengthen its position in mainland China, with two net store openings in addition to the twelve stores already existing in the country. During the year the brand also extended its retail presence in upscale department stores with the opening of three shop-in-shops in Paris, London and Tokyo.

In 2014, the brand will continue to leverage the impetus provided by new product launches, together with a focus on further developing its retail concepts around the world. Franchise and selective distribution remain key contributors to the brand activity, but retail and e-commerce development will continue to be a priority for the brand in 2014 and going forward, with new store openings planned in strategic locations in mature markets and in Asia.

BOUCHERON

PARIS

Founded in Paris in 1858 by Frédéric Boucheron, the eponymous Maison grew up under four generations of the founder's direct descendants and soon acquired fame as an expert in precious stones and as a master of *savoir-faire* in creating innovative jewellery and watches. The jeweller, which decided to move to Place Vendôme in 1893, was the first of the current neighbours to open a boutique on the square. For more than 150 years Boucheron has embodied excellence in Jewellery, High Jewellery and Watchmaking.

Today, Boucheron creates and markets jewellery (bijoux, jewellery as well as high jewellery) and watches through 37 directly-operated stores across the world, including the flagship Place Vendôme store, franchise boutiques, department stores and exclusive multi-brand boutiques.

For the Maison, 2013 marked the launch of a new boutique concept, enhancing its high-end values of excellence and French know-how. By the end of the year, ten stores had been refurbished in line with the new concept. The Faubourg Saint-Honoré boutique in Paris, and the Harrods shop-in-shop in London were the first stores offering the new image of the Maison.

After the opening in 2012 of its first directly-operated store in Hong Kong, in 2013 Boucheron expanded its network in the APAC region with a second DOS in Hong Kong and the renovation of the Taipei boutique. In addition, two new franchise stores were opened in Shanghai and Abu Dhabi. The recent establishment of a Boucheron office and local team in Hong Kong has also strengthened the Maison's retail presence in this key area.

With the relaunch of iconic jewellery collections such as *Quatre* and *Serpent Bohème* in 2013, Boucheron experienced solid growth during the year. The second High Jewelry collection designed by Claire Choisne enjoyed strong success with both media and clients, giving the Maison a great platform to leverage for the years to come. In 2013, in order to build brand awareness outside the home country, Boucheron strengthened its exposure to the luxury and cultural scenes, promoting two exhibitions with two major Japanese artists, Makoto Azuma and Hiroshi Sugimoto.

In 2014 and in the following years Boucheron will continue to reinforce its retail network worldwide. The presentation of the collections during the renowned 2014 *Biennale des Antiquaires* in Paris should also help to consolidate Boucheron's presence among the best international jewellers.

Brioni

Brioni was founded in 1945 by two representatives of Italian excellence, Nazareno Fonticoli, a tailor from Abruzzo, and an entrepreneur, Gaetano Savini, whose vision was to set a new reference in tailoring. Shortly after its creation, Brioni embodied the *Dolce Vita* spirit in menswear and became the first ambassador for Italian men's fashion around the world. Over the years Brioni developed a very strong international appeal, becoming one of the world's most famous men's tailoring houses and the symbol of masculine and contemporary elegance. Illustrating this, in 2007 and again in 2011, the Luxury Institute of New York named Brioni as the most prestigious men's luxury fashion brand in America.

In January 2012, Brioni became part of the Kering group and in July of the same year, Brendan Mullane was appointed as Creative Director, to reinforce and achieve the company's growth ambitions and to re-affirm its undisputed leadership in the high-end menswear market. Beyond its core formalwear offer, Brioni's product range currently covers all categories of men's attire, including casual ready-to-wear, leather goods, shoes and other accessories such as eyewear, launched in 2012.

Today, under the leadership of CEO Francesco Pesci, the House stands as much for the "Made in Brioni" promise, which goes even further than "*Made in Italy*" craftsmanship, as it does for its iconic and recognisable products. Most of the production is carefully crafted in Brioni's ateliers in Penne (Abruzzo), where its artisans apply a combination of unique *savoir-faire*:

- the art of tailoring: a grand tradition combining highly skilled master tailors and its own tailoring school to perpetuate know-how;
- a customised approach: a Brioni garment must reflect the wearer's personality and inner style. That is why Brioni's bespoke expertise is applied to both made-to-measure and to ready-to-wear, offering customers the highest level of personalisation;
- a daring use of colour to stand out from the crowd. Brioni was the only sartorial brand to use colour at a time when British codes stood for the conventional shades of grey, blue and black.

While wholesale still represents Brioni's major distribution channel, in recent years the brand has developed a retail network through both new store openings as well as the buy-back of franchise stores.

At the end of 2013, Brioni had 45 directly-operated stores, mainly located in Western Europe, North America and Japan. During the year, Brioni expanded its retail network in North America, Asia and Western Europe with 10 net openings, including three stores in the United States (Chicago, Costa Mesa and Palm Beach), five franchise stores that have been bought back in Mainland China and two stores in Western Europe (Vienna and Frankfurt). Management's goal for 2014 and for the medium to long-term is to further expand the retail network and to strengthen the company's presence in Asia and onto other emerging markets.

C H R I S T O P H E R K A N E

Incepted in 2006 by eponymous designer, Christopher Kane is a brand which is now widely acknowledged to have spearheaded a revival of British high fashion, through the launch of innovative ready-to-wear styles. After having completed his Master of Arts (MA) in Fashion design at Central Saint Martins College, Christopher Kane realised his ambition to start his own label, in partnership with his older sister, Tammy Kane.

Today, the brand, driven by aesthetics, attitude and spirit of collections that are immediately recognisable, designs distinctly identifiable high-end women's and men's ready-to-wear pieces.

In January 2013 Kering announced the purchase of a 51% share of the company. In September, Christopher Kane and Kering announced the appointment of Alexandre de Brette as CEO of the brand, this announcement forms part of the company's global development strategy. Finally, in December Christopher Kane was awarded with the prestigious 2013 Womenswear Designer of the Year by the British Fashion

Council (BFC). The award, which is given to a designer who has been instrumental in enhancing women's fashion, recognises a triumphant year for the London-based brand. The increased brand awareness in 2013 has resulted in strong growth across all product categories in the wholesale channel.

On the distribution side, Christopher Kane's collections are now distributed in over 30 countries across more than 150 wholesale accounts. The primary product category is women's ready-to-wear. The menswear category was added in Spring 2011. The company also produces shoes to accompany these collections, which will be expanded over the next few years.

In 2014 the brand will open its first flagship store in London, which will be situated on Mount Street, Mayfair. Further growth is also planned in the wholesale channel, which will be assisted by the launch of the brand's first leather goods collection.

GP
GIRARD-PERREGAUX

JR
JEANRICHARD
1681

Based in La-Chaux-de-Fonds, Girard-Perregaux is a high-end Swiss watch manufacturer tracing its origins back to 1791. The history of the brand is marked by watches that combine sharp design with innovative technology such as the renowned *Tourbillon with three Gold Bridges* presented by Constant Girard-Perregaux in 1889 at the Paris Universal exhibition where he was awarded a gold medal.

Devoted to the creation of state-of-the-art *Haute Horlogerie*, Girard-Perregaux is one of the very few watchmakers to combine all the skills of design and in-house manufacture, including the forging of the movements.

Since 2011, when Kering took a majority stake in Sowind Group, owner of Girard-Perregaux, the brand has implemented a new strategy aimed at creating a bridge between its rich past and its future. The collections were streamlined while the launch of two new concepts in 2013 (*Hawk and Traveller*) aimed at strengthening Girard-Perregaux's position in Western markets and the Middle-East. In the high-end segment, the presentation of the "Constant Force escapement" at Baselworld 2013 was acclaimed by the industry. As the result of more than eight years of research and development, this groundbreaking concept was awarded this year's Aiguille d'or at the Grand Prix de Genève (GPHG), the most prestigious award within the global watch industry.

Mainly driven by wholesale business, Girard-Perregaux is now present in over 70 countries across some 450 wholesale accounts (including prestigious department stores and specialties shops) as well as 17 mono brand stores (16 franchise stores and one directly-operated store) located in Asia, Europe and the United States. New distribution partners were added to drive the brand's future growth in South America, in Europe and in the Middle-East.

Based also in La Chaux-de-Fonds, JEANRICHARD was named after Daniel JEANRICHARD, who pioneered the Swiss watchmaking industry during the 17th century and invented several machines and tools that are still crucial for manufacturing timepieces. This visionary and pioneering spirit, which has been cultivated by his successors ever since, remains the soul of JEANRICHARD.

In 2012, JEANRICHARD launched its new identity and strategic development based on the communication pillars of traditional watchmaking, land, water and air. In this occasion, the overall positioning of JEANRICHARD has been reviewed, in order to better anchor the brand at the forefront of the accessible luxury segment.

The collection – based on a common complex and innovative "chassis" industrial platform case – embodies these four pillars with the "1681" (a contemporary re-interpretation of a traditional look, using the JR1000 manufacture movement with automatic winding, created in 2004, conceived and built entirely in its workshops), the "Terrascope", the "Aquascope" and the "Aeroscope". For each of these environments, JEANRICHARD tells stories of people whose passions have driven them to do extraordinary things.

Today, JEANRICHARD is available in most regions of the world through more than 150 points of sale with key independent retailers and high-end watch chains. Its most relevant presence today is in North America and Latin America and the roll-out of the distribution network is expected to continue in 2014 – particularly in Europe and Asia, where the brand already has a good presence in Greater China – and aims to reach 250–300 points of sale worldwide.

Sowind *Haute Horlogerie* Group, besides owning Girard-Perregaux and JEANRICHARD brands, incorporates a manufacturing activity that develops and produces a complete portfolio of high-end watch movements and mechanical watches for its two brands and third parties, including Kering brands such as Gucci, Bottega Veneta and Boucheron.



Synonymous with creativity and character in the international jewellery scene, Pomellato was established in Milan in 1967, thanks to the intuition of its founder, Pino Rabolini, who was the first to introduce the prêt-à-porter philosophy into the world of jewellery. The brand's strong and distinctive identity enabled Pomellato to rapidly gain ground in the Italian market and subsequently in the rest of the world.

Pomellato creations – unique in their blend of colourful stones, stone cutting and setting methods – are immediately recognisable and have built a consistent, iconic style over time. Jewels are crafted by the expert hands of goldsmiths, transforming the spirit of the brand into gold.

Dodo was created in 1995, the first jewellery line to combine a decorative function with the idea of conveying a message. With a unisex and multi-generational allure, Dodo became an independent brand in 2001.

To celebrate its 40th anniversary, in 2007 Pomellato made its debut into high-end jewellery with the *Pom Pom* collection. Every ring is created around stones that are unique in their rarity, large size or irregular shape. This results in sophisticated, excessive, contemporary jewels, whose high value combines culture with an unconventional flair.

2012 was the debut year for Pomellato 67, with the brand reinterpreting the rock and transgressive spirit of the late 60s in a stunning collection, translating the style codes of the Milanese Maison into solid silver.

In 2013 Pomellato created *Rouge Passion*, a capsule collection dedicated to a woman's most "sensual" side. Three intense red synthetic stones, backed with mother-of-pearl, epitomize the prêt-à-porter philosophy and the innovative spirit of Pomellato.

The Pomellato group (which today includes the Pomellato and Dodo brands) currently employs 590 people, 100 of whom are highly qualified goldsmiths, working in the headquarters of the Milanese Maison. Today the company is one of the leading European jewellery players in the international scene.

Thanks to an intensive programme of opening mono-brand stores, the two corporate brands – Pomellato and Dodo – are currently present, with 55 directly-operated stores (35 for Pomellato and 20 for Dodo) and 30 franchise boutiques (18 for Pomellato and 12 for Dodo), in the main capital cities of Europe, the Middle East, Asia and the United States.

The group also relies upon a carefully selected distribution network, through 600 wholesale partners worldwide.

In 2014 the group is planning to open several directly-operated stores worldwide, both in Europe and Asia Pacific.

In 2014 Pomellato group also plans to enter the feminine watch sector with two different collections, one for Pomellato 67 and one for Dodo.

qeelin

Incepted in 2004 by Dennis Chan, Creative Director, and Guillaume Brochard, a French entrepreneur, and inspired by a millennium-long Chinese cultural history, Qeelin turns mythical and superstitious Chinese symbols into timeless, meaningful and state-of-the-art contemporary jewels.

Since its launch, Qeelin has been creatively blending tradition and modernity, embracing both the mythical essence of China's cultural heritage and the excellence of French craftsmanship to design contemporary fine jewellery.

The brand's name reflects its identity as it refers to the "Qilin", an auspicious Chinese mythical animal and rooted symbol of love, understanding and protection. The brand's iconic *Wulu* collection revisits the legendary Chinese gourd filled with auspicious associations. Qeelin is also well known for its *Bo Bo* collection, featuring an articulated and playful diamond panda bear, China's treasured national hero.

The recent acquisition by Kering in December 2012 has enabled Qeelin to accelerate its development, notably through an increase in marketing investments. Illustrating this, Qeelin released its first advertising campaign in Greater China in fourth quarter 2013 to increase brand awareness. It has also continued to expand its store presence with the opening of five new boutiques in 2013 in Hong Kong and Shanghai, to reach a total of 19 boutiques worldwide by the end of the year (11 directly-operated boutiques and 8 franchise boutiques). This network expansion has been supported by the reinforcement of the access jewellery product offering with the successful launch of the *Petite collection* in May 2013, as well as the promising launch of a new High Jewellery collection in October: the *King & Queen*.

This expansion strategy will be continued in 2014.

sergio rossi

Since its establishment in Italy in the late sixties, Sergio Rossi has become a world reference in women's luxury footwear. The brand has always been synonymous with style and timeless elegance, acclaimed for its creativity and perfect fit.

Today the brand- under the direction of its CEO, Christophe M  lard, and the newly appointed Collection and Design Director, Angelo Ruggeri- creates shapes and silhouettes with well-recognised Italian know-how and a proper iconic brand signature.

The brand operates a workshop in San Mauro Pascoli, located in Emilia Romagna, in the heartland of artisan Italy, where the brand's tradition is perpetuated, while also contributing to nurturing the brand's modernity. Illustrating this, Sergio Rossi recently created a capsule collection, as a tribute to the famous Italian designer Gabriella Crespi, which will also inspire the Spring Summer 2014 collection. In addition to its core women's shoes category, Sergio Rossi has successfully strengthened the men's shoes category and, more recently has launched an accessories line featuring handbags.

Over the years, from a mainly domestic wholesale-driven business, Sergio Rossi has developed a global retail presence. Today Sergio Rossi footwear and accessories are equally sold through the worldwide directly-operated stores network, as well as through franchise boutiques and selected department and specialty stores. Moreover, thanks to the collaboration with Yoox, the Sergio Rossi online store is now accessible in all key countries.

At the end of 2013, Sergio Rossi had 53 directly-operated stores, mainly in Japan, Europe and Greater China. In 2013, Sergio Rossi opened another directly-operated store in Hong Kong to reinforce its presence in the Asia region. The brand also opened a directly-operated store in Las Vegas during the year. The new store concept launched in 2010 in the Rome flagship store has now been rolled out in over 30 stores worldwide as part of its global refurbishment plan.

In 2014, Sergio Rossi aims to expand growth through its retail network, particularly in emerging markets, while continuing to strengthen its worldwide wholesale business, especially through long-term franchise partnerships and key third-party distribution.

STELLA MCCARTNEY

Stella McCartney is an eponymous luxury Lifestyle brand which was launched under the designer's name in partnership with Kering in 2001.

Since the brand's foundation, women's ready-to-wear has been the core business, but during the past years the brand has been successfully extending its portfolio, adding other product categories such as handbags, with the iconic Falabella bag, shoes, and very promising diversification in Kids.

Product diversification has also been fuelled by long-lasting successful collaborations, such as the design of sportswear apparel with Adidas or lingerie with Bendon. The brand also developed eyewear and fragrances through license agreements, as well as initiated several one-off collaborations, all have allowed the company to increase brand awareness as well as sales.

A lifelong vegetarian, Stella, since the early days of the brand, has been committed to reflecting her ethical values in the collections, contributing to the brand's ongoing success. 2013 has been a particularly successful year in building brand awareness with a persistent and strong exposure to the fashion scene. The year culminated with Stella receiving an OBE (Order of the British Empire) from the Queen of England for her services to the fashion industry.

Initially started as a primarily wholesale business, the brand now has more than 650 doors worldwide in over 50 countries, but most recently it has focused its strategy on the expansion of its retail channel.

After doubling its directly-operated store network in 2012, the brand added a four further net openings in 2013, mainly in the Asian market (Shanghai, Beijing and Tokyo), bringing the total store count to 25 stores, and which remains one of the key strategic priorities for further growth. 2013 also saw the launch of the joint venture between Yoox and Kering to develop the e-commerce business and to support market penetration, both in terms of image and revenue.

During the year, Stella McCartney also added six franchise boutiques to its franchise network, which now consists of a total of 16 stores worldwide and continues to represent an important part of the distribution network.

In 2014, the brand will focus on consolidating the latest openings as well as exploiting its historical locations in both the retail and wholesale distribution channels, and developing strong synergies between the off-line and on-line shopping experience.

worldwide sport & lifestyle market overview

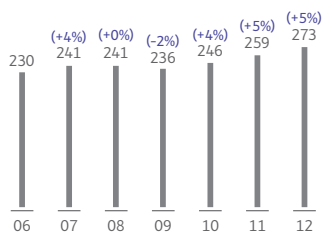
This section contains information which is derived from the "2012 Global Sport Market Report" conducted by NPD, an independent organisation, and published in June 2013. The scope of the study includes sales of footwear, apparel and equipment intended for all types of sport usage.

The following data, including trends, market sizes and growth levels, are based on NPD estimates. Please note that all growth rates are expressed in reported terms.

market overview: size, trends and main growth drivers

According to NPD, the global Sport & Lifestyle market generated revenue of €273 billion in 2012, representing a 5% increase compared with 2011, marking the third consecutive year of positive growth. From 2006 to 2012, the Sport & Lifestyle market grew at a compound annual growth rate of 3%.

**Worldwide Sport & Lifestyle market trend
(2006–2012, in € billions)**



(%): annual change, reported data

Demand in the Sport & Lifestyle market is driven by four main factors:

- demographic trends and an increase in world GDP;
- increase in leisure time and increased awareness among the population of the positive effect of sport on health;
- globalisation and convergence of consumer habits as sport promotes universal values;
- increase in purchasing power and urbanisation in emerging countries.

Meanwhile, industry players have developed their product offering and extended their global reach through:

- **innovation:** sector players are quick to adopt new technologies and materials that help them stay ahead of the competition and to segment their offering;
- **geographical expansion:** Sporting Goods companies are focusing on consolidating or growing their market shares in mature markets, while investing in high-growth markets where they have more potential to grow market penetration and brand awareness;
- **retail expansion:** while wholesale distribution remains the most important distribution channel for Sporting Goods, industry players have also worked on developing their network of directly-operated stores.

competitive environment

The Sport & Lifestyle market is a mass, global market. PUMA is currently one of the leading Sporting Goods brand after Nike and Adidas. In addition to these three major players, there are several smaller players that are often specialised in one specific category.

In Kering's Sport & Lifestyle Division, the "Other brands", Volcom and Electric, address more niche markets, and they are inspired by the world of Action sports and Outdoor, competing with brands such as Quiksilver and Vans.

product categories

According to NPD, the global Sporting Goods industry can be broken down into three main product categories – footwear, apparel and equipment (excluding the market for bicycles and accessories) – which correspond to the key product areas in which Kering Sport & Lifestyle brands operate.

Worldwide Sport & Lifestyle market: breakdown by category (2012)

	Market value (in € billions)	Reported YoY change	2012 market share
Footwear	73	+7 %	27%
Apparel	91	+6%	33%
Equipment	72	+4%	26%
Bicycle and accessories	37	+2%	14%
Total	273	+5%	-

When assessing industry trends in 2012, all categories grew with footwear posting the highest growth (up 7%) followed by apparel (up 6%). More specifically, within the footwear

category, the lightweight/technical running, casual/skate and premium basketball trainer segments performed well.

In 2012, five main sports represented almost 50% of the Sport & Lifestyle market:

Sport	2012 value (in € billions)	Reported YoY change
Cycling	39	+2%
Fitness	29	+8%
Walking/Hiking	24	+5%
Running	20	+10%
Football/Soccer	12	+8%

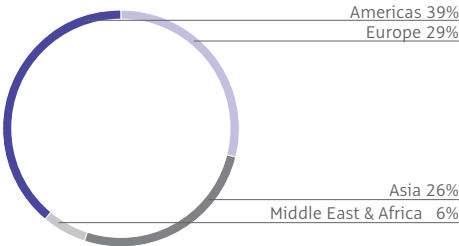
distribution channels

The Sport & Lifestyle industry is mainly a wholesale business. Key distributors of Sporting Goods brands include retailers such as Foot Locker and Finish Line in the United States and Intersport and Decathlon in Europe. In the United States, Action sports & Outdoor brands can be distributed in Pacsun, Zumiez and Tilly's.

Along with wholesale distribution, industry players increasingly tend to develop more controlled retail space such as directly-operated stores, shop-in-shops or joint ventures with retailers. E-commerce is also gaining momentum, yet still accounts for a fraction of total sales.

regional overview

Worldwide Sport & Lifestyle market: breakdown by region (2012)



The ten largest countries in terms of global revenue in 2012 are as follows:

2012 rank	Country
1	United States
2	China
3	Japan
4	Germany
5	Brazil
6	France
7	United Kingdom
8	Russia
9	Canada
10	Italy

At industry level in 2012, the Americas were the leading region in terms of market share (39% of the total Sport & Lifestyle market, stable year-on-year), followed by Europe (29%, down one percentage point year-on-year, in favour of the Middle East & Africa).

By country, the United States are by far the largest market, representing 27% of the global Sport & Lifestyle market, followed by China, surpassing Japan in terms of market share for the first time.

In terms of growth, sales in Western Europe posted a modest increase (up 2% in 2012), under pressure from macro-economic headwinds. However, results were mixed as positive trends in Northern Europe (Germany and the United Kingdom) offset weaknesses in Southern Europe.

Emerging markets enjoyed the highest growth rates, as international brands saw rapid growth. Latin America led the way (up 16%), followed by Central & Eastern Europe (up 8%) and Middle East & Africa (up 7%). The top emerging countries were Brazil, South Africa and India.

market outlook

In the medium term, NPD forecasts a compound annual growth rate of 3% for 2013-2016, in line with the period from 2006 to 2012. The Sport & Lifestyle market should therefore reach €308 billion by 2016, underpinned by a positive global GDP growth assumption. Indeed, Sport & Lifestyle market growth is evolving broadly in line with consumer spending.

However, the top 5 sports - cycling, fitness, walking/hiking, running and football - should outperform overall Sport & Lifestyle market growth. For example, NPD forecasts annual growth rates of 6% for running, 4% for football and 4% for fitness by 2016.

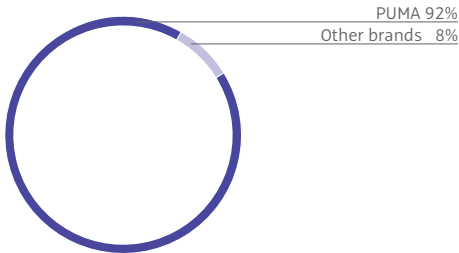
sport & lifestyle division

PUMA	48
Other brands	51
Volcom	
Electric	

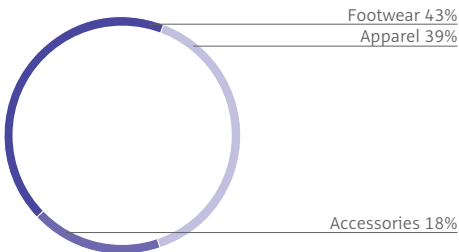
2013 key figures

€3,247 million
in revenue

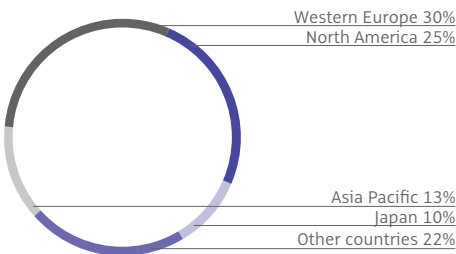
Breakdown by brand



Breakdown by product category

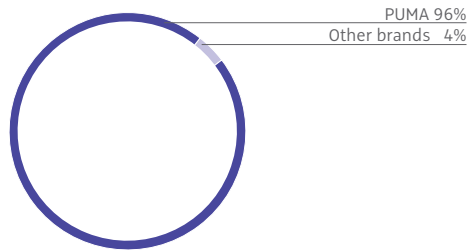


Breakdown by region

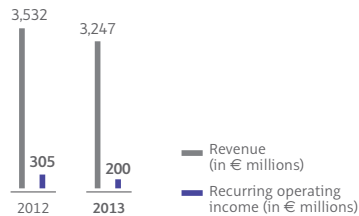


€200 million
in recurring operating income

Breakdown by brand



Revenue and recurring operating income





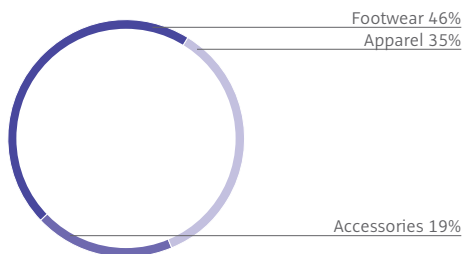
2013 key figures

€3,002 million
in revenue

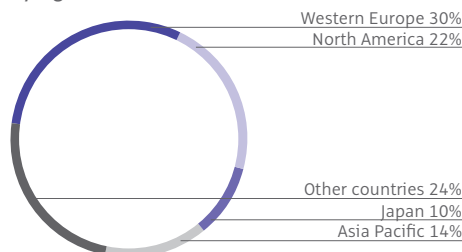
€192 million
in recurring operating income

10,750
average number of employees

Breakdown of 2013 revenue
by product category



Breakdown of 2013 revenue
by region



business concept

PUMA is one of the world's leading Sports Brands, designing, developing, selling and marketing footwear, apparel and accessories. For over 65 years, PUMA has established a history of making fast products designed for the fastest athletes on the planet.

PUMA offers performance and sport-inspired Lifestyle products in categories such as Football, Running, Training and Fitness, Golf, and Motorsports. It engages in exciting collaborations with renowned design brands such as Alexander McQueen and Mihara Yasuhiro in an effort to bring innovative and fast designs to the sports world. The PUMA Group owns the brands PUMA, COBRA Golf, Tretorn, Dobotex and Brandon. The company distributes its products in more than 120 countries, employs more than 10,000 people worldwide, and is headquartered in Herzogenaurach in Germany.

PUMA is committed to financial, social and environmental sustainability. The company aims to reduce its environmental footprint, improve social and working conditions at its supplier factories, and accelerate positive change in the industry.

competitive environment

Competition in the Sporting Goods industry continues to be fierce. Not only are the Industry leaders, Nike and Adidas, pursuing expansion plans, there are also many more nimble participants with ambitious goals. Vertical retailers have also begun to cross over into the sports category within their product assortments.

The weakness of various currencies, particularly the Japanese yen and those of certain emerging markets, caused profitability fluctuations in 2013. In addition, although raw materials prices remained relatively stable throughout the year, they stabilized at high levels, and wage inflation in Far Eastern production centers continues to put pressure on margins.

strategy

In 2013, PUMA created a newly unified Brand Platform that is rooted in the Sports DNA of the company, and which reconciles the Performance and Lifestyle segments of the PUMA brand. With this significant milestone, PUMA is moving away from its approach of pursuing two distinctive visions for each part of the business, which has led to confusion and a lack of clarity for employees, business partners, and consumers.

Going forward, PUMA will be the Fastest Sports Brand in the World. This simplified mission will result in a single brand positioning, a single brand purpose, and a single consumer message. PUMA will be: *"Forever Faster"*. This statement, a new tag line which will be launched to consumers in 2014, reflects the 65 year history of making fast product designs for the fastest athletes on the planet.

But *"Forever"* references more than just the brand's history, and a commitment to classic products. It represents recognition of the endless pursuit of whatever is next – in performance innovations, in cultural trends and in style and fashion. *Forever* also emphasizes PUMA's long-term responsibilities and underlines the importance of sustainability to the brand. Of course the word *"Faster"* represents more than simply delivering the rational benefit of speed to athletes. PUMA will have a single minded purpose of celebrating faster design in every sense of the word – lighter products, better fit for greater agility, enhanced flexibility and stability in the precise measure to allow for point to point speed, and any other possible way the brand can deliver the fastest products for the fastest performers. The phrase simultaneously references the emotional benefit of owning speed – the thrill, the fun, and the swagger of Usain Bolt himself, the man who best personifies this new strategy and ambition.

Forever Faster will be a part of a long term effort to clearly re-establish the brand in the minds of the customers. In the third quarter of 2014, PUMA will unleash this new brand strategy in the market with a significant consumer-facing media campaign.

PUMA's products are the ultimate embodiment of the new brand strategy and the desire to produce the fastest products for the fastest athletes. Innovation efforts are developing lighter, more agile products with better fit and improvements in adaptation to the body in motion – both extending training times and delivering faster results when it counts. In addition to the *"Forever Faster"* innovation focus, the product priorities are delivering commerciality, beauty in design, and overall product responsiveness. PUMA will focus on improving the commerciality of its

product range to meet the consumer's price and value expectations. For PUMA, *"Commerciality"* means the consumer is at the center of the design process, ensuring that it delivers the performance, quality and aesthetics critical for success at the right price point.

Another key priority for PUMA is to focus on desirable wholesale distribution, shifting the balance from lower to higher-tier wholesale channels. The quality of wholesale distribution will be improved by focusing on and working closely together with key accounts on joint product programs. Supported by significant marketing activities, this approach will lead to improved sell-through, driving increases in shelf-space at key wholesale accounts.

In the Direct-to-Consumer business, PUMA's focus is to capitalize on its Retail doors. While PUMA will finish closing the loss-making stores earmarked in the Transformation Program, it will also increase the number of outlet stores in currently under-penetrated markets – mainly in the Asia/Pacific region. In growth countries, selective full price stores will continue to be opened in desirable locations. A key driver of growth in the direct-to-consumer business will be e-commerce. By going live with a completely refreshed site design in 2014, PUMA will integrate the marketing and commercial aspects of its digital strategy to drive growth and retention with compelling, *"shoppable"* content.

2013 highlights and outlook for 2014

2013 has been a transition year at PUMA with many highlights: a new management team is on board, a new brand manifesto has been launched, progress was made with the ongoing Transformation Program, and many product and marketing successes were achieved.

As of summer 2013, PUMA has a new management team in place that will shape the future of the company and make PUMA the fastest Sports Brand in the world. At the Board level, Bjoern Gulden joined as CEO and Andy Koehler came on-board as COO. Product teams were strengthened at the senior level with the addition of Kevin Tolchard as Global Director of Merchandising and Torsten Hochstetter as Global Creative Director.

PUMA continues to execute its Transformation Program as announced in 2012. Key transformation achievements in 2013 focused on complexity reduction. The successful implementation of a new European regional business model created a regional layer and consolidated

23 countries into seven areas. Through year-end, PUMA closed six warehouses in Europe, achieving significant movement in its warehouse consolidation project. Alongside complexity reduction in terms of organization and warehouses, meaningful progress was also achieved in reducing PUMA's article count by more than 10% in 2013. Further measures are underway to achieve the article reduction target of 30% by 2015. Finally, PUMA has already closed 73 of the announced 91 unprofitable stores with the remaining 18 stores to be closed in 2014/15.

On the product side, PUMA celebrated successes of its product launches underlining PUMA's ambition to build the fastest products for the fastest athletes: PUMA's top-selling adaptive running shoe, Mobium, won multiple awards across the globe, including Most Innovative (Competitor Magazine, US), Best New Technology (Go Multi, South Africa) and Best Debut (Runner's World, China). PUMA also successfully introduced its ISPO – International Sporting Goods Trade Fair – award-winning PUMA ACTV and RCVR performance apparel, which is a proprietary technology fusing compression with built-in athletic taping.

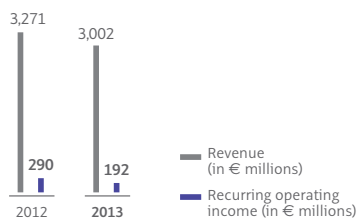
2013 also provided further proof that PUMA equips the fastest athletes on the planet. The World Track and Field Championships in Moscow were once again dominated by PUMA icon Usain Bolt, who took home another three gold medals to make him the fastest athlete of all time. With Usain Bolt, the Jamaican team achieved the third place in the medals table, with six golds in total. This remarkable performance was accompanied by two further great achievements in PUMA's core sports: PUMA – partnered football club Borussia Dortmund reached the Champions League Final and PUMA athlete Lexi Thompson won two LPGA tournaments in 2013, cementing her status as one of the world's top female golfers.

Looking ahead to 2014, PUMA will focus on three key priorities: repositioning itself as the fastest Sports Brand in the World, elevating the product engine to new standards, and improving the revenue quality. PUMA is excited to launch its new brand vision, *Forever Faster*, with a large scale media campaign globally in the Autumn/Winter season 2014. This brand relaunch is accompanied by the extension of the partnership with the fastest athlete on the planet, Usain Bolt, through the 2016 Olympic Games in Rio de Janeiro and beyond.

2014 will be the year of football for PUMA, at the World Cup in Brazil, 25% of all participating teams will be PUMA partners. PUMA is proud that the teams of Italy, Switzerland, Chile, Uruguay, Algeria, Cameroon, Ghana, and the Ivory Coast will all be sporting the brand on the

world's greatest football stage. The presence in football is further enhanced by new partnerships with two global brand properties – Arsenal Football Club and Mario Balotelli. Starting season 2014/15, PUMA will combine its sports performance expertise and proud heritage in the game with Arsenal's traditions, honors and global appeal. The partnership with Arsenal is a major milestone in PUMA's history. It is the first time in modern history that the brand is associated with a truly international football club property including an extensive global fan base. Come July 1st, PUMA will be the official kit supplier to Arsenal F.C. including the new playing kit, training line, fanwear and accessories. The signing of Italian striker Mario Balotelli has two critical aspects to it. Firstly, PUMA is adding a prime and globally recognized striker to boost the football footwear business of the brand next to Sergio Aguero, Cesc Fabregas, Marco Reus and Radamel Falcao. Secondly, the addition of Mario Balotelli to the stable of talent adds a true brand icon which fits perfectly with the PUMA personality that will be rolled out under *Forever Faster*.

Revenue and recurring operating income



other brands

- Volcom
- Electric

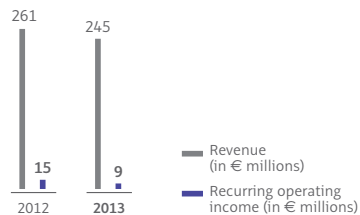
2013 key figures

€245 million
in revenue

€9 million
in recurring operating income

771
average number of employees

Revenue and recurring operating income





Founded in the early 1990's, Volcom is a board sports-based modern Lifestyle brand that embodies the creative spirit of youth culture. The company was built on liberation, innovation and experimentation, and its goal is to provide sustainable lifestyle-enhancing apparel, outerwear, accessories and footwear to people who share their passion for art, music, film and board sports. It is the only company in its category founded on all three board sports: skate, surf and snow. Volcom reinforces its brand image through the sponsorship of world-class athletes, targeted grassroots marketing events, distinctive advertising and the production of board Sport and youth Lifestyle related films, art and music.

With a broad array of products for men, women and boys, and key categories in denim, boardshorts, swim, outerwear, and footwear, Volcom aims to become one of the world's premiere brands in the action Sport & Lifestyle market. The Volcom brand is constantly evolving and bringing the board sports Lifestyle to an increasing number of people worldwide.

The action sports industry has been facing a strong economic downturn, pushing major competitors to review the strategy and organisation in an effort to relaunch growth. 2013 was a productive year for Volcom as it accomplished many significant initiatives. Volcom continued to strengthen the foundation of its business to drive operational excellence at every level. It added top talent to its teams and established a global organizational structure, particularly around marketing, merchandising and design, sourcing, supply chain, logistics, retail and finance. This new structure will help drive efficiencies around product, planning, gross margin and expense

management. In addition, Volcom successfully delivered its first closed-toe footwear line, which was well received by customers. In October, Volcom re-launched its Volcom.com website, which combines the brand, athlete, product and community into a single unified experience.

Branded retail was a key focus for Volcom, with four net store openings particularly in France, Australia, the United States and Hong Kong during the year.

Volcom made significant investments in resources, marketing and operations in the Asia Pacific and Latin America regions, which are key markets for the Volcom brand and provide potential growth opportunities. These investments have begun to yield results on some markets.

Volcom also hosted the World of Volcom Stone, a skate event held in Paris, celebrating the brand and its core values. The event was highlighted by the premiere of Volcom's new movie "True to This", a feature film which defines the brand's philosophy and captures the energy and artistry of board-riding in its purest forms.

The Volcom brand is well positioned for growth in 2014. Volcom will make further investments in resources, marketing and operations in the Asia Pacific and Latin America regions, as Volcom looks to take advantage of its recent momentum.

It will also continue to enlarge its retail network in 2014.

With the recent re-launch of the Volcom website, Volcom will expand the reach of its e-commerce platform to additional regions with a focus on social media and enhanced content management.

ELECTRIC



Founded in 2000, Electric is a premium Lifestyle brand rooted in southern California's action sports, music, art and customisation culture. It designs and markets sunglasses, snow goggles, backpacks, luggage, watches and accessories through the Americas, Europe, Japan, China and Australasia. Electric sells in Lifestyle boutiques, department stores, sports shops and online, including its own e-commerce website.

Competition in the action sports eyewear market is characterised by two main ideas. First, both young and established action Sport endemic competitors are vying for a decreasing retail footprint of core shops along with non-endemic global brands. Second, many of the brands that are entering the market target lower margins and price points.

The Lifestyle streetwear and department store channels are also seeing a greater number of new brands, migrating from action sports, licensed from established fashion brands and original emerging brands. Many lack the heritage, quality and authenticity to challenge the market leaders.

Electric plans to leverage its newly expanded product portfolio, merchandising strategies, and re-organized sales structure to challenge the leadership positions of larger brands in the market. Geographic expansion will continue to play a key role in Electric's growth strategy, while much focus will be placed on increased service to existing distribution and expansion of retail footprint within the channel. Electric will manage its distribution expansion through an increased focus on product line segmentation. Electric's newly launched premium collection of eyewear, watches and small leather goods will be marketed to premium Lifestyle boutique and department store channels, while its technical and Sport driven products will be targeted towards its existing action sports, premium Sporting Goods and outdoor channels.

Expansion in Europe, a currently under-penetrated market, from a central office in France will continue as the first phase of an expanded international presence. The second phase of Electric's International expansion strategy will focus on brand recognition and leadership in key cities.

2013 marked the completion of the Electric brand's complete reset. In March, Eric Crane was appointed CEO and continued to oversee the brand's restructuring and growth initiatives.

In 2013, Electric began distribution of its newly rebranded bags and accessories and successfully launched its inaugural watch line to key existing retail partners. Electric also successfully launched its e-commerce platform in the US, and introduced a new global retail fixture program, driving gains in same store sales.

In 2014, Electric will release a new patent pending "quick change" lens technology in snow goggles developed by co-founder and Chief Design Officer, Kip Arnette. The technology will debut in the EG3 goggle, an update to its best selling EG2 goggle platform. A new outrigger-type goggle will also be released, targeting helmet wearers in both snowboarding and ski markets.

Electric will expand its watch product line offering, and open its distribution to all current retail partners and select new accounts. A new line of luggage, helmets and accessories will be launched in 2014, together with a restructured sunglasses offering including capsule collections developed with key ambassadors and athletes, limited edition premium Italian acetate styles and a new style featuring Electric's first mould injected hinge, all of which will feature Electric's signature melanin-injected lens technology.

chapter 3

sustainability

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1. *sustainability at kering*

1.1. *a long-standing commitment*

For more than 15 years, Kering has pursued and improved on its sustainability strategy, with the following key milestones:

1996

- Group's first Ethics Charter.

2001

- Creation of the *SolidarCité* association, promoting solidarity-based initiatives among employees.
- First employee opinion survey.

2003

- Creation of a Group Sustainability Department.
- Establishment of an environmental reporting platform.

2004

- Signature of the Diversity Charter by PPR's Chairman and creation of the Diversity Committee and the Mission Handicap project.

2005

- Signature of a partnership agreement with Agefiph, a French association promoting job placement and vocational training for the disabled.
- Deployment of the Code of Business Practices and creation of the Ethics and Corporate Social Responsibility Committee (ECSRC).
- Creation of the *Télémaque Institute*.

2006

- Definition of the Group's CSR commitments.

2007

- Creation of a Group Corporate Social Responsibility Department, represented on the Executive Committee and reporting directly to the Chairman.
- Definition of the seven strategic priorities for the Group with respect to CSR for 2008-2010.
- Signature of a second agreement with Agefiph to support the employment of people with disabilities.

2008

- Membership of the *Global Compact*.
- Creation of the PPR Corporate Foundation for Women's Dignity and Rights.

2009

- Worldwide release of Yann Arthus-Bertrand's documentary *HOME*, coproduced by EuropaCorp and Elzévir Films, and financed primarily by PPR.
- Dissemination of the updated Code of Business Practices to all Group employees.
- Signature of a third agreement with Agefiph.

2010

- Launch of PPR's Innovation and Sustainability Awards.
- Sustainability criteria included in performance evaluations of PPR group leaders.
- Adoption of the Charter of Commitments on the quality of life at work and the prevention of work-related stress for employees of the PPR group in Europe.

2011

- Launch of PPR *HOME*, the new initiative and organisation dedicated to sustainability.
- Publication of the first Environmental Profit & Loss Account (EP&L) by PUMA.
- Formalisation of the strategic "Gender Equality in Leadership" programme.

2012

- Formalisation and publication of a set of ambitious and key sustainability targets to be achieved by the Group's brands by 2016.
- Creation of a Sustainability Committee within the Board of Directors.
- Launch of a mentoring programme as part of the strategic "Gender Equality in Leadership" programme.
- Third edition of the Foundation's Social Entrepreneurs Awards.

After defining Kering's sustainability targets and consolidating sustainability governance, 2013 marked the celebration of the ten-year anniversary of the Sustainability Department and was devoted to accelerating the transformation through three key projects: (i) stepping up the EP&L approach and the publication of its results at Group level in 2016 (at end-2013, 75% of Kering's revenue was already covered), (ii) the creation of Kering's Materials Innovation Lab (MIL) tasked with researching and developing sustainable and innovative textile fibres for

the Group's brands, and (iii) the definition, formalisation, dissemination and explanation of policies and guidelines for environmental management (energy, water, waste, etc.) and the sourcing of the Group's key raw materials (leather, cotton, precious skins, gold, etc.) to all employees. Each brand now uses its own sustainability roadmap, a specific management tool that describes ongoing and future projects and the brand's contribution to the Group's targets. In addition, the Group defends and promotes ethics worldwide through a revised and enhanced Code of ethics disseminated to employees, Ethics Committees at Group and regional level, a global hotline available in 73 countries for the Group's employees and, in early 2014, an online ethics training programme covering the

Code of ethics for Kering's 35,786 employees. The enhancement of skills and talents, a keystone of the Group's HR strategy, has been expanded to include improved Group and brand training and the launch of the new platform devoted to internal mobility allowing all Group employees to take an active role in the development of their careers. The Kering Corporate Foundation's mandate has been renewed for the next five years (2013 to 2017) with a new manifesto "Stop violence. Improve women's lives", which upholds the Group's commitment to the prevention of violence against women. Kering's sustainability policy, as well as the integration of this policy in the Group's strategy, led to Kering's listing on the 2013 Dow Jones World and Europe Sustainability Indices.

1.2. *vision and strategic challenges*

Vision

Kering's commitment to sustainability is taken to the highest level by the Chairman and Chief Executive Officer and it draws on the same impetus that drives the Group's strategy: "empowering imagination", going beyond the limits of imagination to release each brand's full potential.

Kering encourages its brands to innovate by developing processes and products that improve social and environmental impacts while maintaining their identity and values.

For Kering, sustainability plays a fundamental and inherent role in product quality while creating value and:

- differentiates Kering from its competitors and offers a long-term competitive advantage;
- provides the Company with business development opportunities;
- spurs innovation;
- offers the potential to improve efficiency;
- attracts and retains talent.

Kering does not limit itself to the traditional approach which is based on compliance and reducing negative impacts. For Kering, sustainability is above all an opportunity, in line with its entrepreneurial spirit, to commit to responsible growth and its capacity to strengthen creativity, all of which make the Group a leader in creating value.

Targets

Kering offers its brands considerable freedom within the shared framework defined at the Group level. The Group pledged to achieve the following ambitious targets by 2016:

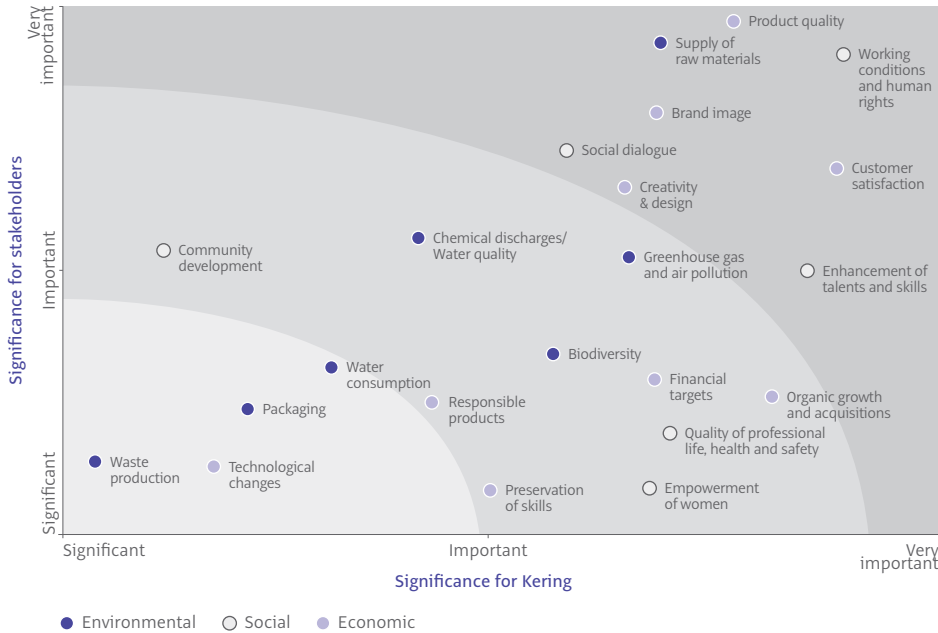
- the implementation of the EP&L in all the Group's Luxury and Sport & Lifestyle brands;
- evaluating our strategic suppliers at least every two years, mainly to monitor their application of the Group's Code of ethics;
- reducing our carbon emissions, waste and water usage resulting from the production of products and services by 25%, while accounting for the growth of our business;
- all remaining CO₂ emissions from Scope 1 and Scope 2 of the Greenhouse Gas Protocol will be offset thanks to programmes that contribute to the welfare of the community and the conservation of biodiversity in the Group's regions of operations;
- 100% of paper and packaging for Kering will be sourced from certified sustainably managed forests with a minimum of 50% recycled content;
- all our collections will be PVC-free;
- ensuring all hazardous chemicals have been gradually phased out and eliminated from our production by 2020;
- 100% of gold and diamonds in Kering's products will be sourced from verified operations that do not have a harmful impact on local communities, wildlife or the ecosystems which support them;
- 100% of leather from domestic livestock within Kering's products will be from responsible and verified sources that do not result in converting sensitive ecosystems into grazing lands or agricultural lands for food production for livestock;

- 100% of precious skins and furs in Kering's products will come from verified captive breeding operations or from wild, sustainably managed populations. Additionally suppliers will employ accepted animal welfare practices and humane treatment in sourcing.

Materiality

Kering follows the materiality principle as defined by the Global Reporting Initiative (GRI) guidelines which define materiality as the incorporation of economic, environmental and social impacts likely to influence evaluations and decisions of the Company's stakeholders. Kering therefore decided to set out its approach to its stakeholders formally in a materiality matrix. The methodology used to establish this matrix is described in section 4.2. Stakeholder dialogue. Sustainability targets for 2016, as described in this section, are a direct result of this materiality analysis of social and environmental aspects.

MATERIALITY MATRIX

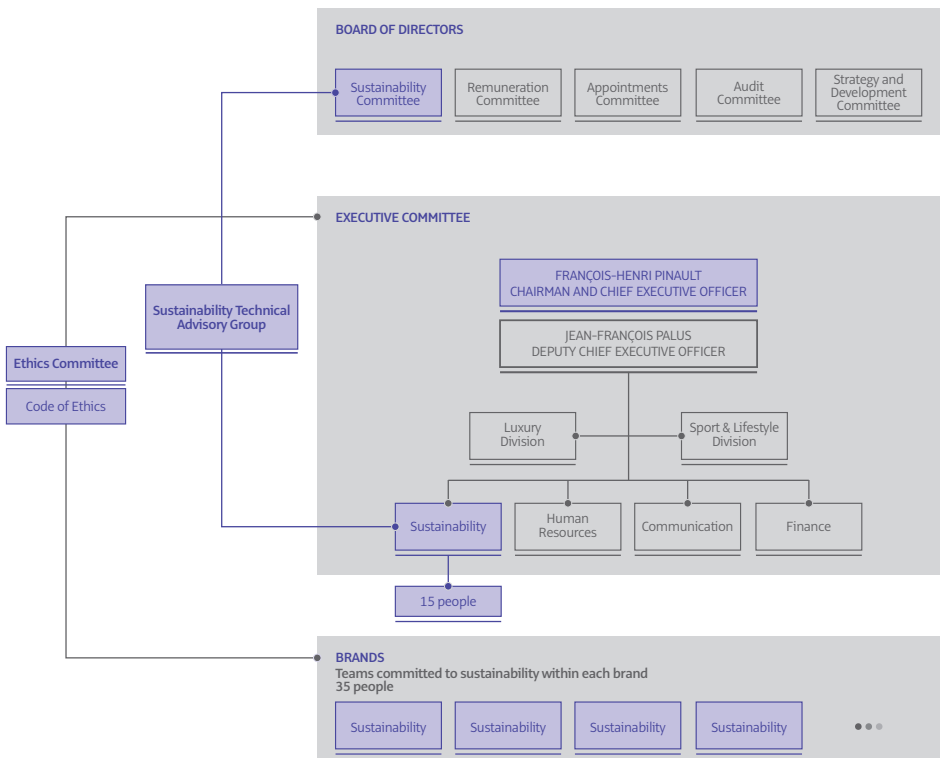


Governance and organisation

Kering's Sustainability Department operates as a resource platform to guide and complete the initiatives implemented by each brand. More than 15 specialists, who answer directly to the Group's Chief Sustainability Officer, a member of the Executive Committee, assist the brands with the implementation of the Group's sustainability strategy through operational synergies and economies of scale, when possible. To reach these targets and more efficiently deploy these initiatives, each brand now has at least one sustainability Director, or for the larger brands, entire sustainability teams. As a result, there are more than 50 people working on sustainability at Kering.

As concerns governance, a Sustainability Committee, established in 2012 at Board level, provides advice on and guides the Group's sustainability strategy. The Committee is chaired by Jochen Zeitz and is composed of Group Directors, including François-Henri Pinault, Jean-François Palus, Patricia Barbizet and Luca Cordero di Montezemolo.

The Sustainability Technical Advisory Group (STAG) provides the Committee with technical expertise on the challenges faced by Kering in its sustainability initiatives. This group is composed of members of Kering (Jean-François Palus, Group Managing Director, Jochen Zeitz, Director and Chairman of the Sustainability Committee, Marie-Claire Daveu, Chief Sustainability Officer and Head of International Institutional Affairs and member of the Executive Committee, Patrizio di Marco, Chairman and Chief Executive Officer of Gucci) as well as external advisors (Holly Dublin, expert in sustainable international trade, suppliers of raw materials, conservation and community development, John Elkington, co-founder of Volans, Sustainability and Environmental Data Services; visiting professor at Cranfield, Imperial College, University College London and Michael Wells, expert in the conservation of natural resources and politics, consultant for international and EU agencies, and expert in performance monitoring and assessment programmes in the field of sustainability).



Environmental Profit & Loss Account (EP&L)

The rollout of the Group's sustainability strategy is chiefly based on EP&L, which is the cornerstone to the Group's targets and allows the Group to assess the impacts of manufacturing and distribution of products throughout the supply chain, including raw materials. It also assigns a monetary value to these impacts so as to more effectively assess environmental issues in financial terms, thereby guiding Kering to better business decisions. Kering is the first group of its size to undertake such an analysis, which will enable Kering to define new business models and innovative solutions taking ecosystem services into account.

Commitment to women's initiatives

Kering is committed to the prevention of violence against women through the initiatives of its Foundation. By pursuing one of the eight millennium development goals set by the UN, "To promote gender equality and empower women", the Foundation commits Kering to a key issue that ties in with its activities and customers and an area in which the Group can play a key role by assisting governments and communities.

1.3. reporting, recognition and sri⁽¹⁾ ratings

In recognition of its sustainability strategy, Kering received several distinctions given by NGOs and extra-financial rating agencies in 2013:

- **DJSI (Dow Jones Sustainability Indices):** In 2013, Kering was listed on the DJSI World and Europe. The DJSI is a globally recognised index that rates the best performing companies in terms of sustainability out of the top 2,500 stocks by market capitalisation of the Dow Jones Global Total Stock Market Index.
- **CDP (Carbon Disclosure Project):** Kering was the top rated luxury and apparel company in the 2013 CDP ranking and was therefore included in the Climate Disclosure Leadership Index (CDLI) for France. The CDP ranking takes into account all aspects of climate change when assessing company policies. More than 5,000 businesses, including more than 80% of the top 500 global stocks by market capitalisation, were invited to fill out a CDP questionnaire and to publicly disclose their carbon footprint.

- **GRI (Global Reporting Initiative):** For the second year running, Kering's Reference Document earned an A+ rating, the highest rating awarded by the GRI guidelines which define a methodology for the disclosure of data on governance and a company's performance on economic, environmental and social indicators as well as responsible practice as regards human rights, products and society.
- **Fast Company:** In 2013, Kering's commitment to innovation and sustainability was recognised by the magazine *Fast Company*, which included the Group in the "World's 50 most innovative companies", for all sectors combined, mainly due to Kering's EP&L.
- **Other SRI indices:** Kering has been included in the main benchmark indices: *FTSE4Good*, Euronext Vigeo Eurozone 120 Ethibel Sustainability Index Excellence and STOXX Global ESG Leaders indices.

(1) SRI: Socially Responsible Investing .

1.4. 2013 highlights

Kering was listed on the DJSI World and Europe and qualified for the CDLI in France

Kering was listed on the DJSI World and Europe within the first year of our application. The DJSI is an index that rates the best performing companies in terms of sustainable development out of the world's top 2,500 stocks by market capitalisation of the Dow Jones Global Total Stock Market Index. Each year, participating companies are assessed based on a specific questionnaire for each business sector. Only the top 10%, in terms of sustainability performance according to defined criteria, are listed in the ranking. For Kering's business sector, only 12 out of 89 companies assessed were included in the DJSI World and only 4 out of 11 companies were listed in the DJSI Europe.

In addition, with a score of 90B, Kering is the top performing luxury and apparel company in the 2013 CDP ranking. The CDP ranking takes into account all aspects of climate change when assessing company policies. With 722 institutional investors representing USD 87,000 billion in assets, CDP aims to improve the assessment of the risk linked to climate change in its investment portfolios through its study. As part of its 2013 study, more than 5,000 businesses, including more than 80% of the top 500 global stocks by market capitalisation, were invited to fill out a CDP questionnaire and to publicly disclose their carbon footprint.

Launch of a new Group platform devoted to internal mobility and career management

As an essential part of the enhancement of skills and talent, a cornerstone of Kering's HR policy, mobility within the Group requires, above all, an in-depth knowledge in real time of professional opportunities offered by the different brands. With this in mind, in 2013 Kering launched its first platform devoted to internal mobility allowing Group employees to be active players in their professional development by providing an application that publishes brands' hiring needs and allows employees to present their skills, submit a CV and their plans for career development. The platform also provides brands with access to a shared pool of talent. Just six months after its launch, the platform contains 190 internal vacancies.

Creation of the Materials Innovation Lab (MIL)

This innovative laboratory is tasked with encouraging the brands to incorporate more sustainably produced raw materials into their apparel collections. Its members work closely with the Sustainability department and the Group's

key strategic suppliers to identify and source such materials prior to the collections' development. The MIL has compiled and proposed a catalogue of alternative fabrics and fibres to the creative teams. New sustainable materials are constantly being added to this catalogue with every research programme.

Strengthening the Group's ethics organisation and updating the Code of ethics

After its first draft in 2005, Kering's Code of ethics was rewritten in 2009 and then updated and disseminated to all Kering employees worldwide in 2013. This new version includes three main changes: (i) making the Group's Supplier Charter part of the Code of ethics, (ii) adopting a pro-active approach to protecting the environment, (iii) presenting the new organisation of ethics within the Group. There are now three Ethics Committees (at the Group level, in the Asia-Pacific region and the Americas) that monitor compliance with the principles of the Code and answer employee requests or demands. Assistance is provided by an ethics hotline created in 2013 and made available to all employees in 73 countries and territories. In early 2014, this service will be finalised with the creation of an online training programme on ethics and the Code for all Group employees.

PPR Corporate Foundation for Women's Dignity and Rights becomes the Kering Corporate Foundation, with the slogan "Stop violence. Improve women's lives."

Kering Corporate Foundation's mandate has been extended for five more years (2013 to 2018) and the Foundation strengthened its initiatives for the prevention of violence against women and renewed its programme adopting the slogan "Stop violence. Improve women's lives."

In line with the Group's new identity and to increase its global impact, the Foundation is refocusing its initiatives on three regions: the Americas, Western Europe and Asia. In each region, the Foundation will prioritise a cause (sexual violence, harmful traditional practices and domestic violence, respectively) and selected partnerships with NGOs and social entrepreneurs. Thanks to the extent of the Group's operations and employee participation, the Foundation's efforts will be bolstered, increasing awareness of and preventing violence against women.

In August 2013, the Kering Corporate Foundation completed its first five-year term with a series of initiatives in partnership with 47 NGOs helping more than 140,000 women worldwide.

1.5. *key figures*

- 35,786 employees as of December 31, 2013, 58.3% of whom are women;
- 89.5% of employees on permanent contracts;
- 50.1% of Group managers are women;
- 13.6% of permanent employees work part time;
- 34.5 years is the average age of permanent employees;
- 5.5 years is the average length of service of permanent employees;
- 326 workers with disabilities;
- 322,452 hours of training, or 17,967 employees trained;
- 11,209 permanent employees hired;
- more than 140,000 women received assistance from the Kering Corporate Foundation during its first five-year term through its projects developed in partnership with 47 NGOs worldwide;
- 73% of Group revenue was covered by an EP&L in 2013 (six brands);
- 2,722 social audits carried out among the Group's suppliers, including those carried out as part of SA 8000 certification procedures;
- 268,256 tonnes of CO₂ emitted by the Group in 2013 attributable to energy consumption and transport;
- the share of electricity purchased from renewable sources reached 15.4% in 2013, compared with 7% in 2012;
- energy-related CO₂ emissions fell 5.2% year on year based on proforma data.

2. supporting our employees

Our human resources policy, a core part of the Group's social and environmental responsibility, is aimed at Kering's first stakeholders – our employees.

In today's world of fast-changing markets, competition and customer needs, finding and retaining the best talent is a strategic issue.

Our human resources policy continues to cultivate human and cultural diversity to offer the Group an economic and competitive advantage.

It is designed to offer employees opportunities for personal and professional development, so they can be part of the strategic changes within the Group. In this respect, each brand is independent so as to be able to implement the means that are suited to its own issues.

2.1. the group's human resources profile⁽¹⁾

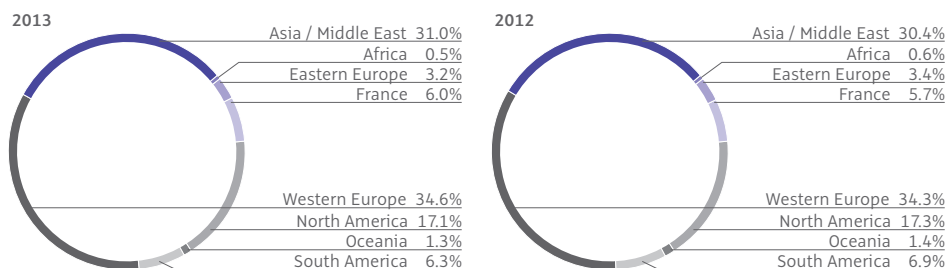
2.1.1. Breakdown of the workforce

The total workforce as of December 31, 2013 was 35,786, up by 2,347. Changes related primarily to the development of business in various countries and to the integration of new companies.

Breakdown of the workforce as of December 31, 2013 (men/women managers, men/women non-managers) by region⁽²⁾

	Managers				Non-Managers			
	Women		Men		Women		Men	
	2013	2012	2013	2012	2013	2012	2013	2012
Africa	26	28	38	39	79	65	49	52
Asia & Middle East	911	780	780	674	6,457	6,155	2,946	2,551
Eastern Europe	83	108	68	70	522	584	461	378
France	531	428	317	307	821	767	492	414
North America	565	496	550	500	2,559	2,447	2,430	2,334
Oceania	31	36	33	33	232	253	159	159
South America	112	101	214	217	650	652	1,282	1,339
Western Europe	773	661	1,019	940	6,485	5,890	4,111	3,981
TOTAL	3,032	2,638	3,019	2,780	17,805	16,813	11,930	11,208

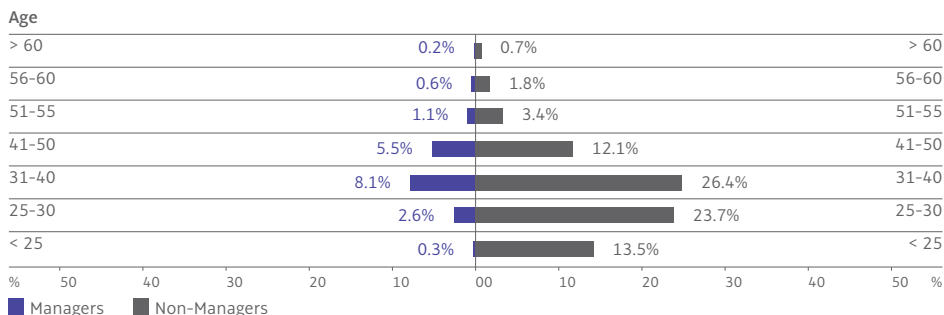
Change in the regional breakdown of the workforce as of December 31, 2013 and December 31, 2012 (non-proforma data)



(1) As no entities were deconsolidated in 2013, 2012 data correspond to data provided in 2012 in the Reference Document. Furthermore, the rate of coverage calculated as a % of the Group's workforce as of December 31, 2013 is 100% for all indicators, with the exception of the number of workers with disabilities, which is 80.7% (excluding the United Kingdom and the United States).

(2) The table by region includes the following countries and territories: **Africa:** South Africa; **Asia & Middle East:** United Arab Emirates, China, Guam, Hong Kong, India, Japan, Korea, Israel, Kuwait, Macao, Malaysia, Qatar, Singapore, Turkey, Taiwan, Vietnam, Bangladesh, Thailand, Pakistan; **Eastern Europe:** Bulgaria, Czech Republic, Estonia, Croatia, Hungary, Lithuania, Poland, Romania, Russia, Serbia, Slovakia, Ukraine; **France:** **North America:** Canada, United States; **Oceania:** Australia, New Zealand; **South America:** Aruba, Argentina, Brazil, Chile, Mexico, Peru, Uruguay; **Western Europe:** Austria, Belgium, Switzerland, Germany, Cyprus, Denmark, Spain, Finland, United Kingdom, Greece, Ireland, Italy, Monaco, Malta, Netherlands, Norway, Portugal, Sweden, Luxembourg.

AGE STRUCTURE OF THE PERMANENT WORKFORCE IN 2013: MANAGERS & NON-MANAGERS



2.1.2. Hires

In 2013, Kering continued to attract new talent. In the 63 countries in which the Group operates, 11,209 employees were hired on permanent contracts and 4,359 on fixed-term contracts.

Of the 15,568 employees hired in 2013, 56.5% were women and 89.9% were non-managers.

In addition, the Kering group had a monthly average of 1,293 temporary employees across all of its brands in 2013.

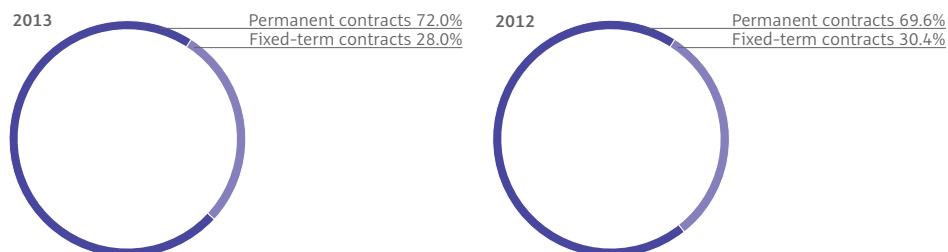
Kering strengthened its partnerships in 2013 with first-class universities worldwide (HEC and ESSEC in France, Tsinghua in Beijing, Bocconi in Italy, Parsons in New York, etc.) in order to hire the best talent in all key areas: marketing, communications, merchandising, design, management, human resources, etc. For example, Kering sponsors the HEC Luxury Research Chair, through which it gave ongoing support to 55 students in 2013; the Bocconi and Jobs Abroad programme in Shanghai allowed students from the school to meet representatives of the Group's brands.

The brands also continue to develop their own programmes. For example, Gucci is pursuing the Gucci Scholarship Programme that was launched in April 2012 in partnership with a South Korean student organisation.

These initiatives also involve a large number of training programmes. Courses of three to six months are often held at the brands' head offices and many vacancies are then filled by trainees who have developed their expertise and demonstrated their potential. Some 25% to 30% of the brands' corporate vacancies are filled this way for the Luxury Division brands.

The Empower Talent Project is another example of the Group's support for creative young talent in 2013. Conducted with the magazine Vogue Italy, this project was launched in October 2013 and called on the Luxury brands based in Italy and the Timepieces/Jewellery brands to offer trainee programmes in all key areas for the Luxury Division. To date, over 3,000 applications have been received and the final selection was made in February 2014.

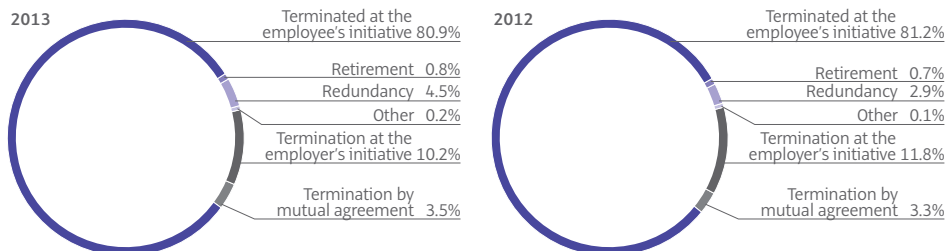
BREAKDOWN OF FIXED-TERM AND PERMANENT CONTRACTS AMONG NEW HIRES



2.1.3. Supporting change within the organisation

Departures of permanent employees, on all grounds, totalled 10,128 in 2013, of which 8,192 at the employee's initiative (80.9% of departures) and 1,034 dismissals (10.2% of departures).

BREAKDOWN OF PERMANENT EMPLOYEE DEPARTURES BY CATEGORY



In 2013, the brands continued to adapt to their markets by creating or repositioning stores and subsidiaries. Kering pursued its policy to support and redeploy employees, by striving to help find them other positions within the Group. In France, this involves support from Job Coordination, a body of HR representatives from the brands, led by Kering's Human Resources Department, to find redeployment solutions for employees.

Similarly, in several countries, Bottega Veneta updated its commission system by adding an individual portion of remuneration. In Europe, the individual portion of remuneration is now more qualitative (taking into account the value of the average receipt, cross-selling and greater insight about customers). This means those who perform the best can receive a portion of their profit-sharing even if the collective sales objectives of the store have not been met.

2.1.4. Remuneration and employee benefits

- Total Group payroll in 2013: €1.2 billion.

Kering's remuneration policy

Remuneration is an important element that Kering's management uses to recognise the contribution of employees. Individual packages are established based on Group principles (for example, providing a variable portion of remuneration starting at a certain level of responsibility) and issues related to brand performance, market practices and/or local regulations. The goal is to recognise the commitment of each employee and encourage individual and collective performance.

Nearly 90% of employees benefit from variable remuneration, and in 2013, numerous initiatives were taken as regards the elements that make up variable remuneration.

Within the scope of the Group's principles, many brands changed their manager bonus policy.

Several projects were also carried out to make the commission policy for sales teams more consistent and effective.

For example, Gucci put in place an ambitious programme worldwide to harmonise its profit-sharing for store sales teams that is based on shared principles to be adapted to each country's requirements. This project, which already concerned more than 6,000 employees in 2013, will be pursued in 2014.

Executive pay

The remuneration of 300 of the Group's senior executives is monitored by the Group Human Resources Department to ensure consistency, fairness and effectiveness within the Group.

The structure of remuneration (base pay, annual bonus or long-term profit-sharing system) is established at Group level and differs based on executives' levels of responsibility.

Executives' annual bonuses are made up by combining business criteria that reward brand performance (profitability and cash management) and by achieving personal objectives, including, in part, sustainability objectives.

The long-term profit-sharing system fulfils a two-fold objective of fostering employee loyalty and recognising performance over the long term.

The system was adapted in 2013 when the Group launched Kering Monetary Units (KMUs), which make up 30% of long-term profit-sharing for the brands' executives. These units make it possible to recognise, over a three-year period, the progress of the Kering share price relative to a range of nine competing companies in the Luxury and Sport sectors. Directors received a number of Kering Monetary Units in proportion to their level of responsibility in the Group.

For Kering Corporate's Directors, these Kering Monetary Units take the place of shares that were previously granted.

For the remaining 70%, the system takes into account three-year brand objectives.

Employee benefits within the Group

In addition to monetary remuneration, the Kering group has always valued the social benefits offered to its employees through healthcare, disability/life and pension benefits. Therefore, virtually all employees have supplementary insurance coverage in addition to coverage provided by law through the various Group schemes.

In light of the steady decrease in benefits provided by government schemes in Europe, new initiatives were implemented in 2013 in addition to those put in place in 2012. Some of these programmes go beyond healthcare and disability/life benefits, and are designed more generally to help to improve the quality and balance of life at work.

Gucci, for example, started its Corporate Welfare Plan in July 2013. The plan, which was shared with trade unions in Italy, finances social benefits for employees, including retired employees, and their children for mobility, transport,

education, etc. This scheme is used by 1,500 people and will be extended to another 700 people in 2014.

Bottega Veneta also put in place a programme for its employees in Italy in July 2013 called Bottega Veneta "For Me". Each employee can benefit, for an annual amount of up to €500 net, from different services – private tuition, childcare, gym membership and spa treatments – or can even pay the amount into their pensions.

Profit-sharing, incentive and employee savings agreements

In accordance with legal provisions in France, nearly 100% of the Group's French employees receive a share of the profit of their business under profit-sharing and incentive agreements. These mechanisms are governed by agreements specific to each legal entity.

2.2. *promotion and respect of ethics within the group*

A new expanded version of the Code of ethics provided to all

Sustainability for Kering is not attainable without business ethics and proper conduct by all within the Group, regardless of their level of responsibility, position held or location.

Set out since 1996 in the Group's first Ethics Charter, Kering's ethical principles apply to absolutely everyone within the Group and reflect the Group's strong convictions about business practices. Kering's Code of ethics, which was established in 2005 and first updated in 2009, was overhauled again in 2013: organised by stakeholder (colleagues and employees, customers and consumers, the environment, civil society, shareholders and financial markets, business partners and competitors) and fitting in firmly with the major international reference texts (United Nations Universal Declaration of Human Rights, European Convention on Human Rights, the main conventions of the International Labour Organisation, OECD Guidelines for Multinational Enterprises, United Nations Convention on the Rights of the Child, United Nations *Global Compact*). It demonstrates how the Group continually strengthens its commitments and the systems in place to ensure compliance. It is used as the sole set of standards implemented throughout the entire Group. The new 2013 version made it possible in particular to enhance the Code of ethics in three key areas:

- adopting a proactive approach to protecting the environment;
- making the Group's Supplier Charter part of the Code of ethics. This Charter sets out the absolute minimum to be applied throughout the Group and its brands in

supplier relations, particularly the crucial issues relating to combating child labour and forced labour;

- the presentation of the organisation of ethics was considerably improved in 2013.

The Code was translated into the 12 most widely spoken languages within the Group (French, English, Italian, German, Dutch, Spanish, Portuguese, Russian, simplified Chinese, traditional Chinese, Japanese and Korean) and is available for all employees on the new "360°" Group intranet, as well as external readers on Kering's website.

Organisation to strengthen and expand measures to monitor and promote ethics

From a single committee (ECSRC – Ethics and Corporate Social Responsibility Committee, set up in 2005), the ethics organisation now draws on three Ethics Committees set up in 2013: a Group committee and two regional Committees (Asia Pacific and the Americas), which are involved in the policy to delegate responsibility applicable within the Group that makes it possible to have bodies that are able to act effectively in light of actual operating conditions.

Employees are able to call on the Committee of their choice to request clarification or ask a question regarding the interpretation of the Code, if they are unsure how to behave in a specific situation or how to address a complaint sent to the Committee for alleged non-compliance with one of the principles of the Code.

A Group-wide ethics hotline was also set up for the first time in 2013 for all Group employees in their country or

area of operation. The hotline assists the Ethics Committees in reporting information, questions and complaints from employees and can be called by anyone in the Group who prefers this system over contacting one of the three Committees directly.

A training programme for all Group employees on ethics and the Code

In line with the significant changes in regards to the measures for the promotion and respect of ethics within the Group, an online training programme was also set up

for the Group's employees worldwide on ethics and complying with the Code. The programme presents case studies that help employees ask themselves the right questions and set out the fundamentals of ethics at Kering. It will be updated annually and cover all the major ethics principles upheld by the Group's Code of ethics. The topics covered for the first year of the programme will include corruption, fraud, conflicts of interest and information confidentiality on social media. The programme, launched in 2014, offers a 45-minute online training course for all in nine languages.

2.3. *enhancement of skills and talent*

Developing skills and talent is a key part of Kering's human resources policy, which is based on strong career development opportunities within the Group and structured training.

Group training (Kering University and Kering *Digital Academy*) seeks to train and develop talent, offer training suited to senior executives and respond to the Group's strategic challenges. In addition, training offered by the brands responds to their challenges: integrating new talent, supporting the development of managers and providing the best technical training for each business.

In 2013, the Kering group devoted a budget of €15.7 million to employee training, corresponding to 1.3% of the total Group payroll. On this basis, 322,452 hours of training (excluding safety training) were provided across the Kering group brands, and 17,967 employees took at least one training course in 2013. Women accounted for 58.9% of the workforce trained in 2013 (excluding safety training). Furthermore, 80.4% of employees trained in 2013 were non-managers.

2.3.1. Professional development and mobility

For many years, Kering has demonstrated its commitment to helping its employees develop by constantly expanding their career prospects and strengthening their skills through opportunities for growth and possibilities to boost their career. Senior managers were able to take advantage of a 360° feedback programme and personalised support.

Identifying and developing talent

Throughout the Group, the brands have put in place measures to identify and develop talent and strengthen the rollout of the performance management process.

The measures implemented in 2012 were pursued in 2013. For example, Gucci strengthened its Human Capital Planning Process. Its objectives are the management of human capital, the retention of the best talent, development, diversity and

inclusion. The process resulted in talent mapping of the upper two echelons of the organisation and all stores worldwide.

PUMA continued to roll out the People@PUMA management system put in place in 2012 to provide a solid process for identifying talent in all regions.

New Internal Mobility platform

Professional mobility has always been encouraged within the Group and considered a major way to help to develop talent.

An Internal Mobility platform was set up in 2013. This ambitious inter-country and inter-brand project allows employees to see the job opportunities in the different brands, as each brand posts its vacancies. This makes it possible to offer the Group's brands a shared pool of talent and expertise, and to promote synergy and the sharing of best practices.

This platform allows employees to be active players in their professional development by writing and posting their CV, sharing their career projects and promoting their skills.

This platform also helps HR professionals to be more proactive and closer to managers in order to manage talent and job mobility.

In the first phase of rollout, the platform can be used to post corporate and retail (store management) vacancies. Less than six months after the platform was launched, nearly 190 positions were available.

The 360° feedback project: developing leaders

The work undertaken in 2012 with leaders on 360° feedback was continued in 2013 to help support their development. The Gucci, Saint Laurent, Balenciaga, Alexander McQueen, Stella McCartney, Sergio Rossi and Volcom management teams benefited from 360° feedback. 360° feedback is a process aimed at gathering information on the perception of

a person's skills from several sources (supervisors, colleagues, employees, customers, etc.), with a view to enhancing and developing them. At the end of the process, each leader has a one-on-one coaching session to analyse the results of the feedback and define an action plan for personal and professional development.

2.3.2. Group training

For over ten years, Kering has offered training programmes at the Kering University for the senior executives, senior managers and future leaders of the Group and organises training at the *Kering Digital Academy* to bolster the Group's digital strategy. Performance culture, internationalisation, innovation, digitisation and entrepreneurship are central to these programmes every year. Each year, hundreds of senior executives and managers within the Group benefit from the "Kering effect" and Group synergies.

Kering University

Pursuing the initiatives undertaken in 2012, Kering University focused its activities on developing Kering's talent and fast-track senior managers. The University also organises training for senior managers to support the Group's transformation.

For several years, international Talent Development Programme seminars have allowed the Company's talented staff to bolster their strengths and develop their skills. Each session begins with 360° feedback and a questionnaire allowing participants to better understand how they are perceived by their colleagues. The seminar continues with role plays and the drafting of a personal development plan. In 2013, the programme was regionalised to promote better understanding and better monitoring of talent in the regions. Three sessions were held in 2013 – two in Europe and one in Asia – for a total of 34 people from all brands. A US session is planned for early 2014.

In 2013, Kering University also pursued its programmes for the Group's fast-track employees (Leadership Development Program). The two classes in 2013 were attended by some 30 participants from Sport & Lifestyle and Luxury brands, representing the Group's various key functions in nine different countries.

The programme, which takes place over 18 months, includes a Learning Expedition, for the two classes in Singapore/Jakarta and Shanghai/Hong Kong – emerging markets and key growth targets of the Group's brands. Participants then attended leadership development seminars at Columbia University in New York and IMD in Lausanne. The two 2013 classes will complete their programme with a concrete project on a community, social or environmental theme. This project will be carried out under timed conditions in an unfamiliar environment and will provide support for a community entrepreneur, NGO or international non-profit.

The University is also supporting the Group's transformation and has developed Leading Business Across Cultures

training to grasp multicultural differences and work together better internationally by taking them into account. The seminars were led by INSEAD, as Kering continued to forge ties with prestigious international schools, and were offered to 37 senior managers before they were rolled out to their teams.

Kering Digital Academy

2013 marked the second year of the Kering Digital Academy programme. The Digital Academy is part of Kering's digital strategy. It is a programme for managers of the Luxury and Sport & Lifestyle brands aimed at:

- promoting a digital culture at Kering;
- developing the activity of the brands and innovation, and supporting the Group's transformation strategy;
- raising managers' awareness of digital issues and enhancing the expertise of digital teams;
- uniting the Group's employees within an international digital community.

In 2013, the Kering Digital Academy held 34 training sessions (104 days of training) for 450 senior executives and key figures within the Group: the Kering Executive Committee, the brand CEOs and their senior management teams (all functions combined), as well as e-business/digital managers and digital experts. They were held in nine cities on three continents: Paris, London, Florence, Milan, New York, San Francisco, Boston, Tokyo and Hong Kong.

In addition to these sessions, a Learning Expedition was organised for human resources managers of the brands in Silicon Valley. During this expedition, the HR managers benefited from testimonials and best HR practices from over 14 innovative companies and senior experts in digital HR.

2.3.3. Training by the brands

Training for the Group's brands revolves around three key issues.

Integrating and developing new talent

In order to improve the induction and loyalty of new employees, the brands have put in place training and programmes to help them integrate. This involves offering training on the values and heritage of the brands and initial development training.

For example, Gucci put together the G.U.C.C.I Experience about sales basics primarily for new hires, but also for store employees. The training, using both classroom and e-learning sessions, provides insight into the DNA and values of the brand and the history of Gucci's signature products and craftsmanship to offer better support for the sales process. The pilot group in early 2013 was attended by 60 employees in Brazil and was followed by greater coverage of employees in the United States and Canada

in the third quarter. The programme was stepped up at the end of 2013, with e-learning launched by 21 stores and workshops in Japan, Singapore and Malaysia.

Saint Laurent offers induction programs for all new employees in France and in all countries so they can gain a better understanding of the brand.

Bottega Veneta put in place its CORE programme to train and integrate future retail managers. CORE, which is for both employees and business students, is an international programme designed to promote development through diverse approaches. The second session took place in 2013. A total of 32 people received training and five were hired. Of the people who took part in the programme in 2012, 60% moved into a new role and were promoted.

Developing the managerial skills of teams and store managers

In addition to the Group's training sessions put in place for talented employees and senior managers, the brands organise training for retail and/or corporate managers within the regions. The goal is to train these managers so they can be better integrated and to enable them to move ahead, and thus support the growth of the brands in the markets.

Bottega Veneta launched a leadership programme known as "GoAll" to forge a culture of leadership and feedback among current managers, and create an environment that fosters employee commitment. The goal is to strengthen management knowledge and practices adapted for the challenges of the brand. To date, 130 managers have received corporate and industry-specific training. A session in Asia was attended by 15 managers from entities in China, Korea, Hong Kong, Taiwan and Singapore. In November 2013, 10 managers in the United States took the course. Follow-up sessions were set up to monitor progress, in particular through the 360° intranet for 39 managers in Europe.

PUMA, as part of its People@PUMA programme, set up an International Leadership Programme (ILP) in 2012 to offer leadership training and monitor fast-tracked employees. This programme aims to develop leadership skills to support

the business strategy, both globally and regionally. The programme also encourages employees to adopt a fair, honest, positive and creative attitude, in line with the Group's values. The goal is to convey a shared vision and prepare managers for current and future changes.

The Group supports these initiatives in the regions, particularly to foster the growth of brands that do not yet have critical mass in terms of employees in a region. Kering Asia Pacific set up a regional training programme, for each level of management, so teams can develop managerial skills, and new hires with the Group can benefit from the "Kering effect".

Strengthening business skills

The brands also implement training with a view to continuing to develop technical skills and knowledge to support businesses and specific issues.

For example, Bottega Veneta continues to support the next generation of designers and craftsmen with the Scuola Della Pelletteria school, created in 2006. The goal is to support the next generation of designers and craftsmen with the brand's skills. In 2013, a new space was created within Bottega Veneta's new atelier in Montebello Vicentino near Vicenza. Some 200 people (employees and students) took part in the school's various projects in 2013.

After its support in 2011 and 2012 for *Spiraux* training, Girard-Perregaux has pursued its work to help young people struggling at school by supporting a vocational training course (*Attestation Fédérale Professionnelle*) for watchmaking technicians that offers a two-year programme for a sought-after qualification in the sector. This training is sufficient to become a watchmaking technician, and additional certification (*Certificat Fédéral de Capacité*) can also be obtained to be able to work as a watchmaker. An apprentice started at Girard-Perregaux in August 2013, and a second will start at the beginning of 2014.

In 2013, the brands also pursued training to improve product knowledge. PUMA adapted the training sessions organised for 2013 to keep retail staff up to date with products and improve the customer's buying experience. Specific methodology is used for these training sessions.

2.4. *promotion of diversity*

Kering has long been committed to diversity and was among the first to sign up to the French Corporate Diversity Charter in 2004. Equivalent charters were also signed in 2010 by PUMA in Germany and in 2011 by Gucci in Italy.

This commitment goes beyond social responsibility and compliance, and the Group believes that diversity is a source of creativity and innovation, and as such of economic performance. The Code of ethics, implemented in 2005 and updated and made available to all in 2013, demonstrates the Group's commitment to ethics.

2.4.1. Promoting equal opportunities for women and men

While Kering addresses the issue of diversity in all its aspects, particular emphasis has been placed on equal opportunities. In 2010, the Group was one of the first companies in France to sign the Women's Empowerment Principles, drafted by UN Women and the United Nations *Global Compact*. These Principles offer guidance to companies on how to empower women in the workplace and the community.

Kering believes that gender equality is a major driver of the Group's overall performance and is committed to achieving a better balance between men and women at all levels. In addition to the representation of women in the Kering workforce (women account for 56.5% of new hires, 50.1% of managers, 58.5% of employees trained, excluding safety training), the Group strives to attain an exemplary level of gender equality for its senior managers and decision-making bodies. Consequently, François-Henri Pinault has set ambitious objectives for 2015: women to represent 50% of senior managers, 40% of the Management Committees and 40% of the Board of Directors. In 2010, Kering launched the Gender Equality in Leadership programme, the aim of which is to stem the loss of female talent at all levels of authority, establishing a culture of equality within the Group. The goal is to increase the presence of women on all its governing bodies by 2015.

In 2013, with 30% women on its Executive Committee and 33% on its Board of Directors, Kering is poised this year again as one of the CAC 40 companies with the highest level of women (these bodies are respectively in first and eighth positions in the ranking from the eighth annual Capitalcom survey on gender equality).

Success of the first mentoring group within the scope of the Gender Equality in Leadership programme

The Gender Equality in Leadership programme continued in 2013, in particular with inter-brand and inter-business mentoring that connects fast-tracked women with senior executives (women and men). The first group completed the mentoring programme in 2013.

The aim of the year-long programme is to provide support for the professional and personal development of the Group's female talent and to involve both women and men in the promotion of diversity, and ultimately to help bring more women to the Group's governing bodies.

After working with a coach to prepare them to take on their roles in the programme, the 19 mentors and 19 mentees in the first group interacted for 12 months to address the issues and objectives identified by the mentees at the beginning of the programme. At the end of the process, the participants answered a questionnaire: 100% found the mentoring programme to be a positive experience, 93% of the mentees and 87% of the mentors said that they had met the objectives set together at the beginning of the programme.

The last quarter was dedicated to analysing the pilot group, the goal being to organise new sessions in France and expand the mentoring programme abroad.

Other initiatives to promote equal opportunities

The link between work life and family life is one of the other key parts of the Gender Equality in Leadership programme, with major initiatives implemented within the Group's brands.

Over the last two years, as part of its PUMA Well-being Programme, PUMA has worked to promote the well-being of employees by helping parents who work at the head office in Herzogenaurach: providing reserved places in nearby daycare centres, two special areas (with children's furniture and nursery equipment, as well as IT equipment for parents) at PUMA's offices for employees and their children in the event of a temporary childcare problem, and access to an external company that helps parents to find childcare.

In the United Kingdom, Stella McCartney and Alexander McQueen offer female employees greater opportunity to take parental leave than provided by law, by maintaining their full salary for up to six months of leave. Both brands help young parents and employees with dependent parents balance work and family life through a partnership with My Family Care, which offers support and advice.

In the United States, Bottega Veneta also introduced a new family and sick leave policy, which is much more advantageous in light of practices in the North American market. Employees can (if they have at least one year of service) take twelve weeks of paid leave for the arrival of a child (birth or adoption), to take care of a sick family member or if a spouse in the National Guard is called to duty.

Kering Corporate, signatory of the Parenthood Charter, organised a fourth "open day for the entrepreneurs of tomorrow" attended by 44 children of employees, aged 5 to 12. This day gives employees the opportunity to show their children where they work and let them discover the Group's activities. Time was the theme for the 2013 event,

with theatre and design workshops featuring the brands' creations (fine watchmaking, ready-to-wear, Sporting Goods, etc.)

In France, the Group regularly invites female talent to take part in events promoting gender equality (*Printemps des Femmes*, Jump Forum, Women's Forum) in order to support their personal development through assertiveness and leadership training, seminars and networking opportunities.

Similarly, PUMA continued to offer "Succeeding as a Female Manager" training to its women managers, with nine employees (from Germany, Italy, and the UK) benefiting in 2013.

2.4.2. Promoting the integration of people with disabilities

Disability has always been another part of the Group's Diversity policy. The Mission Handicap project was formed in 2004. As of December 31, 2013, the Kering group employed 326 workers with disabilities (rate of coverage: 80.7% – excluding the UK and the United States). Since 2005, in France, the Kering group has expressed its ongoing commitment to the integration of people with disabilities by conducting an internal communication campaign marking the national week for the employment of people with disabilities. This year, Kering made an impact by launching its "Disability Campaign: Share and Engage", an exclusive news channel dedicated to the topic of disability that is hosted on the Group's 360° digital platform for the 16,900 employees connected worldwide and is supplemented by a poster campaign in France.

During each day of disability week, Kering offered a program that was educational, entertaining and interactive: profiles and testimonials to help go beyond appearances and discover the realities of disability in the corporate world and in society. Employees were also able to contribute by sharing their experience and their initiatives to integrate people with disabilities and by proposing new ideas on the special in-house forums that have been created.

The brands supported this Group campaign with special disability events: Boucheron organised an event with an autistic art photographer whose work was displayed for a week at the brand's head office in Paris. Balenciaga made it possible for employees from its head office to discuss the brand's disability policy with a blind journalist, while Kering Corporate hosted nearly 80 people for a conference/show on dyslexia and a Handi Ping Pong challenge where employees were able to test their skills against medal winners from the Beijing Paralympics.

In 2013, Gucci also confirmed its commitment to helping people with disabilities, by promoting disability awareness among not only its employees but also its suppliers. The brand organised awareness modules for 800 supplier employees.

The Group's brands in France continue to employ disadvantaged individuals, for services such as catering, preparing mailshots, printing, data entry, etc. Kering Corporate outsources to the protected sector negative replies to unsolicited job applications (nearly 400 letters per year) as well as paper/cardboard recycling (15.2 tonnes in 2013).

2.4.3. Supporting young people from disadvantaged backgrounds and those struggling at school

Kering also supports schemes for young people from disadvantaged backgrounds and those struggling at school. In France, the Group is a founding partner of *Télémaque Institute* which, through a dual programme of academic and business tutoring, helps talented and motivated young people from underprivileged backgrounds complete their secondary schooling.

For several years, Kering has also taken part in the programme *Une Grande École, pourquoi pas moi ?* (A prestigious university, why not me?) to help high-potential young people from modest backgrounds access ambitious university programmes. In 2013, Kering Corporate, Boucheron and Saint Laurent sponsored eight secondary students from modest backgrounds who had promising school results and showed strong motivation. This programme allows them think about concrete career prospects for the future and more clearly develop a plan to decide on a career.

In Italy, Brioni offers training as tailors of made-to-measure men's suits, aimed at young people under 18 at risk of dropping out of education. The course, which runs for three years and emphasises the practical approach and work experience, is entirely funded by Brioni. After completing the course, trainees perfect their skills during apprenticeships at Brioni's production workshops and stores in Italy and in Europe. In September 2013, a new group of 18 students (including 7 girls) was selected to start the course, which is designed to train young international technicians seeking to contribute to Brioni's strong growth.

2.5. *quality of professional life, health and safety*

Providing its employees with a quality of life ensuring the health and physical safety and mental well-being of all is a fundamental duty performed by all of Kering's brands. In keeping with this commitment, and as part of the commitments negotiated under Kering's 2010 European Works Council Charter on the quality of life at work and the prevention of work-related stress, the brands have ushered in procedures and programmes aimed at identifying, assessing, mitigating and preventing the main risks arising from their activities. To do this, they implement various tools and mechanisms aimed at achieving a better balance between professional and personal lives (e.g., the Parenthood Charter signed by Kering and the agreement signed between trade unions and Gucci, aimed at improving the skills and well-being of its employees). In 2014, the social climate survey conducted at the end of 2013 with all Group

employees will be used to establish action plans to promote the involvement of all.

2.5.1. **Health and safety in the workplace, a Group priority**

The brands pursued their security initiatives in the retail sector and production. In terms of risk prevention, 37,259 hours of safety training were provided to 11,953 Group employees in 2013.

In 2013, 297 lost-time accidents were recorded across all Group brands, compared with 260 in 2012.

Accident frequency trended upwards, but the severity rate remained close to 2012.

Frequency rate and severity of work-related accidents in 2013 and 2012

	2013	2012
Frequency of work-related accidents (Number of accidents per million hours worked)	4.97%	4.66%
Severity rate of work-related accidents (Number of days lost per thousand hours worked)	0.08%	0.06%

Overall lost time and sick leave (%)

	2013	2012
Overall absenteeism rate	4.46%	3.88%
Rate of absenteeism due to illness	2.06%	1.93%

The total figure for absenteeism due to illness includes sick-leave, work-related illness, work-related accidents and commute-related accidents. The overall absenteeism rate includes absenteeism due to illness and every other kind of absence (maternity leave, paternity leave, unjustified absences, etc.), calculated from the first day of absence.

Across all of the Group's brands, 30 employees were recognised as suffering from a work-related illness in 2013.

2.5.2. **Organisation of work**

Kering strives to put in place an organised and shared structure, methods and know-how that allow employees to work together, in the interest of the organisation and based on set objectives.

The average working time of the Group's full-time employees was 39.8 hours per week, and this figure is stable compared with the data published in 2012.

In 2013, 4,354 employees had contractual weekly working hours below the standard number in effect within their company. Staff working part time accounted for 13.6% of permanent employees and were located mainly in the United States and Western Europe. Contractual working

hours are spread out on the basis of the specific business and organisation of each brand, either over certain days of the week, or over small slots on all working days.

The organisation of working time in the Group's brands varies according to the countries, sites and populations concerned. In France, work is most commonly organised on the basis of a fixed number of hours or days, with annualised working time and the possibility of flexitime.

In 2013, 19,469 overtime hours were recorded in France.

2.5.3. **Concrete initiatives promoting the quality of professional life for all employees**

The brands put in place consistent and structured programmes so employees are informed about the proposed action plans.

The PUMA Well-being programme does not only seek to establish initiatives to promote equal opportunities for women and men. It also promotes collaboration between employees and the brand's appeal as an employer. The programme covers physical health (sport), mental health (stress prevention training), social benefits (medical

insurance for employees who travel, discount pricing) and social interaction (social events, induction of new hires).

Bottega Veneta was selected as a Great Place to Work in Italy – the only fashion company selected among the 12 winners. The American research and consulting institute that made this ranking, helps organisations to identify, create and strengthen working environments that inspire confidence and employee involvement. This distinction rewards significant initiatives to improve the working environment and transparently promote career development and internal mobility for the brand's employees.

This prize was awarded at the same time that Bottega Veneta inaugurated in September 2013 its new Montebello Vicentino atelier which offers employees an outstanding working environment – light, access, integrated into the natural environment, etc. In order to help with the change to this new location, Bottega Veneta worked with union representatives and was then able to put in place a free shuttle service for employees.

After an initial trial in 2012, Girard-Perregaux and JEANRICHARD maintained their flexitime programme that allows employees to use public transport and avoid rush hour and heavy traffic.

2.6. *social dialogue*

The Kering group strives to ensure ongoing social dialogue specific to each of its bodies, while seeking the optimal link for the various modes of representation within the Group and its two Luxury and Sport & Lifestyle Divisions. 2013 saw a change in membership of Kering's social dialogue bodies. The members of the European Works Council and the Kering group Works Council were changed (for Luxury and Sport & Lifestyle for the European Council).

2.6.1. Listen to and engage with employees

By promoting free expression within the Group and ongoing social dialogue with employee representatives, Kering has long made clear its determination to forge sustainable and constructive relationships with all of its employees and their representatives.

The commitment has also been adopted within each Group brand. In 2013, 87 collective bargaining agreements were concluded within the Group, chiefly in Western Europe, Asia and France. These agreements mainly concerned pay and benefits (salary, variable remuneration, profit-sharing and incentives, etc.), working hours and the organisation of working time, and, in France, generational agreements.

In addition, the number of working hours of industrial action totalled 1,841 in 2013, compared with 2,317 in 2012. Strikes mainly took place in Western Europe in response to nationwide calls for action.

2.5.4. Safety and crisis management

The Traveller Safety Policy set out by the Safety Department which reports to the Group Managing Director seeks to provide Group employees with more information about the risks related to business travel, including the classification of countries based on several levels of risk and safety recommendations. Daily "country monitoring" is also used to avert certain serious events that could affect employee safety or disrupt business continuity.

A Group-wide project is being put in place to roll out software to locate travellers based on their travel reservations. This will make it possible to react more quickly in the event of a major crisis by alerting travellers, making sure they are in a safe place or even bringing them home.

The Safety Department organises the safety measures for all travel of delegations and travel in areas that are particularly risky. It also offers support for certain sensitive trips, coordinating safety measures on the ground. The Head of Safety is part of the Risk Committee, whose other members include the Legal and Internal Audit Directors, and the Group Managing Director as Chairman. The Risk Committee meets once every quarter.

Within the scope of the sale of the companies of the Redcats Group in France (La Redoute, Relais Colis), Kering chose the buyout offer that corresponded to prerequisites set out by the Group: a long-term industrial project to ensure the sustainability of the companies involved and a responsible project in terms of job management and respect for the territory. Kering also made a commitment to financing measures to provide support for exemplary transformations, and starting in June 2013, to engage in regular, transparent social dialogue with La Redoute's employee representatives in France.

In Italy, Gucci acquired Richard Ginori in March 2013 as part of its overall strategy to develop the excellence of "Made in Italy". This acquisition saved 230 jobs and Gucci took the necessary measures to redeploy 43 employees who could not join the new entity. These employees were redeployed to companies in the same industry.

2.6.2. The Group's forums for dialogue

The Kering European Works Council

Created pursuant to the agreement of September 27, 2000, the Kering European Works Council (EWC) provides a Europe-wide forum for information, consultation, the exchange of views and dialogue.

The EWC is a true cross-border institution and operates alongside existing national employee representative bodies in accordance with specific prerogatives. The membership of Kering's EWC was renewed in November 2013.

The EWC ordinarily holds two three-day plenary sessions per year, at which it is informed and, where applicable, consulted on cross-border issues affecting the Group's employees in a manner defined in precise terms by the agreement governing implementation.

The EWC also has a select Committee composed of five members, elected by their peers, who meet at least five times a year to prepare and analyse the two annual plenary sessions and to discuss various issues with Group management.

The September 3, 2008 agreement governing the EWC's functions has been the subject of several addenda. The last, signed on March 27, 2013, followed the meetings of the 2012 working group, taking into account the significant change observed in the Group's scope of consolidation (sale of Fnac and Redcats) and refocusing more than 50% of the Group's European workforce from France to Italy.

The EWC's ordinary plenary meetings took place in Paris, France, on June 25 and November 28, 2013. The main items of information provided to its members concerned the Group's economic and financial situation, social indicators, the activity of the brands, the Group's outlook and strategy, sustainability initiatives (sourcing), the new Code of ethics and follow-up on the divestment of La Redoute.

The Kering group Works Council

Created in 1993 and renewed most recently in 2013, the Kering group Works Council represents workers in France and operates under French law. Its members, who meet in plenary sessions twice a year, are kept informed of and exchange views on the Group's strategies, economic and financial imperatives, and human resources management initiatives. The senior executives of the Group and the brands work directly with the Group Works Council on an as-needed basis. Each plenary session is preceded by two preparatory meetings of members, one of which is held on the eve of the plenary session.

In 2013, the Group Works Council's plenary meetings took place on May 16 and October 17. The topics addressed were those presented at the European Works Council. In addition, a full update was provided on the divestment of La Redoute.

The Kering Luxury Works Council

Successor of the European Committee of the former Gucci Group, this re-established body now known as the Kering Luxury Works Council held its annual meeting in September 2013 in Florence. This committee does not take the place of the European and Group bodies. The Luxury Works Council is a forum for information, dialogue and exchanges with the unions in Kering's Luxury Division in Italy and France.

All of the Group's representative bodies were renewed in 2013, and agreements bearing on their functions renegotiated.

2.6.3. In-house opinion survey: "What's the weather like where you are?"

In 2001, Kering introduced a bi-yearly in-house opinion survey, "What's the weather like where you are?" for all employees of the Group's brands to gather, on an international scale, employees' perceptions on life at work (working relationships, training and personal development, organisation and operational efficiency, management, etc.).

The survey was conducted for the seventh time in October 2013 among all Group employees in collaboration with the consulting firm Hay Group. With a participation rate of 71%, (up 11 percentage points like-for-like), over 22,000 employees responded to the survey. The Kering group and its brands have a solid base for analysis that will allow them to identify the various key drivers for increasing employee commitment and improving conditions for success. Initial analysis of the results shows that major topics involving the human resources policy such as performance evaluations, internal communications, and information about career opportunities in the Group have improved overall after actions plans were implemented at Group level (new processes, 360° platform, etc.) and at brand level (for example, creating a new internal communications function for Boucheron).

Kering ensures that answers are completely anonymous and reports the results to the employee representatives, at Group and local levels, and to the employees. Kering and the brands will also work on putting in place action plans based on the analysis of the results. The action plans will be implemented in a global or a decentralised manner in order to meet the expectations expressed starting from the first quarter of the 2014.

3. *reducing our environmental impact*

Every year, the Kering group and its brands renew their efforts to encourage green practices across all the Group's businesses with proactive measures to control and reduce direct and indirect impacts on the environment. Concrete

examples of this commitment include the decision to publish a consolidated EP&L by 2016, the adoption of ambitious, quantified targets, and new sourcing scenarios with a greater focus on sustainable resource management.

3.1. *environmental management*

Strategy and objectives

In April 2012, Kering announced a set of ambitious environmental targets for 2016 for its Luxury and Sport & Lifestyle brands focusing primarily on the following areas: reducing CO₂ emissions, waste and water consumption; the supply of raw materials; phasing out hazardous chemicals; paper and packaging consumption; and social compliance.

In 2013 the Group worked on roadmaps with each of its brands to track their progress relative to each target and it is using this ongoing, collaborative process to prepare an inventory of all projects currently in progress and identify their contribution to objectives. The progress of the brands in relation to the roadmaps is measured against milestones at regular intervals by the Group's Chief Sustainability Officer and the brand CEOs.

Internal organisation for environmental management

The Kering Sustainability Department comprises around 15 specialists tasked with devising Group environmental policy and helping the brands to identify priority focuses and to implement the action plans necessary for achieving the targets set by the Group for 2016. In addition to centralised tools created and managed by Kering and made available to the brands, the Group has developed a set of policies and practical guidelines that provide a framework and methodologies to help the brands manage their environmental impact. This is the case, for example, for energy consumption and raw material supplies.

Group-brand coordination is ensured through a network of managers dedicated to sustainability issues and since 2012, each brand has been allocated a Sustainability Lead to spearhead the drive toward sustainability. The Sustainability Leads and the Kering Sustainability Department meet regularly to coordinate deployment of the sustainability strategy and to share any best practices developed at brand level. In addition to sharing experiences,

these meetings enable participants to draw up action plans to deal with cross-company issues within the Group, as well as more specific issues affecting individual brands.

This structure is a catalyst for the Group's sustainable development and illustrates the "Kering effect". In all, over 50 people work on implementing sustainability policy at both Group and brand level.

The brands have also set up in-house structures – known as Green Teams – to coordinate their sustainability policy and work towards achieving their targets. PUMA, Gucci, Saint Laurent, Sergio Rossi, Boucheron, Brioni, Girard-Perregaux and JEANRICHARD each have their own Green Team.

In 2013, several brands expanded or consolidated their sustainability networks:

- Saint Laurent has set up a network of sustainable development contacts comprising about 20 key people working in the Group's main functions (studio, production, logistics, HR, marketing, etc.) and regions (Americas, Asia, Japan, Middle East and Europe). It meets every three months to review progress in implementing the sustainability action plan. Performance management indicators have been devised and the network reports to the Executive Committee on a regular basis. Part of the variable remuneration of Executive Committee members is actually tied to sustainability criteria;
- Sergio Rossi devised its own specific sustainability targets tied directly to the variable remuneration of the company's 65 employees;
- Bottega Veneta also stepped up its efforts by appointing seven Sustainability Ambassadors from among key people in the brand network and they all got together at the Worldwide Sustainability Ambassador Workshop in Milan. Training was provided in environmental reporting and sustainable development in general and there was a presentation of ongoing Group initiatives in this area;

- the Green Team at Girard-Perregaux and JEANRICHARD grew from four to six people in 2013 and its members are now drawn from the Industrial Division, Production and Methods, Human Resources, General Services, Supply-Chain management, and Marketing and Communication. A progress report is submitted to Executive Management after each monthly Green Team Meeting.

Environmental reporting now mobilises a network of more than 400 contributors worldwide across the Group's brands – up from 200 in 2012 – providing even more accuracy and information that enables the Group to monitor its environmental impacts and performance ever more closely.

Informing and raising awareness among employees

As part of Kering's policy of rallying all employees around its sustainability policies and making it part of the Group's corporate culture, Kering regularly organises awareness-related initiatives and training.

The sustainability team gathers news on sustainability within the Group and circulates it through a variety of media. A new communication application, Intranet 360°, was launched in 2013 containing a dedicated sustainability space where employees of all brands can exchange information on multi-brand initiatives like EP&L or individual brand roadmaps.

Two sustainability newsletters are also issued twice a month: Sustainability Watch, sent in English to over 1,000 employees, and Regulatory Watch, available in English, French and Italian to a more limited readership since it focuses more on regulatory issues. The organisation of one-off events also helps foster employee awareness and training is provided both by the Group and the brands.

Four webinars were organised this year by the Kering team to train and inform almost 200 people through a detailed presentation of Group-wide environmental reporting objectives, guidelines and applications.

The brands also use a wide range of activities to rally employees around sustainability initiatives. Boucheron shared key 2012 sustainability reporting data with employees to highlight progress made and encourage green practices in everyday situations. Sergio Rossi set up a dedicated Sustainable Development page on the intranet where employees can learn about ongoing initiatives. It also organised a private showing for employees of *Rafa Solar Mama*, a documentary supported by the Kering Foundation. Saint Laurent issues a bi-monthly sustainability newsletter to keep employees abreast of the latest initiatives and to give enhanced recognition to those involved in the projects. Meanwhile, the Sustainability@Saint Laurent community on the Group intranet, which was set up in June 2013 to share information, ideas and good practices

now has 955 members, or 70% of all employees. In September 2013, Saint Laurent organised an exchange forum with Tristan Lecomte, the founder of the Alter eco and Pur projet initiatives, who was designated 2013 Social Entrepreneur of the Year by the Schwab Foundation and the Davos World Economic Forum. He gave a presentation to about 100 employees on his career as a fair trade pioneer and provided tips on how to deploy a corporate sustainable development strategy.

Gucci's Sustainability Department organised five three-hour sessions for approximately 100 employees from other departments in 2013 to train and raise awareness on sustainability and Gucci's efforts in the field.

Volcom used the *Earth Day* 2013 campaign to show employees *HOME* by Yann Arthus-Bertrand, *The Last Orang-utans* by Mark Samuels, and *Volcom Pipe Pro 2013: Sustainable by Design* by Nathan Peraccini, which was filmed behind the scenes at the competition. Best practices workshops on cutting paper consumption and sorting office waste were held regularly and employees were encouraged to share their sustainability ideas and experiences on the *New Future* Facebook page. They can also be interviewed on the blog of the same name. The campaign wound up with an online dialogue with Volcom's Sustainability Lead and a presentation of the Group's EP&L objectives and an overview of its sustainability actions and strategy. Specialist training in selecting supplies and materials was also provided to the product development team and a workshop highlighted the potential of material vetting procedures pending specific targets for cutting the Group's greenhouse gas emissions and water and energy consumption. Alternative sustainable materials were also presented.

Alexander McQueen organised a one-day workshop presented by the brand CEO that brought together employees from stores, retail and CRM as well as architects and artists. The audience, comprising people from inside and outside the company, was assisted throughout the day with brainstorming techniques to generate innovative brand and product ideas for inclusion in the Alexander McQueen 2014 roadmap, a summary of the brand's objectives and action plans.

Kering's *Innovation and Sustainability Awards* are also an ideal way of raising awareness and since 2010, they have allowed Group employees to showcase their leadership, creativity and values. Held in September 2013, the fourth edition of the Awards – complete with a dedicated website for the second year running – allowed the Group's employees to submit and to vote for projects in the following categories: product innovation; efficiency enhancement; and communication with stakeholders, individuals and communities. The third edition of the Awards in 2012-2013 generated innovative projects including Stella McCartney's "Sustainable Wool" which won first prize. This involves sourcing sustainable wool fibres certified by Ovis XXI and

Nature Conservancy from Patagonia. The farmers who produce the wool are part of a vast programme to protect and restore endangered Patagonian prairies. One million hectares of prairie have already been certified for their sustainable practices and the project aims to certify six million hectares by 2016. Because wool is such an essential material for Stella McCartney and other brands, the entire Group may begin to use this source in 2014 thanks in particular to MIL, the first collection to use these fibres, scheduled for release in autumn 2014. This project encapsulates what the Group's environmental strategy is all about: engaging as far upstream as possible and reducing environmental footprint in the sourcing phase while simultaneously generating a positive local impact

through restoring endangered ecosystems.

Certification

The prevalence of retail activities within the Group limits the number of sites for which ISO 14001 certification is relevant, so the process is primarily considered for sites with the most significant environmental impacts, such as large logistics centres and tanneries. ISO 14001 certification demonstrates the implementation of a system to manage environmental impact. In 2013, Bottega Veneta renewed certification for its Altavilla site and obtained certification for its new Montebello Vicentino atelier which replaces the atelier in Vicenza.

Brand	Site name	Activity	Year of ISO 14001 certification
Gucci	LGL platform (Bioggio and Stabio)	Distribution	2006
	Accessories Warehouse Florence	Distribution	2010
	Casellina Warehouse	Distribution	2010
	Casellina head office	Offices	2010
	Caravel	Tanning	2011
	Blutonic	Tanning	2011
	Florence head office	Offices	2013
Bottega Veneta	Altavilla Vicentina	Distribution	2010
	New Montebello Vicentino Atelier	Production	2013

Reporting process and indicators

To accurately track the environmental footprint of its activities, Kering has undertaken environmental reporting based on around a hundred indicators every year since 2004. Representative of the environmental imperatives of the Group's brands, these indicators fall into eight categories: use of raw materials, waste production, energy consumption, water consumption, product policy, environmental management and management of environmental risks, goods transport and business travel.

Following the introduction of new indicators in the 2012 campaign, this year was used to consolidate reporting procedures at the industrial sites to provide better quality information on processes, materials used and environmental management, as well as more specific quantitative data on water and air pollution.

In order to track its actual environmental performance as closely as possible, Kering's environmental reporting system is designed to cover all the Group's businesses, with the aim of collecting actual data from the 1,500 sites located around the globe. The methodology set out in the reporting protocol, however, allows the Group to estimate some data.

Kering works each year to increase the number of sites included in its environmental reporting, extending the process to 290 new sites in 2013, mainly belonging to the Brioni, Gucci, Pomellato, Bottega Veneta and Alexander McQueen brands.

These efforts helped extend the environmental reporting scope in 2013 to cover 100% of the Group's 2013 revenue and employees as of December 31, 2013.

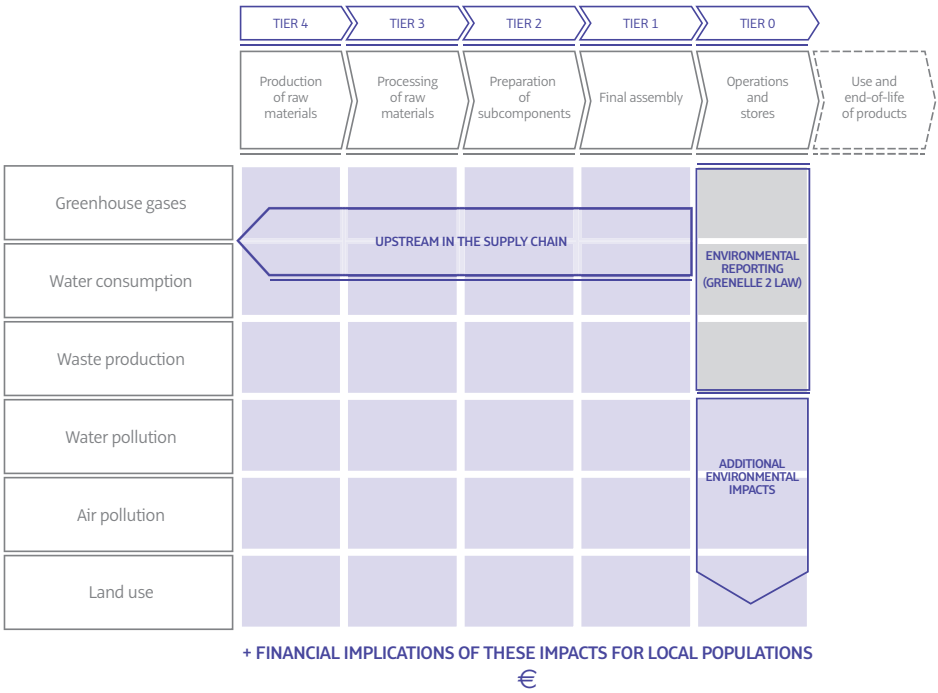
A methodological note provides all necessary information regarding the environmental reporting protocol, emission factors and rules for using estimated/extrapolated data. It is available on Kering's website, under "Sustainability".

3.2. environmental profit & loss account

Definition and overview

An Environmental Profit & Loss Account (EP&L) measures and monetizes the costs and benefits for a company of all of its environmental impacts across all of its supply chains: from raw material production to product distribution.

More specifically, an EP&L focuses on greenhouse gas emissions, air pollution, water consumption, water pollution, waste and changes in land use. The different suppliers involved in product manufacturing are classified by "Tier" within the supply chain.



The two major innovations of this method involve:

- factoring in the total impact of activities, i.e., including the supply chains and raw materials. This approach goes beyond the traditional boundaries of the company and factors in the environmental impacts developed in Scope 3 of the GHG Protocol;
- allocating a monetary value to these impacts while taking account of their location by measuring the change in natural capital use. Exchange rate fluctuations are taken into account when monetary valuation coefficients are updated.

EP&L is one of the first major approaches that allows a company with global supply chains to quantify the environmental impacts of all of its production, transport and sales processes and to accurately map all of the impacts across the different phases involved in producing and distributing its products.

Assigning monetary values to these environmental impacts on local populations also considerably enriches this huge body of data. It helps decision making by drawing upon a scientific, documented methodology that compares different environmental impacts in absolute terms and in terms of their location.

For example, Kering has been able to use this approach to compare the impact of drawing one cubic metre of water from a high water stress zone or from a region with abundant access to freshwater. The Group can also choose the best trade-off in terms of environmental benefits between cutting waste production or water consumption on a project-by-project basis.

The wealth of knowledge contained in this data boosts the effectiveness of Kering's environmental strategy. The EP&L approach highlights areas where the Group can deploy solutions that are likely to reduce the impact of its existing sourcing and manufacturing processes in a significant manner and innovate using new materials, technologies and sourcing solutions.

Consequently, in view of the Group's stated goal of boosting its eco-friendly product offering, the EP&L has become a key component in Kering's strategic decision-making arsenal. It is also being used to measure and guide the Group's sustainability targets through 2016.

History of involving and working with stakeholders

The EP&L was first developed at PUMA and is currently being deployed across all Kering brands. The Group has committed to publishing its first consolidated EP&L in 2016. While deployment is being spearheaded by the Group, the "Kering effect" is being leveraged to drive a shared approach to implementation at individual brand level.

Given the innovative and complex nature of this approach, Kering was willing to share its methodological findings with world-renowned specialists and PUMA's first EP&L

was thoroughly reviewed by a panel of independent experts comprising economists, and specialists in ecosystem services and environmental reporting. The resulting recommendations – which can be accessed via the Group's website – were used to refine the methodology used in subsequent EP&Ls and the Group decided to include water pollution as an additional environmental impact.

Aside from the expert review, the Group also intends to share its findings and assume a leadership role in this field by contributing its experience and participating in the flourishing debate around the whole question of assigning a financial value to services performed by ecosystems and their deterioration. Kering has been invited to share its experiences by peer groups including WBCSD, EpE, the World Forum on Natural Capital and The Economics of Ecosystems and Biodiversity (TEEB) *inter alia*.

The Group has presented its work to prestigious bodies that wish to keep abreast of the latest private sector innovations in sustainability, including the European Commission, the House of Commons (UK), the German Bundestag and ADEME. Kering also regularly participates in conventions and presentations organised by other big companies.

The EP&L as a decision-making tool

Kering uses information provided by the EP&L to guide its investment policy and to appraise its sustainability projects by simulating the potential EP&L value and assessing the related financial impacts. For example, based on the analysis of the EP&Ls of several brands, Kering has looked into the possibility of changing the countries in which it sources raw materials or actually changing the raw materials used in some components. Working with suppliers to limit their environmental impact has also been identified as a possible area for unlocking significant potential environmental gains. The Group now sees the EP&L as a key component in its strategy of adapting to climate change.

The EP&L also allows the different functions – Supply Chain management, Production, Communication, Purchasing, Finance, etc. – to get a fresh perspective on the specific issues that concern them. Mapping the industrial processes and the suppliers involved in manufacturing products refines the analysis of the different transformation processes in the upstream portion of the supply chain (breakdown and characteristics of suppliers, risk mapping, identification of synergies, etc.). This whole approach can strengthen the relationship that the brands have with their suppliers by giving them a role in an innovative, unifying and non-competitive project.

2013: standardisation of methodology and large-scale deployment

Kering drew on the pioneering work of PUMA and the production of the first complete EP&L by another brand

in 2012 to standardise its own approach to deployment. By drawing up and documenting a clear methodology that may be easily replicated across the Group's different brands, Kering has moved the EP&L out of the experimental phase and turned it into a fully-fledged decision-making tool.

An EP&L is deployed in four successive phases:

1. mapping processes and suppliers through to raw materials;
2. gathering as much environmental data as possible;
3. estimating/extrapolating the impacts not covered by the environmental data gathering phase;
4. allocating a monetary value to the cost of these impacts while taking account of their location.

As well as partnering the brands throughout the process, Kering has devised a series of support mechanisms (mapping models, data gathering files, supplier guidelines, etc.) to give the brands greater autonomy when they replicate the process.

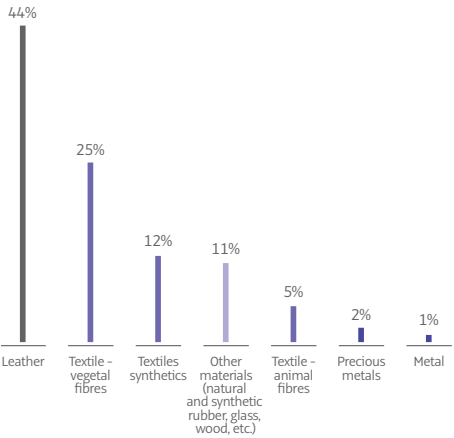
In 2013 the EP&L approach was deployed in six Group brands accounting for 73% of consolidated revenue. In 2013 alone, nearly 900 suppliers (manufacturers, tanneries, producers of components, subcontractors, dyeing and weaving firms, etc.) replied to Kering's environmental questionnaire, providing invaluable data on the Group's environmental impact.

Breakdown of EP&L results (analysis carried out in 2013 on six brands accounting for 73% of 2012 consolidated revenue)

ANALYSIS OF IMPACTS BY TIER AND BY TYPE OF IMPACT:



ANALYSIS OF IMPACTS BY TYPE OF MATERIAL ⁽¹⁾:



(1) Analysis by type of material is only possible for the impacts of Tier 3 and Tier 4.

The initial findings of the EP&L approach conducted in 2013 on six Group brands (on 2012 data) clearly highlight:

- the greater environmental impacts of the supply chains over that of the Group's own activities (over 90%);
- the proportionate weight of Tier 4 related mainly to agricultural activities (cotton and other textile fibres, cattle and sheep farming, etc.) which accounts for 39% of the Group's impact;
- the significant contribution of transformation industries (production of synthetic and natural fibres, leather tanning and precious metal refining), which account for 24% of the Group's impact;
- as regards type of environmental impact, GHG emissions and land use represent 39% and 26%, respectively, of the Group's impact.

These findings validate the Group's sustainability strategy, underpinned by a focus on responsible sourcing practices and efficient material vetting and transformation processes together with a quest for optimal management of the direct operations.

Stepping up deployment over the coming years

With a view to publishing the first consolidated EP&L in 2016, Kering has decided to test EP&L deployment to all brands in 2014. This accelerated deployment will go hand in hand with a comprehensive analysis of available EP&L findings in the six brands already covered in order to come up with effective action plans for reducing the environmental footprint.

3.3. *measurement and reduction of our carbon footprint*

The Kering group helps address the impacts of climate change in two ways: by directly reducing the carbon footprint associated with its energy consumption and the transport of people and goods, but also, from a longer-term perspective, by evaluating and reducing emissions of greenhouse gases in its supply chain, especially by using the EP&L analysis implemented by the Group for all its brands. This approach has become a key component in Kering's climate change strategy. In addition, Kering now has access via an external service provider to an application for mapping and analysing its global risks according to seven broad categories that include:

- human rights;
- climate change;
- the environment;
- environmental regulatory changes.

Energy consumption and the transport of goods and people are the two main sources of the Group's CO₂ emissions (excluding emissions related to the supply chain). Total emissions for 2013 came in at 268,256 tonnes of CO₂.

A major review of the Group's emission factors was carried out in 2013 for the purpose of:

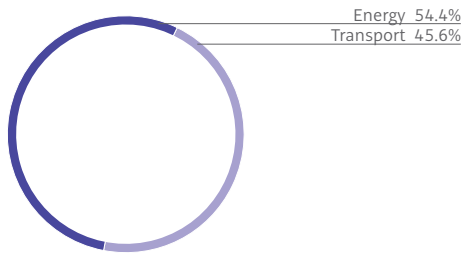
- ensuring consistency between the methodologies for calculating the carbon footprint used for the EP&L and for the Group's annual environmental reporting; and
- getting a broader perspective of the Group's impacts as part of a Life Cycle Assessment (LCA) approach that factors in the indirect impacts of emissions related to energy consumption and transport.

In addition to those included from the combustion phase, the Group's emission factors now also include those from upstream extraction phases (petrol, uranium), line losses and the treatment of nuclear waste, all of which are now included in Scope 3 of our environmental reporting. In order to facilitate year-on-year comparability, 2012 data has been restated to include these new emission factors.

Details of the emission factors used are available in the methodological note to Kering's 2013 environmental reporting on the Group's website.

A detailed account of these emissions, the main changes that took place between 2012 and 2013, and the initiatives put in place to reduce the Group's carbon footprint are presented below.

BREAKDOWN OF TOTAL TRANSPORT- AND ENERGY-RELATED CO₂ EMISSIONS IN 2013



Total: 268,256 tonnes of CO₂

The increase in energy-related over transport-related emissions (54.4% in 2013 versus 49.8% in 2012) is due to the integration of new industrial sites and stores together with the application of new emission factors that include Scope 3.

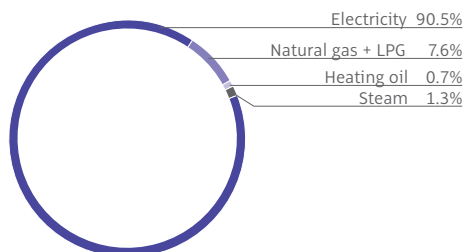
Energy consumption and related CO₂ emissions

The energy-consumption indicators below enable the Group to assess its energy use, together with the related greenhouse gas emissions, both direct (Scope 1 of the GHG Protocol: burning of natural gas, heating oil and LPG) and indirect (Scopes 2 and 3 of the GHG Protocol: electricity and steam production, line losses, upstream production phase of energy fuels and the treatment of nuclear waste).

Energy consumption and related CO₂ emissions in 2013

	Energy consumption (MWh)	Related CO ₂ emissions (tonnes)
Electricity	235,488	131,965
Natural gas	47,856	11,015
Heating oil	3,208	953
Steam	8,277	1,870
LPG	160	50
Total energy	294,989	145,853

BREAKDOWN OF ENERGY-RELATED CO₂ EMISSIONS IN 2013 (%)



Total: 145,853 tonnes of CO₂

The Kering group's energy consumption relates mainly to the heating, lighting and air conditioning of stores, warehouses and offices. In 2013, it amounted to almost 295 GWh. Electricity is the Group's main source of power, representing 80% of total energy consumption.

CO₂ emissions related to the Group's energy consumption in 2013 totalled 145,853 tonnes of CO₂. 90.5% stemmed from the generation of electricity and were therefore indirect emissions relating to the amount of electricity consumed, but also to its mode of generation (coal, hydrocarbon, nuclear, renewable, etc.).

Proforma year-on-year change in energy consumption (MWh) and in related CO₂ emissions (tonnes)

	2012-2013 proforma scope		Year-on-year change
	2013	2012	
Electricity	210,529	207,792	+1.3%
Natural gas	40,489	37,131	+9.0%
Heating oil	1,528	715	+113.8%
Steam	8,213	8,547	-3.9%
LPG	160	164	-2.3%
Total energy	260,919	254,350	+2.6%
Direct emissions (Scope 1)	8,218	7,361	+11.7%
Indirect emissions (Scope 2 and 3)	120,485	128,454	-6.2%
Total energy-related emissions	128,703	135,815	-5.2%

On a proforma basis, the Group's energy consumption rose from 254 GWh in 2012 to 261 GWh in 2013, an increase of 2.6%. This was attributable chiefly to an increase in natural gas consumption following a change in the method of calculating natural gas consumption in US stores based on measurements taken by a service provider across a sample of stores.

The sharp increase in heating oil consumption corresponds to a change from stream-to an oil-based heating system at a warehouse in Italy.

The share of CO₂ emissions related to energy consumption fell by 5.2% thanks to an increase in the share of renewable energy in the energy mix which explains the decrease in

CO₂ emissions despite the slight increase in overall energy consumption.

Measures to improve the energy efficiency of stores and infrastructure

Kering has produced a handbook entitled the *Smart Sustainable Store*, setting out good environmental practices to be applied in the Group's stores. It is available in six languages (English, French, Italian, Japanese and both simplified and traditional Chinese) and covers the management of energy, waste, paper and water as well as other consumed resources such as packaging and deliveries and store upkeep and maintenance. A more

detailed version is also available that focuses on the life cycle of the store and its fittings.

In 2011, the Indirect Purchasing Department and the Sustainability Department – in partnership with NUS Consulting – launched a major energy management project intended for all Group brands. In 2012, a system for closer monitoring of energy consumption was introduced and 381 sites in Europe and the US have now signed up to the project. It focuses on streamlining the energy procurement process by pooling and consolidating energy consumption, increasing the use of renewable energy and centralising energy procurement management. The project has generated tangible energy savings and cost reductions for the Group. For example, in 2013 more than 25 GWh of COFER-certified energy (Certificates of Origin for Renewable Energy Power Plants) was purchased in Italy and there are plans to expand the initiative to new regions in 2014. A module that trains people how to use this energy management tool has been deployed in most of the brands and is set to become mandatory for all of the brand's facility managers.

Taking things even further, a pilot scheme has been launched to gain a better understanding of how consumption breaks down at various points of sale. Sub-metering of different types of consumption (lighting, air conditioning, etc.) is taking place in six Parisian pilot stores in partnership with Schneider Electric. Some of the Group's most iconic Parisian stores have been selected, including Saint Laurent on Avenue Montaigne, Boucheron on Place Vendôme and PUMA on Boulevard Sébastopol. Tracking energy consumption at points of sale in real time should highlight the most energy-intensive captions and allow the Group to come up with optimal energy performance solutions. If the pilot delivers on its promises, it will be rolled out to other stores. In the Luxury Division, LEED certification (Leadership in Energy and Environmental Design) for new buildings and major renovation work is a concrete example of what is being done to cut energy consumption. The certification programme is based on six evaluation criteria of which energy is the most important (optimising energy performance, using renewable energies, etc.). Gucci has obtained certification for its Brera, Shanghai IAPM and Hong Kong IFC stores and other stores have been earmarked for certification in 2014. Stella McCartney and Brioni obtained LEED certification for their stores in Dallas and the new building in Milan, respectively, and the 40,000 sq.m extension to Kering's international distribution and logistics platform for its luxury brands has also been certified.

The Group's brands are working to come up with environmental performance solutions that actually go beyond certification processes. For example, in 2013, Volcom finished renovating a building that incorporates effective lighting, natural lighting and presence sensors that combine to create a system that is 20% more energy efficient than the California Energy Commission's own Title-24 standard. PUMA received the Outstanding Merit – Tenant Improvement Award from Chain Store Age

and the A.R.E Sustainability Award for its Ontario Mills store in California. Designing stores using the principle of "design by subtraction" has enabled the Group to cut its carbon and energy footprints by 25% and 30%, respectively, and to use less materials. Store end of life has also been factored in with the use of 100% recyclable materials and separable modules that can either be recycled or used at another store.

The stores of the various brands continue to be equipped with LED (light emitting diodes) lighting to reduce energy consumption: five Boucheron stores in Paris, London, Taiwan and Hong Kong are now 100% LED-lit, generating savings of 30% on average in each store – i.e., a total of 20 MWh in 2013 – and reducing the brand's carbon footprint by 15 tonnes. Sergio Rossi integrated LED lighting into the design concept for its flagship Florence and Milan stores, generating savings of around 20 MWh a year and avoiding 9 tonnes of CO₂ emissions. If the aesthetic effect produces the desired results, LED lighting will be installed in other retail stores in 2014 and 2015. Saint Laurent is following the same approach for the new Hedi Slimane store concept and all newly-opened or renovated stores will be LED-lit cutting energy consumption by 30% on average. At end-2013, around 20% of Saint Laurent's directly owned stores were 100% LED-lit. Gucci also continued to roll out its LED lighting programme equipping 22 stores in 2013 and the brand will pursue its efforts in this field in 2014. Other brands such as Stella McCartney, PUMA and Volcom also have plans to install LED lighting and PUMA in particular has already replaced lighting in 42 stores out of 79 in Hungary, Mexico, Australia, Argentina and New Zealand.

The gradual shift towards renewable energy

The proportion of renewable electricity used by the Group is growing thanks to numerous changes in supply within the brands. It amounted to 15.4% in 2013, compared with 7% in 2012.

Numerous initiatives are afoot to boost the Group's use of renewable energy including the renewable electricity project being developed in partnership with NUS consulting described previously. With the support of Kering, Saint Laurent is gradually switching all of its French energy contracts over to green electricity. Brioni is also leveraging the partnership with NUS Consulting in its negotiations with renewable energy suppliers as is Bottega Veneta which now gets nearly 20% of its electricity requirements for all of its sites from renewable sources purchased by Kering, and in Italy the proportion has now risen to 85%.

In 2013, the proportion of green electricity used by Girard-Perregaux and JEANRICHARD rose to 77% of total requirements. The figure is 60% for Stella McCartney and 100% at its London-based sites. Sergio Rossi gets 40% of its electricity requirements from green sources. 17% of Gucci's electricity needs come from this source thanks to the brand's almost exclusive use of green electricity in Italy.

In 2013, the share of electricity derived from renewable sources reached 15% of PUMA's total electricity consumption, thanks to initiatives in Germany, the United Kingdom, Australia, Austria and the Benelux countries, and more recently, in Vietnam.

Aside from suppliers, the brands have also been boosting their reliance on renewable energies by installing photovoltaic panels. Some brands have already installed panels on the roofs of certain buildings such as PUMA's head office in Germany, a warehouse operated by the Luxury Division in the US, the Headquarters of Bottega Veneta (providing 45 kW), Sergio Rossi's head office and its development and production site in San Mauro Pascoli which has been providing 540 MWh annually since 2012. These facilities have exceeded target estimates by more than 8MW, generating cumulative savings of €203,000 and 384 tonnes of CO₂ emissions.

Bottega Veneta has completed its solar power arsenal with 16.5 kW of power on the roof of its second building in Milan and 57.1 kW at its new site in Montebello Vicentino, which takes its total generating power to 120 kW for all of the brand's buildings.

Transport-related impacts and emissions

Methodology

Data on transport are divided into three main categories:

- B to B transport: this includes all transport of goods paid for by the brands between the suppliers and the logistics platforms or industrial sites, and between the logistics centres and the points of sale. The transport of goods between logistics centres also falls into this category; B to B transport includes road freight, rail freight, shipping and air freight;
- B to C transport: this covers all deliveries of finished products between logistics platforms or points of sale and customers. These deliveries can be carried out either by the brands' own fleets or by subcontractors' vehicles. Note that express delivery is included under B to C transport. As with B to B, only transport which is paid for by the brands is taken into account. B to C transport includes road freight and air freight;
- business travel: this covers business air travel and the use of company cars.

All the emission factors used in the reporting process are derived from public information sources, i.e., academic establishments or internationally recognised institutions. Details of the methodology used are available in the methodological note to Kering's environmental reporting on the Group's website.

Emissions related to transport and travel

Transport and business travel-related CO₂ emissions in 2013 (in tonnes of CO₂)

	2013
B to B transport	87,688
B to C transport	5,956
Business travel	28,759
Total	122,403

In 2013, the Group's transport- and business travel-related CO₂ emissions totalled 122,403 tonnes. B to B transport accounted for 72% of these emissions.

B to B transport volumes in 2013 and related CO₂ emissions

	Total 2013	Related CO ₂ emissions (tonnes)
Road freight (t/km)	74,872,291	11,507
Shipping (teu/km)	309,642,166	26,345
Air freight (t/km)	73,531,795	49,301
Rail freight (t/km)	18,141,203	535
Total CO₂ emissions (tonnes)		87,688

Within the Group, the most frequently used means of transport for goods in volume terms is shipping. Air transport is also frequently used to move goods manufactured in Europe

to faraway destinations quickly. It accounts for 56% of CO₂ emissions from B to B transport.

Proforma year-to-year change in B to B transport volumes

	2012-2013 proforma scope		Year-on-year change
	2013	2012	
Road freight (t/km)	74,788,164	73,235,755	+2.1%
Shipping (teu/km)	309,642,166	314,449,949	-1.5%
Air freight (t/km)	73,292,975	70,841,337	+3.5%
Rail freight (t/km)	18,141,203	17,966,251	+1.0%
Total CO₂ emissions (tonnes)	87,562	85,847	+2.0%

The Group's proforma B to B transport emissions increased by 2% due mainly to a slight increase in air and road transport (2012 air transport data was partly restated to reflect the enhanced methodology used to calculate 2013 data).

The increase in the number of road transport tonne-kilometres is mainly attributable to the inclusion by PUMA of additional transport flows previously handled by suppliers as well as to higher levels of business for the Luxury Division brands.

B to C transport-related CO₂ emissions in 2013 and proforma year-to-year change (in tonnes of CO₂)

		Related CO ₂ emissions (in tonnes)	2012-2013 proforma scope		Year-on-year change
			2013	2012	
B to C – own vehicle fleets		7.2	5.8	7.5	-22.7%
B to C – subcontractors' vehicles	Classic	121	95	138	-31.2%
	Express delivery (air and road)	5,828	5,620	5,572	+0.9%
Total		5,956	5,721	5,718	+0.1%

CO₂ emissions from B to C transport totalled 5,956 tonnes in 2013, of which 98% was attributable to express transport, which involves shipping small quantities of goods quickly and is used primarily by the Luxury Division. On a proforma basis, B to C transport emissions remained fairly stable year on year.

Optimising logistics flows and switching to alternative means of transport

Goods transport has a significant impact on the Group's CO₂ emissions, and the brands have been working to reduce the distances covered during the supply and delivery of goods, to improve truck load factors and the performance of truck fleets, and even to develop alternative means of transport.

In 2013, Kering launched a review of all modes of transport and flows of goods throughout the Group in order to analyse the current situation and compile best practices being used by the brands. It was conducted worldwide and involved PUMA, Volcom, LGI (Luxury Goods International, the Luxury Division's logistics platform), Gucci, Bottega Veneta, Saint Laurent and Stella McCartney. Over 100 best practices were identified together with the main obstacles to implementing environmental impact reduction projects. Proposed improvements include optimising packaging and deliveries and changing the mode of transport whenever and wherever this is possible, especially when there is no real time pressure. This applies particularly to non-retail products (e.g., point-of-sale advertising, packaging, merchandising items, etc.) and the focus is on switching from air transport to shipping and optimising the outbound port or – if air transport has to be used – favouring direct flights.

Gucci continued its "High Street Fashion" partnership with TNT and ND logistics to deploy sustainable delivery strategies in major European shopping districts using electric cars. This partnership has been up and running in Amsterdam, Milan, Florence and the entire Swiss retail network since 2012 and in 2013 it was extended to Catania, Nice, Forte dei Marmi, Bologna, Mendrisio, Lugano and Bicester.

Business travel

CO₂ emissions from business travel in 2013 and proforma year-to-year change (in tonnes of CO₂)

	Related CO ₂ emissions (in tonnes)	2012-2013 proforma scope		Year-on-year change
		2013	2012	
Business air travel	19,286	18,376	19,448	-5.5%
Company cars	9,474	8,525	7,233	+17.9%
Total	28,760	26,901	26,681	+0.8%

CO₂ emissions associated with employee business travel amounted to 28,760 tonnes in 2013. On a proforma basis, emissions increased slightly by 0.8%. The increase in emissions from company car fleets can be attributed essentially to more exhaustive reporting of petrol consumption.

As part of its environmental reporting process, since 2008 Kering has calculated CO₂ emissions for the majority of employees who take business flights. Each year, the scope of this coverage is broadened, and in 2013, it covered flights taken by employees based in 17 different countries (up from 12 different countries in 2012). Moreover, in 2013, CO₂ emissions of company vehicles averaged 139.7 g/km.

Some brands took the Group's policy even further by factoring environmental criteria into the selection of company vehicles. Bottega Veneta, for example, continued the renewal of its fleet with the inclusion of 34 new hybrid vehicles out of its total fleet of 109 and Stella McCartney only uses companies offering hybrid vehicles for taxi journeys in Britain.

Aside from company vehicles, the Group seeks to raise its employees' awareness about alternative means of transport through the promotion by the brands of public transport

In 2014 it will be deployed in Paris, London, Rome and Naples, before taking in Madrid, Berlin, Barcelona and Munich. Gucci also worked on optimising transport loads which helped avoid 85 truck deliveries between Florence and Bioggio, or 3% of the total number of trips.

The average load factor of the trucks stood at 75% in 2013.

for their employees' commutes. For instance, LGI, the international logistics platform of Kering's luxury brands, offers a free shuttle between the local railway station and the site, which are two kilometres apart. The Group has set up partnerships with public transport services to negotiate schedules and secure reductions in the cost of travel passes. After the successful experiment conducted in 2012, Girard-Perregaux and JEANRICHARD have continued to encourage their employees to take public transport and avoid peak hours by offering more flexible working arrangements. Volcom has also introduced flexible arrangements and a monthly draw is organised for all employees who commit to cutting their commute-related emissions by carpooling, taking public transport, biking, walking or skateboarding.

Gucci came away with several *Italy Fleet Awards* this year: its particularly innovative approach to fleet management was rewarded with the *Fleet Manager of the Year* award, its performance in healthcare, security and the environment were recognised by the *Fleet Italy SQE (Safety Quality Environment)* award while its overall mobility policy was rewarded with the *Italy Fleet Mobility* prize.

Emissions testing in accordance with Scopes 1, 2 and 3

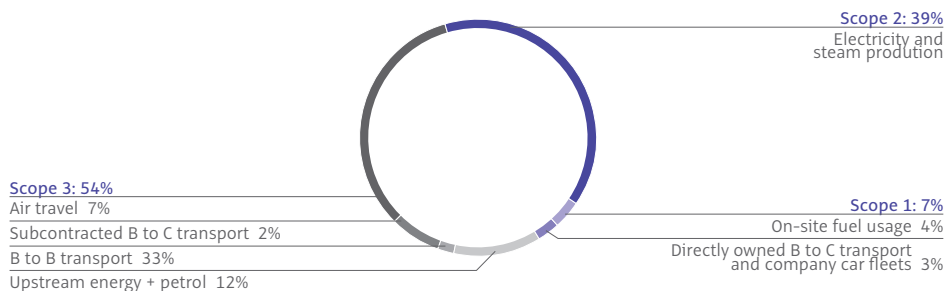
CO₂ emissions by scope as per the GHG protocol in 2013 (in tonnes of CO₂)

	2013
Scope 1	18,682
Scope 2	104,706
Scope 3	144,868
Total	268,256

The GHG Protocol defines three operational scopes in respect to greenhouse gas emissions. To facilitate readability, Kering publishes its emissions as follows:

- Scope 1 refers to direct emissions attributable to on-site fuel usage and to the fuel burnt by Kering group's directly owned B to C vehicle and company car fleets;
- Scope 2 refers to indirect emissions resulting from electricity and steam production;
- Scope 3 refers to emissions resulting from goods transported by subcontractors (all B to B deliveries and nearly all B to C deliveries) and from most employee air travel, the production of energy fuels (upstream energy + petrol) and line losses. Emissions attributable to the production of raw materials by suppliers and to employee business travel other than by air (by car, train, etc.) are not taken into account.

BREAKDOWN OF CO₂ EMISSIONS IN 2013 (%)



Total 268,256 tonnes of CO₂

In 2013, nearly 93% of the CO₂ emissions measured by the Kering group were not under its direct control. Reducing electricity consumption, switching to renewable energy

sources, optimising transport and opting for alternative forms of transport that emit less CO₂ all constitute effective ways of reducing the Group's carbon footprint.

Proforma year-on-year change in CO₂ emissions (in tonnes)

	2012-2013 proforma scope		Year-on-year change
	2013	2012	
Total	248,888	254,063	-2.0%

On a proforma basis, the Group recorded a 2.0% decrease in total emissions over the year due mainly to an increased use of renewable electricity and a drop in business flights taken by employees.

Details of the calculations used can be found in the environmental reporting methodology note, which is available on Kering's website, under "Sustainability".

The carbon-offset programme

Aligned with its targets announced in spring 2012, Kering offsets its residual greenhouse gas emissions annually. Consequently, in early 2013, it offset the 115,000 tonnes of CO₂ corresponding to the remaining 2012 emissions of the Luxury and Sport & Lifestyle Divisions and its registered office, thus achieving the carbon neutrality target set in Scopes 1 and 2 of the Greenhouse Gas Protocol. To do this, Kering acquired carbon credits from Wildlife Works, of

which the Group has been a shareholder since spring 2012. Wildlife Works supports a leading REDD (Reducing Emissions from Deforestation and forest Degradation) offset project in Kenya, the first such programme to be approved and verified in accordance with the Voluntary Carbon Standard (VCS). In September 2013, Kering also took part in events to mark the fifth anniversary of the UN-REED in New York as part of the 67th General Assembly of the United Nations in its role as a leading corporate stakeholder in this high value added project to combat climate change.

The brands also develop their own carbon-offset initiatives. Two major events organised by Volcom in 2013 in Hawaii and the Fiji Islands were certified Deep Blue Surf Events[®]. Emissions at all events covered by this label – which has the backing of the NGO Sustainable Surf – are offset in full. Bottega Veneta also offsets all of the GHG emissions from its Milan head office, i.e. 886 tonnes of which 428 were offset by Kering and 458 by the brand. All of the corresponding carbon credits were acquired from Wildlife Works.

3.4. *sustainable use of resources*

As the global leader in apparel and accessories, Kering and its brands have developed numerous products for the Luxury and Sport & Lifestyle markets. Manufacturing leather articles and textiles represent an important part of the Group's activity. The main raw materials used are leather, rubber, precious skins, cotton and wool. The Group also uses gold and precious stones and although the quantities involved are much smaller, their production has a significant potential impact on the environment. The Group is committed to reducing its environmental footprint in the pre-operations phase, starting with the production of its raw materials. This involves assessing environmental impacts using techniques such as EP&L, focusing on product design and materials used as well as impacting the supply side to enhance practices and identifying opportunities to reduce the environmental impacts of products.

In 2013, the Sustainability Department launched "Smart Sourcing" to encourage the brands to incorporate sustainably produced raw materials in their product design and manufacturing processes. This project involves experts in supply-chain management, R&D and sustainability working closely together to come up with responsible sourcing solutions tailored to the specific needs of the different brands.

Consequently, a new internal policy has been drawn up setting out the underlying principles of responsible sourcing practices in line with the Group's overall sustainability policy, objectives and existing best practices. These additional guidelines have been drawn up for each type of raw material – including precious skins, cotton, rubber, wool, leather, fur, gold, precious stones, paper and wood – to guide the brands in their quest for new solutions. All of these policies and guidelines have been circulated to the brands together with comprehensive explanations.

Consumption of cotton, wool and precious skins

As part of the Smart Sourcing programme, in 2013 Kering set up a new structure – Materials Innovation Lab (MIL) – to assist the brands. MIL is based in Northern Italy and tasked with

encouraging the brands to incorporate more sustainably produced raw materials into their textile collections. Its members work closely with the Sustainability Department and the Group's key strategic suppliers to identify and source such materials and it has compiled a catalogue of alternative fabrics and fibres. Many other initiatives have also been launched across the brands. Gucci is trying to replace some of its traditional materials with organically produced materials such as the wool used in suits, cotton poplin in t-shirts or the silk used in women's collections.

In 2013, Stella McCartney began using wool produced in Patagonia (Argentina) as part of the Ovis XXI certification programme. The producers work closely with Nature Conservancy and have committed to sustainable farming practices that protect and restore endangered Patagonian prairies. The programme currently covers one million hectares and the brand uses this certified wool to make woven woollen garments and knitwear. The first collection to use these fibres is scheduled for release in autumn 2014.

Other initiatives focusing on the use of organic cotton have been implemented or ramped up: 53% of all cotton used by Stella McCartney's collections is produced organically and Volcom has continued to use organic cotton in its VCo-Logical Series and has even started using it in other ranges. Volcom also produces mixed-fabrics from organic cotton and recycled PET.

Bottega Veneta is making big efforts to source eco-fabrics that comply with GOTS (Global Organic Textile Standard), recognised as the world reference in this domain, and a production trial using GOTS-certified fabric is already up and running. The brand is also reviewing the environmental impact of its leather tanning in a bid to come up with cleaner processes. In 2013, Bottega Veneta came up with a tanning process that is free from heavy metals and the first phase of experimental production of leather bags using the process is already in progress. In July 2013, Gucci launched an enhanced tanning process that is free from the metals traditionally used in tanning and reduces the environmental impact of leather production by cutting water and energy production by 30% and 20% respectively.

PUMA is also striving to reduce the environmental footprint of its leather production by leveraging the findings of its EP&L. It encourages its footwear suppliers to work with tanneries that belong to the Leather Working Group which brings together a wide range of stakeholders committed to improving the environmental stewardship of the leather goods industry. The Leather Working Group has devised a system of traceability and certification – tanneries can be rated Gold, Silver or Bronze. Worldwide, more than 90% of leather used by PUMA comes from certified tanneries. In 2013, for PUMA suppliers that are members of the working group, 66% of leather came from Gold-rated tanneries while 30% and 4%, respectively came from Silver- and Bronze-rated tanneries.

Gucci is currently looking at a number of ways of using recycled metals such as incorporating recycled copper and zinc into the brass used to produce its watches and jewellery. It is carrying out studies to identify alternative metals that it could use to make handbags and finding new ways of using led-free zamak to manufacture men's and women's accessories in addition to its existing use in manufacturing children's accessories.

Stella McCartney does not use either leather or fur in her products and she has selected an alternative bio-plastic leather with a coating created from over 50% non-edible vegetable oil to produce her shoes, bags and accessories.

Gold and Diamonds

Illicit or unregulated mining for diamonds leads to devastating social conflict and corruption, and poses a serious threat to local biodiversity. This is why Kering committed in 2012 to use gold and diamonds sourced

from verified operations that do not have a harmful impact on local communities, wildlife or the ecosystems which support them.

Boucheron, Gucci and Bottega Veneta strive to ensure the traceability of the diamonds they use and to guarantee their origin. To meet this objective, they comply with the Kimberley process, which aims to certify the source of diamonds sold on the international market to ensure that they do not serve to finance armed conflict. Since 2006, 2009 and 2010 respectively, the brands have also been members of the RJC (Responsible Jewellery Council), an organisation that promotes responsible and transparent social and environmental practices throughout the jewellery sector, from the mine to the point of sale. In 2012, Bottega Veneta, Girard-Perregaux and JEANRICHARD obtained RJC certification for their gold and diamonds, following Gucci and Boucheron in 2011.

Paper consumption

Group consumption

Paper consumed by the Kering group and its subsidiaries comes from two main sources:

- indirect purchases of paper ordered by service providers outside the Group (printers, processing companies and agencies) for printing communication media such as reports, posters, mail-shots and point-of-sale advertising;
- office paper.

In 2013, Kering's overall paper consumption totalled 2,004 tonnes. A breakdown by category is presented below.

Paper consumption in 2013 and proforma year-to-year change (tonnes)

	Consumption in 2013	2013-2012 proforma scope		Year-on-year change
		2013	2012	
Paper – indirect purchases	936	875	781	12%
Office paper	1,068	920	1,025	-10.2%
Total paper	2,004	1,795	1,806	-0.6%

Between 2012 and 2013, the Group's paper consumption dropped slightly by 0.6%. The sharp 10.2% decline in office paper consumption reflects the Group's efforts in this area and its drive to develop paperless alternatives. Group employees are encouraged to use the double-sided print option, to favour paperless alternatives (e-mails, press reviews, scanned documents, etc.) and to reuse the reverse side of printed sheets. Direct purchases of paper (catalogues, envelopes, etc.) have grown by 12%, mostly due brand repositioning in the Luxury Division.

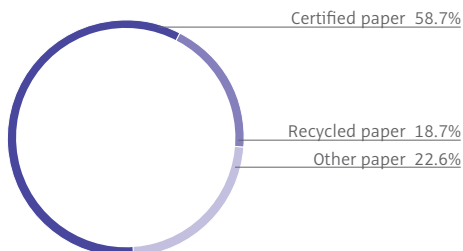
In 2013, the portion of certified (FSC or PEFC) or recycled paper was 77% across the Group, breaking down as 59% certified paper and 19% recycled paper. The proportion exceeds 90% in several Kering brands, including Bottega Veneta, Saint Laurent, Stella McCartney, Boucheron, Girard-Perregaux and JEANRICHARD.

A number of additional initiatives were also deployed by the brands during the year. All Volcom's B to B catalogues were printed on FSC-certified paper and all of the paper used by Boucheron in-house is now certified FSC or PEFC,

including the paper used in its in-house publications. Gucci's corporate and retail entities also use FSC-certified or recycled paper. Stella McCartney ensures that the emblematic herringbone parquet flooring fitted in all of her stores is sourced from FSC-certified wood and Bottega Veneta uses double-A certified *Khan-na* paper in its Chinese stores.

These efforts have culminated in Kering being named as the sixth best French company in the PAP50 organised by WWF and Riposte Verte.

TYPE OF PAPER USED IN 2013 (%)



Plastic

A working group known as "Idea Lab on Alternative Plastics" was set up in March 2013 to help the brands pool their research and share their needs in terms of "sustainable" plastics. Nine of the Group's brands took part in three meetings organised during the year, the last of which was held at the 2013 Düsseldorf International Trade Fair for Plastics and Rubber (K-Fair). The brands used this occasion to meet with major players in the plastics industry and discover their latest innovations. Meanwhile Kering, in partnership with the Fraunhofer Institute, developed an innovative method of comparing plastics using sustainability criteria that will enable the brands to select the most environmentally-friendly plastics.

Packaging consumption

The Group still uses significant volumes of cardboard and plastic for the protection and transport of goods sold in stores or by mail order. For reporting purposes, plastic bags and paper bags are distinguished from other types of packaging.

In 2013, Kering consumed approximately 13,077 tonnes of packaging, over 72% of which was cardboard and 17% paper bags. Paper bag consumption is more than ten times higher than plastic bag consumption, as the brands of the Luxury Division almost exclusively use this type of bag. Also, some brands have introduced reusable bags.

Packaging consumption in 2013 and proforma year-to-year change (tonnes)

	Consumption in 2013	2013-2012 proforma scope		Year-on-year change
		2013	2012	
Plastic bags	204	139	163	-15%
Paper bags and gift-wrapping paper	2,184	2,114	2,411	-12%
Total bags and gift-wrapping paper	2,388	2,253	2,574	-12.5%
Plastic packaging	960	890	623	+43%
Cardboard	9,435	8,668	7,773	+11.5%
Paper for packaging	146	51	60	-14%
Flannel bags	148	70	47	+47%
Total non-bag packaging	10,689	9,679	8,503	+14%
Total packaging	13,077	11,932	11,077	+8%

On a proforma basis, the Group's total packaging consumption increased by almost 8% due mainly to higher consumption of cardboard and plastic packaging in certain Luxury Division warehouses driven by higher levels of business.

Since Gucci launched its "No box" campaign in 2010 to save on resources by replacing cardboard boxes and plastic bags with cornstarch bags, the brand has cut its consumption of cardboard and polyethylene by 1,082 tonnes and 103 tonnes, respectively.

Following an extensive review aimed at overhauling its entire range of product packaging (shopping bags, boxes, pouches), Sergio Rossi has deployed a new packaging

concept in all its stores for the autumn-winter collections since early 2012. The new range is composed entirely of FSC-certified paper, and no longer includes plastic film, thereby minimising the use of chemicals. Total weight has also been reduced.

At the same time, the success of its "Bring Your Own Bag" campaign, which aims to encourage customers to bring their own bags or buy a reusable one, prompted Volcom to renew the exercise in 2013, purchasing an additional 7,800 bags in the United States.

In 2012, Gucci began replacing wooden hangers used for storing and transporting its products with recycled plastic hangers and this initiative was continued into 2013.

The brand also launched lower volume packaging for its eyewear in 2012: more batches now fit into each truck so fewer trucks are needed. All of these initiatives combined to reduce the CO₂ emissions from transporting eyewear by 60% in 2013.

As part of its wish to pool expertise and contribute to Group initiatives, Brioni joined the LGI platform in 2013 which allowed it to considerably reduce the quantities of packaging it uses.

Saint Laurent used the decision to change its packaging to make a commitment to the environment: all boxes and bags are now made from paper that uses 100% recyclable, chlorine-free FSC or PEFC-certified pulp.

As part of a major product initiative, Girard-Perregaux and JEANRICHARD sought to raise awareness about using FSC-certified wood and paper among suppliers of jewellery boxes and point-of-sale advertising media.

The liners in bags given out by the Stella McCartney brand are made from polyester produced from recycled plastic.

Finally, in late 2013, the Group and the Luxury Division's logistics platform launched a major global review for the purpose of reducing the volume of packaging used to transport goods.

Water consumption

Given the nature of the Group's operations, the bulk of its industrial water consumption concerns tanneries which are not located in water-stressed zones. Nevertheless, the brands are tirelessly working to come up with innovative tanning processes that cut out heavy metals and use less water.

Across the Group, more than 70% of water consumed by the Group is used for sanitation (store cleaning, lavatories, air conditioning, etc.). Consequently, the direct environmental impact of the Group's water consumption is low.

Kering is, however, using its groundbreaking EP&L approach to conduct a review of responsible water management across its entire production chain. Indirect water consumption linked to the use of agricultural raw materials like cotton constitutes an environmental issue that Kering is striving to quantify and address.

Water consumption in 2013 and proforma year-on-year change (cu.m)

	Consumption in 2013	2013-2012 proforma scope		Year-on-year change
		2013	2012	
Industrial water	210,328	171,487	168,762	1.6%
Non-industrial water	504,680	437,563	445,962	-1.9%
Total water	715,008	609,050	614,724	-0.9%

In 2013, Kering group's water consumption amounted to approximately 715,000 cu.m. On a proforma basis, it was down by 1% because less water was used for sanitation purposes.

3.5. waste management

Hazardous and non-hazardous waste

As is the case for consumption of packaging, production of waste in the operations of Kering group stems mainly from the extent of its retail activities. The repackaging of goods and the use of pallets for transport mainly generate

non-hazardous waste. Kering mainly generates packaging waste and small quantities of hazardous waste, corresponding to specific items of waste on production sites and other waste produced mainly in stores and offices (lighting, ink cartridges, etc.).

Total waste produced in 2013 and proforma year-on-year change (tonnes)

	Production in 2013	2013-2012 proforma scope		Year-on-year change
		2013	2012	
Non-hazardous waste	12,086	10,281	9,702	6%
Hazardous waste ⁽¹⁾	354	83	105	-21%
Total waste	12,440	10,364	9,807	6%

(1) Hazardous waste includes neon lights, batteries, waste electrical and electronic equipment, used oil, paint, aerosols, soiled packaging and ink cartridges.

In 2013, the Kering group's total waste production amounted to around 12,440 tonnes, 97% of which was non-hazardous.

Waste recycling

Rate of recycling and reuse of waste as energy in 2013 (%)

	Production in 2013
Non-hazardous waste	58.8%
Hazardous waste	14.0%
Total waste	57.6%

Changes in the amount of recycled waste highlight the success of awareness-building campaigns targeting Group employees and the emphasis on identifying recycling providers. The Kering group recycled or reused as a source of energy 14% of its hazardous waste and 58.8% of its non-hazardous waste in 2013, giving an overall recycling rate of 57.6%. The acquisition of two tanneries by the Group pushed up the total volume of non-recycled hazardous waste.

In collaboration with the I: CO group, PUMA launched an innovative recycling operation in its German stores in 2012. This programme, known as "Bring Me Back", allows consumers to deposit their old clothes, shoes and accessories, whatever the brand, in dedicated recycling bins to be reused or recycled, depending on their state of wear. In late 2013, it was already up and running in about half of the brand's stores worldwide and will be expanded in 2014. Volcom has had the same type of recycling system in some of its points of sale since 2011 and it collected and recycled 42kg of clothing and 133kg of used footwear in 2013.

At the beginning of 2011, Balenciaga adopted an original approach to sorting waste at its main sites in Paris. The brand works with Greenwishes, a company specialising in the recovery and recycling of conventional office waste (paper, envelopes, flyers, etc.), as well as cardboard, plastic, cans, and above all fabric. Every month, Greenwishes sends Balenciaga a set of indicators allowing it to monitor the effectiveness of measures implemented and to communicate with staff in an instructive manner on the benefits of daily sorting. Since the launch of the operation, 6 tonnes of paper, 26 tonnes of cardboard, 3.2 tonnes of plastic and 2.6 tonnes of fabric have been recycled.

Alexander McQueen and Stella McCartney pursued their efforts to recycle fabric in 2013. Through the establishment of a partnership with Soex in 2012, textile cuttings produced at Stella McCartney's London head office are collected, recycled and processed into insulation or plastic.

In April 2013, Bottega Veneta entered into an innovative partnership arrangement with the ILSA corporation to transform leather cuttings into organic fertiliser. ILSA collects waste leather from the brand's workshops and

On a proforma basis, production of non-hazardous waste increased by nearly 6%, in line with the Luxury Division's continued business growth in 2013. The production of hazardous waste declined by 21%.

applies a specific process that breaks it down into a new biodegradable product. Since the arrangement began, the four Bottega Veneta sites participating in this project have generated almost 120 tonnes of leather cuttings, two thirds of which have been transformed into organic fertiliser.

As part of the Fertiland campaign launched in the leather industry hub of Santa Croce in Tuscany, Gucci set up a similar programme in 2012 to turn leather cuttings into organic fertiliser – the cuttings are collected, shredded and then processed by a specialised company. In 2013, 115 tonnes of fertiliser were produced from 230 tonnes of Gucci leather cuttings. The brand is also testing a process that reuses crocodile skin cuttings left over from bags to make footwear: 1,825 pairs of shoes were made from cuttings in 2013.

As part of its rebranding process, Saint Laurent rolled out the Second Life project in 2013 to give a new lease of life to products and materials – mannequins, visual merchandising media, hangers, etc. – that can no longer be used. All regions helped to reuse, resell, donate or recycle these products through appropriate local channels resulting in:

- recycling/reuse of several tonnes of old packaging;
- resale of over 580 kilos of recyclable metal objects;
- donations to charities (Oxfam, *Le Relais Emmaüs*) or sale of over 850 kilos of old uniforms worn in Saint Laurent stores;
- resale or donation of almost 100 mannequins to design/fashion institutes or artists' collectives.

Saint Laurent's *Règles d'Or* – its ten golden rules for good environmental practice throughout its stores – also have a waste management focus: managers must ensure that all waste paper, cardboard packaging, glass, plastic bottles, tins and ink cartridges are sorted and then recycled. Moreover, through pooling arrangements with Bottega Veneta, Gucci and Stella McCartney, Saint Laurent recycles all waste cardboard from its Parisian stores.

It has also deployed a proactive waste management policy outside its stores and waste paper is separated both at its head office and all head offices worldwide.

Water discharge and odour pollution

Water discharge does not represent a significant direct impact for Kering. The brands concerned have nonetheless introduced specific measures that go further than regulatory requirements.

Having obtained ISO 14001 certification for its two tanneries in Italy, Gucci plans to start a new initiative to reduce the use of chromium in its transformation processes and to optimise water consumption. Both tanneries also have modern equipment to ensure that they do not emit any unpleasant odours.

In 2011, PUMA publicly committed to removing all hazardous chemicals from its entire production chain by 2020, under the Detox campaign launched by Greenpeace, an NGO. Two major events have seen the brand join forces with big names in the textile industry to develop corrective measures aimed at achieving this goal:

- the creation of the Zero Discharge of Hazardous Chemicals (ZDHC) group committed to communicating regularly and publicly on the progress of its member brands.

The standout event of 2013 was the publication of a Joint Roadmap Version 2 by ZDHC which elaborated on previous versions and set out clear and precise targets to be achieved by 2020.

The ZDHC Benchmarking Report, a comparative study of chemical product use and water discharge management among 20 PUMA suppliers, was also finalised and published in summer 2013. Drawing on its findings, the project team began preparing a tailored environmental audit tool that should allow PUMA to begin auditing its key suppliers from the end of 2013.

Water discharge is also recorded in the EP&L given the significant related impact in the processing of textiles and leather and in mining. This issue is also dealt with in a detailed questionnaire during the data gathering phase.

- the launch by the Sustainable Apparel Coalition (SAC) of the HIGG index, a new tool to measure the environmental impact of textile products. In 2012, PUMA tested 13 of its products against the Higgs Index and contributed to the projects, benchmarking and studies of the ZDHC group.

As a member of the SAC, Kering actively participated in the consultation processes designed to produce standard methods for constructing the HIGG Index and the EP&L.

3.6. *protection of biodiversity*

Biodiversity is one of the key priorities for the Group. Kering strives to protect and respect it in two major ways: by understanding the origin and assuring traceability of raw materials, and by promoting nature-conservation and awareness-raising initiatives among its employees and consumers.

Use of precious skins, leather and fur

Kering works on the traceability of raw materials, with an emphasis on production of leather, precious skins and furs. It is essential that our products including those made with leather, precious skins and furs come from responsible suppliers.

The Group also developed a comprehensive policy and a set of recommendations covering all its purchases of these items, with a view to achieving its targets by 2016. Through this policy, Kering aims to work with suppliers to avoid conversion of sensitive ecosystems into grazing lands or agricultural lands for food production for livestock. The Group also requires that precious skins and furs come from verified captive breeding operations or from wild, sustainably managed populations. Suppliers should employ accepted animal welfare practices and humane

treatment in sourcing. Additionally, all precious skins of species listed by CITES and used by the Group must be accompanied by a certificate of legal origin issued by the CITES management authority of the exporting country, in order to ensure that the species is not endangered.

In addition to these internal guidelines, Kering works with international stakeholders to combat illegal trade in precious skins. The Group contributed to the United Nations report of the International Trade Centre (ITC) on trade in python skins in South-East Asia by providing technical advice in the project's design phase. In 2013, both Kering and the ITC worked with the International Union for Conservation of Nature (experts on boas and pythons from the IUCN/SSC) on the launch of the Python Conservation Partnership to help move the sector towards more sustainable practices. The goal of this triennial research programme is to devise recommendations on compliance with sustainable practices, transparency, animal welfare and the resources of local populations involved in the trade in python skins. The Partnerships' findings and recommendations will be made available to all stakeholders in the form of scientific peer-reviewed articles that aim to grow the trade in python skins in a sustainable manner.

Kering's brands have also joined forces with the Luxury Goods working group, Business for Social Responsibility (BSR), to work on the issue of traceability.

The Luxury Division brands mainly use cowhide sourced from Europe, principally from France. In March 2013, Gucci got together with Green Carpet Challenge and the National Wildlife Federation to launch a limited edition of leather bags in Amazonian leather with "zero deforestation" certification. Each article in the collection is produced using leather from farms certified by the Rainforest Alliance, guaranteeing compliance with strict standards that protect the environment, farmers and their communities and animal welfare. The bags are sold with individual Green Carpet Challenge passports explaining their sustainability and traceability credentials.

In 2011, Gucci launched its Made-By project to develop and deploy a cowhide traceability procedure from the country/region in which the animal is slaughtered to the cowhide that comes out of its Blutonic tannery. The IT application for the traceability and monitoring of leather was tested in 2013 and should be operational in 2014.

Guaranteeing the origin of skins used is also a key issue for PUMA. In 2012, the brand accordingly adopted a specific and restrictive policy on the use of leather, skins, furs, feathers and wool. In this document, PUMA asserts that it does not use any raw material derived from endangered species within the meaning given by the International Union for Conservation of Nature (IUCN). This policy also prohibits the use of feathers, leather and skins obtained from abused animals, whether they are farmed or not. Finally, some species such as crocodiles and snakes, and certain practices such as mulesing in merino sheep are prohibited. Moreover, since 2010, the brand has been working alongside other companies and several NGOs within the Leather Working Group (LWG), a platform that brings together representatives of the leather industry, with the aim of drawing up and promoting a protocol of sustainable and responsible practices for the sector. While the main tanneries with which PUMA works have been certified by the LWG, the brand now wants to go a step further by guaranteeing the traceability of raw materials back to the farm itself.

Although the amount of fur used by the Luxury Division brands is minimal, Kering is working closely with its suppliers and with BSR experts to develop a programme that guarantees the traceability of any fur used and ensures animal welfare throughout its supply chains. Gucci also continues to work with the Humane Society and Lega Anti Vivisezione (LAV), two NGOs, to draft a Charter to regulate fur use. Some brands, including Stella McCartney, have decided to exclude it totally from their collections.

Gucci and other Group brands including Stella McCartney also maintain regular dialogue with numerous associations and NGOs involved in animal welfare and the protection of the environment, such as the World Wildlife Fund (WWF), the Anti-Vivisection Society, the Humane Society, the National Wildlife Federation, the Rainforest Alliance, the

Eco Age Green Carpet Challenge, Natural Resources Defense Council (NRDC), The Nature Conservancy and Greenpeace.

In 2013, Gucci became very involved in the Skin Fare initiative to improve animal welfare on Italian farms launched in partnership with the Italian Ministry for Agriculture, Institut Zooprofilattico, Blutonic tannery, Quinto Valore slaughterhouse and a pharmaceutical brand. Gucci hopes to leverage this project to source more of its supplies in Italy.

Nature conservation

Aside from ensuring the traceability of raw materials, Kering and its brands are committed to preserving biodiversity by developing initiatives to conserve the natural environment and raise awareness among employees and consumers.

For instance, in connection with the United Nations Conferences on Trade and Development, Kering is involved in the UN's Responsible Ecosystems Sourcing Platform initiative.

Meanwhile, Volcom strives to promote clean beaches through public awareness and clean-up campaigns. For the past five years, the brand has partnered the Keepers of the Coast NGO and its Day After initiative to clean up Florida's beaches after the Fourth of July festivities. Volcom has also been involved in the Summer Daze Beach Clean-Up Series for the past three years and the efforts to clean beaches that have been impacted by increased tourism. On top of its financial support for these operations, Volcom offers products and posters to the most committed volunteers.

Since 2012, Stella McCartney has been partnering the BioPlanet USA and Million Trees Miami NGOs to support the planting of 1 million trees by 2020 in the forests of Miami-Dade County in the United States.

Lastly, in 2012, Kering acquired a 5% stake in Wildlife Works Carbon, LLC. This has bolstered the Group's support for a leading REDD offset project in Kenya, the aim of which is to prevent destruction of forests in the Kasigau corridor, threatened by slash-and-burn subsistence farming practised by migrant and local communities. The project focuses on the development of economic alternatives to this fairly unproductive form of agriculture and the promotion of secure land tenure. Halting deforestation will help maintain the wealth of biodiversity in the area, which is home to the following iconic species: African elephant, African wild dog, cheetah, lion and Grévy's zebra.

In 2013, Volcom stepped up its campaign to raise awareness of endangered species with a special focus on sea turtles. The brand is using the 1% for the Planet programme and the sale of products evoking these animals to foster customer awareness and promote the Sea Turtle Restoration Project.

A wide range of other nature conservation initiatives were also funded in 2013 out of Volcom's 1% for the Planet programme, including:

- the protection of natural landscape and cultural heritage in Hawaii through support for North Shore Community Land Trust;
- the preservation of Alaskan land and waters via the Alaska Wilderness League NGO;
- coastal protection, especially surfing areas throughout the world by supporting Save the Waves, an NGO;
- the purchase of carbon credits from Wildlife Works.

In July 2013, Girard-Perregaux and JEANRICHARD launched an urban bee-keeping initiative and placed three beehives in the gardens of Villa Marguerite in the centre of Chaux de Fonds. Five workshops were organised so that the firm's employees could take part in the project. The goal is to harvest 100 kg of honey from the hives in 2014 to be given to employees, suppliers and selected customers.

4. supporting community development

4.1. community impact

The Group and its brands endeavour to enrich the social and economic fabric of the regions in which they operate. More specifically, by favouring Italian, French and Swiss manufacturers, the Luxury Division brands preserve traditional know-how and contribute to the economic development of these countries.

The brands also develop local partnerships to support training in traditional artisanal skills:

- Gucci, with the Made in Italy Tuscany Academy (MATI) and the *Alta Scuola di Pelletteria Italiana* which sent numerous trainees into employment in 2013;
- Bottega Veneta, with the *Giovanni Fontana* leather-craft training centre;
- Boucheron, with the Paris-based *École de la Joaillerie* jewellery school; and
- Stella McCartney, with three scholarship places at Central Saint Martins College of Art and Design (provided students commit to an ethical policy of not using fur or leather).

Beyond supporting these specialised training programmes and the students that graduate from them, some brands have even set up their own schools to help preserve both traditional know-how and local employment:

- Brioni offers training to 16 young people per year (on a three-year course) at its tailoring school and then provides them with work at its own workshops;
- Bottega Veneta provides young technicians with the highly specialised leather-working skills needed to produce the brand's products at its *Scuola della Pelletteria*.

The Group's brands take decisive action to have a positive impact on the economic well-being of their local suppliers. Gucci created and established the *Filiera Valore* management training initiative for its suppliers. The scheme supports publicly financed entrepreneurs and provides training for 235 employees at 63 of the brand's leather goods, footwear, jewellery, metalware and ready-to-wear suppliers. Additionally, in January 2013, an innovative partnership was set up between Gucci and *CR Firenze*, to provide direct and indirect suppliers of Gucci's leather goods with access to bank loans, thanks to a shared evaluation system between the brand and the bank. This programme helps more than 7,000 entrepreneurs in the Italian manufacturing sector. Meanwhile, Bottega Veneta continued to offer finance and support to two community

craft cooperatives, the *Comunità Femminile Montana* and *Cooperative Femminile Pedemonte*, launched in early 2011 in Alto Astico, an Italian valley with high unemployment among women. Trained in *intreccio infilato*, a traditional weaving technique used in the production of Bottega Veneta's products, 52 women are now able to run their ateliers independently and have therefore become direct suppliers to the brand.

As part of its commitment to developing local talent, Alexander McQueen continued to support Kids Company, supporting vulnerable inner-city children in London: in addition to donating clothing and holding charity sales, the brand's design team has been offering training to these young people since 2012. In 2010 Balenciaga formed a strong partnership with Sakina M'Sa (winner of the Kering Foundation social entrepreneurship award) by providing her ready-to-wear business with know-how and supplying leftover fabrics (5,000 metres of fabric donated in 2013, enabling the business to produce 3,000 pieces). Located in the Goutte d'Or district of Paris, Sakina M'Sa has built a responsible business model based on social inclusivity, cultural mediation and a reduced environmental footprint. Gucci also supports a local association in Tuscany, *La Ronda della Carità*, that enables homeless people to create hand-sewn bags from its remnants.

Volcom has committed to minimising the local environmental impacts of its events while raising awareness among participants. The two major surfing competitions it organises (Fiji Pro and Hawaii Pipe Pro) have been certified Deep Blue Surfing Events™ thanks to exemplary environmental management practices and projects carried out in partnership with local NGOs.

The Group's brands generally help to enhance the local economic fabric by setting up partnerships with suppliers that aim to improve performance and sustainability.

At the Group level, Kering is encouraging social mobility, notably as a founding partner of the *Télémaque Institute*, which sends corporate mentors to help young people from modest backgrounds complete their secondary schooling. More than 145 young people have received mentoring since the institute was founded in 2005, of which 61 were supported by Kering employees.

Finally, the numerous sponsorship programmes set up by the Kering Foundation and at the initiative of the brands

enable the Group and its brands to establish constructive links with local stakeholders.

4.2. *stakeholder dialogue*

In an increasingly interconnected world, the private sector needs to pay attention to, and maintain relationships with their partners and stakeholders. Kering therefore aims to establish quality relationships built on trust with all its partners, regardless of location, with a view to gaining a full appreciation of their concerns and expectations and, as far as possible, incorporating these aspects into its strategy. To achieve these goals, Kering has adopted a dual approach:

- defining a policy for consultation and analysis of stakeholder expectations at the Group level;
- encouraging brands to develop their own stakeholder dialogue procedures at a more operational level.

Group approach – materiality

To ensure stakeholder expectations are appropriately taken into account in its sustainability approach, Kering has chosen to adopt the materiality principle laid out in the Global Reporting Initiative (GRI) sustainability reporting guidelines. These guidelines define materiality as “the reflection of the organization’s significant economic, environmental, and social impacts that may influence the assessments and decisions of stakeholders.”

Kering therefore decided to set out its approach to its stakeholders formally in a materiality matrix. The matrix was drawn up with the aid of specific tools used by different departments within the Group (risk analysis, customer satisfaction monitoring, Group brand image tracking, internal opinion survey tools, etc.) and draws on dialogue led by Kering at the numerous international forums in which it takes part (see below). Subsequently, various sessions were organised internally to draw on the experience of the HR, Communications, Marketing, Internal Control, Environment and Finance teams with a view to refining the analysis and finalising the matrix.

The themes listed in the materiality matrix presented at the beginning of this section indicate the priorities on which Kering has decided to concentrate and their relative importance in relation to the business. The themes cover aspects with an economic, environmental or social dimension. In this context, the term “stakeholder” refers to employees, customers, suppliers, local communities, investors, NGOs, authorities, specific communities, competitors and students. Sustainability targets for 2016, as described in this section, are also a direct result of this materiality analysis of social and environmental aspects.

Taking part in international dialogue

In order to remain constantly attentive to the key issues affecting its stakeholders, Kering participates in a number of international initiatives.

- **WBCSD:** In 2011, Kering joined the World Business Council for Sustainable Development, a multi-sector platform of 200 global companies that aims to promote the role of the business community in achieving sustainability based on economic growth, ecological equilibrium and social progress.
- **SAC:** In 2012 Kering became a member of the Sustainable Apparel Coalition, which brings together more than 80 major players (brands, retailers, suppliers, NGOs, etc.) in the textile, footwear and accessories sector, who work together to reduce the negative environmental and social impacts caused by the industry worldwide. The Group and its brands made a substantial contribution to the establishment of the HIGG Index, a tool that tracks the environmental and social impacts of the textile, footwear and accessories sector, notably at the supply chain level;
- **Textile Exchange:** Kering is a member of Textile Exchange Europe and sits on the Board of Directors of this organisation which is committed to promoting the production and use of more sustainable textiles throughout the clothing industry;
- **Python Conservation Partnership:** In 2013, Kering, the International Trade Centre (ITC) and the International Union for Conservation of Nature (IUCN) launched a partnership with the aim of improving sustainability of the python trade and facilitating industry-wide change. This three-year research programme aims to analyse and make recommendations on transparency, animal welfare and the livelihoods of local populations that participate in the python trade. The data and findings of the research will contribute to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) process. The results and recommendations of the Python Conservation Partnership will be made available to stakeholders in the form of public reports and peer-reviewed scientific articles;
- **EPE:** In 2012 Kering joined *Entreprise pour l'Environnement*, an association of approximately 40 French and international companies committed to working together to give environmental considerations more weight in their strategies;
- **BSR (Business for Social Responsibility):** Within this international network which unites more than 300 companies, Kering is a member of the Sustainable

Luxury working group which promotes transparency and cooperation between Luxury Goods companies, particularly with regard to supply chains;

- TEEB Coalition for Business: Kering participates with and supports the initiatives of The Economics of Ecosystems and Biodiversity (TEEB) coalition, particularly in relation to accounting for natural capital and enabling its reporting in business.

Brands' sector initiatives

In 2013 the Group's brands stepped up efforts to factor the concerns of their stakeholders into their sustainability strategies.

For example, with the support of BSR PUMA conducted a survey of the major organisations that represent its stakeholders worldwide. This exercise allowed the brand

to build a materiality matrix which enabled it to refine its strategy. In parallel, it organised the 11th annual Talks at Banz event attended by more than 60 participants (suppliers, industry and government representatives, NGOs, sustainable development experts, etc.) to address the theme of "How to let consumers live and support sustainability?".

In response to their specific issues, the Group's brands also established partnerships with numerous NGOs. For example, Gucci regularly engages with Greenpeace, the Anti-Vivisection Organization, Human Society, the Clean Clothes Campaign, WWF, Solidaridad, the National Wildlife Federation and the Rainforest Alliance. Meanwhile, Stella McCartney continued to support the Ethical Trading Initiative, an alliance of companies, unions and NGOs that are striving to improve working conditions for vulnerable workers across the globe.

Training is also a good way of maintaining dialogue with suppliers, as described below.

4.3. *relationships with suppliers*

Choosing suppliers and maintaining good relationships with them is essential to Kering in order to secure supply and therefore conduct business. Additionally, the results of the EP&L carried out in 2013 indicated that 90% of the environmental impacts generated by the Group's activities occur at the supply chain level (73% of the Group's activities were covered by the EP&L analysis in 2013 which was carried out on the basis of 2012 data). Furthermore, the activities and locations of the suppliers in the supply chain can raise material ethical issues. This is why suppliers are key stakeholders for the Group. To help its suppliers adopt and adhere to the highest environmental and social standards, the Group and its brands have set up an ambitious programme of responsible buying and CSR criteria (through compliance with the Supplier Charter of the Group's Code of Business Practices) and sustainability training. Among its objectives, the Group aims to evaluate its strategic suppliers and their adherence to the Supplier Charter every two years at least. Suppliers can be considered strategic in various ways; through the proportion of goods they supply to one of the brands, the specific nature of their expertise or because they operate in a high-risk sector and/or country in terms of social or environmental compliance.

Incorporation of social and environmental issues in purchasing policies

As part of its responsible buying strategy, the Group distinguishes materials purchases from indirect purchases, such as services, fees, transport, etc., while devoting considerable resources to the ethical management of its supply chains.

In 2012 Kering announced ambitious sourcing targets to be met by all Group brands by 2016. The leather from domestic livestock used in the Group's products will be from responsible and verified sources that do not result in converting sensitive ecosystems into pasture or agricultural land used to produce food for livestock. Similarly, the gold and diamonds used in the Group's products will be sourced from verified operations that do not have a harmful impact on local communities, wildlife or ecosystems. Finally, precious skins and furs will come from verified captive breeding operations or from wild populations managed sustainably in line with animal welfare policies.

To achieve these targets, Kering has laid out guidelines for the sourcing of raw materials, which are presented under point 3.4 of this section.

For non-retail (indirect) purchases, the Group's Indirect Purchasing Department remains committed to responsible buying based on a reciprocal undertaking with suppliers to respect the Kering Code of ethics. It also has specific commitments tailored to each category of purchase, with buyers identifying the most relevant sustainability criteria for each category (products, services, best practice, reporting, etc.).

For example, Saint Laurent has included specific clauses in most of the terms and conditions it sets for production purchases, but also for indirect purchases in France. Environmental criteria were also taken into account in the selection of dry cleaners used by the brand's Paris and New York stores (the brand selected those that do not use tetrachloroethylene) and in the selection of service

providers called on to carry out store construction and renovation work (90% of the waste generated by the renovation of the Rodeo Drive store in Los Angeles was recycled).

Training, supporting and educating suppliers about sustainability

To bring about change, it is essential to raise awareness among suppliers and provide training on the sustainability issues that are relevant to their activities.

Volcom invited all its direct suppliers to its head office in California for three days to learn about the brand's views on sustainability. Participants attended workshops on themes such as environmental reporting, regulatory compliance and quality. More than 100 people from five different countries were able to discuss these subjects directly with members of Volcom's teams. For Gucci, training also represents an important way of supporting its suppliers: over 350 direct suppliers, or more than 700 people received training on sustainability and environmental footprint in 2013.

In May 2013 Saint Laurent held two half-day workshops for suppliers of its footwear and leather goods production sites in Italy, to present its supply chain environmental reporting initiative (EP&L). Around a hundred suppliers took part. After these workshops, a selection of around 50 strategic suppliers submitted detailed information on their environmental performance to a dedicated internet platform.

Finally, having talked to 50 of its strategic suppliers about sustainability challenges in 2012, Sowind carried out its first environmental evaluations on 11 suppliers in 2013.

In the Sport & Lifestyle Division, PUMASafe provided PUMA suppliers in Bangladesh, China, Cambodia and Indonesia with technical expertise to help them reduce their environmental footprints. This public-private partnership between PUMA, H&M and DEG, the German entrepreneurial development cooperation, will span the 2013-2015 period.

Additionally, to tackle what is one of the most sensitive subjects in the sector, PUMA launched a very ambitious programme in 2012: the Better Wage programme, which aims to put in place fair wages at a number of its suppliers by 2015. The first part of this ambitious programme includes a research project, the Compensation Ladder research, which aims to evaluate suppliers' regional wage policies and compare them with benchmarks, such as Asian Floor Wage. The evaluation methodology used for pay scales was refined in 2013.

Three operational projects round out this first part of the programme. The training programme for the Human Resource Management System (HRMS) was set up at several suppliers in 2012 and 2013. The programme is currently run by the ILO and the Better Work initiative in Vietnam and Cambodia. Through the second project, union representatives at PUMA's pilot suppliers in Vietnam were also given individual training to improve their leadership skills. Finally, the goal

of the third Fair Wage Network Remediation project is to draw up and implement roadmaps to improve worker compensation. Since 2012 roadmaps have gradually been rolled out to the pilot supplier companies. Three Indonesian suppliers have already applied them, and the project will come to an end in 2014.

PUMA's commitment to the Zero Discharge of Hazardous Chemicals group (ZDHC) provides another good example of engagement and collaboration with suppliers. In 2011 PUMA publicly committed to remove all toxic residues from its entire production chain by 2020, as part of the Detox campaign launched by Greenpeace. PUMA is an active member of ZDHC which published a roadmap in 2013, clearly presenting the goals, expected results and key stages of the project to be completed by 2020. The ZDHC Benchmarking Report on the use of chemicals and the associated wastewater produced by 20 suppliers in Asia, was completed and published during summer 2013. The findings of the report helped ZDHC members to create an appropriately defined environmental audit tool which enabled PUMA to start auditing its strategic suppliers at the end of the year.

Finally, Stella McCartney is partner to Clean by Design, a National Resource Defence Council (NRDC) programme that aims to reduce the environmental impact of textile producers. The brand used NRDC methodology to pilot a project in Italy involving four weaving, printing and dyeing businesses, thus becoming the first company to implement the approach in Italy. Detailed audits carried out at the four sites focused on energy and water consumption, identifying potential annual savings of more than 140 MWh per site per annum.

Protecting human rights, combating corruption and ensuring social compliance

Kering follows the principles set out in its Code of ethics and the UN *Global Compact*. These documents are based on international reference texts, such as the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, the United Nations Convention on the Rights of the Child and the core conventions of the International Labour Organization. The Group is also committed to the respect of fundamental rights for women through its Foundation. It is essential for the Group to ensure that its suppliers respect its standards, and it has therefore included its supplier Charter in the new version of its Code of ethics.

As regards corruption, Kering prohibits any political, trade union, cultural or charitable financing from being carried out with a view to obtaining direct or indirect material, commercial or personal advantages. The Group respects all national and international regulations relating to the fight against direct or indirect corruption; the Group's Ethics Committees ensure respect for the Code of ethics and can be contacted by any employee over questions relating to corruption.

In order to make sure their commitments are reflected by their operations, the brands take specific steps to ensure respect for human rights. PUMA issued its first Code of Conduct in 1993. Since 2005 the brand has also issued PUMASafe pocket guides for its employees and suppliers. These guides present PUMA's social, environmental and health and safety standards. A Social Handbook is also available, with contact details to enable factory employees to reach the PUMASafe team directly in case of breaches of the PUMA Code of Conduct. PUMA's membership in the FLA (Fair Labor Association) means that third parties are also entitled to file official complaints with the FLA if they feel that there has been a breach of the Code. The brand has also signed up to the Protocol on Freedom of Association (FOA) in Indonesia, which helps to encourage its suppliers to respect the rights of unions, especially their capacity to negotiate collective bargaining agreements. These measures enabled it to receive 135 complaints directly from workers relating to breaches of the PUMASafe code. By working with its suppliers, PUMA's teams were able to resolve 77% of these complaints.

As regards social compliance within the supply chain, PUMA has operated an ambitious policy for many years and, as part of the PUMASafe programme, has a specific Reference Document known as the Social Handbook, which was first issued in 1999. The brand has also, since 2004, been working with the FLA (Fair Labor Association), an association dedicated to monitoring and implementing the required standards of working conditions at suppliers. PUMASafe has been certified by the Fair Labor Association since 2007. Additionally, as part of its commitments, PUMA has published updated lists of its suppliers since 2005.

2013 was also marked by the tragedy of the Rana Plaza garment factory collapse in Bangladesh. Although none of its direct or indirect suppliers were implicated in the event, PUMA was the first Sport & Lifestyle brand to sign up to the Bangladesh Accord, a multi-party initiative which aims to improve health and safety in the country's clothing and footwear industry. The brand also responded by launching a full safety review of the buildings used by its Asian suppliers and adding a specific section on building safety to its Health and Safety Handbook.

Meanwhile, in 2007 and 2009, respectively, Gucci and Bottega Veneta embarked on the process of obtaining SA 8000 (Social Accountability 8000) certification. This global standard takes into account not only the company itself, but also the companies in its production chain. It requires the certified company and its suppliers to respect nine corporate responsibility requirements relating to child labour, forced labour, health and safety, freedom of association and collective bargaining, discrimination, disciplinary practices, working hours, remuneration and management systems, and to set up a specific management system for this purpose. Certification is awarded by Social Accountability International (SAI) and Gucci has been a member of SAI's Consultative Committee since 2009. In 2013, all of Gucci's businesses (shoes, ready-to-wear,

silk, leather goods, jewellery and stores), Bottega Veneta's main businesses (ready-to-wear, jewellery, fine jewellery, shoes, leather goods and furniture) and Kering's international logistics platform for its Luxury brands (Luxury Goods International), had obtained SA 8000 certification.

Gucci also continued in 2013 to roll out an integrated management system to incorporate and track all its initiatives. Based on the standards for which it has gained certification (SA 8000, ISO 14001, OHSAS 18001), the system will enable the brand to monitor improvements it has made in terms of social responsibility, environmental performance and worker health and safety. Within this management system, six Committees reporting to Gucci's Sustainable Development Committee meet to discuss specific themes: SA 8000 certification, HSE, equality of opportunity and well-being, supply chain policies, consultative committee on sustainable development and sponsorship initiatives.

Meanwhile, Volcom has focused on its vendor Code of Conduct. This document is signed every year by all direct suppliers, and sets out a zero tolerance approach to child labour and forced labour, and also covers working conditions, freedom of association, wages and management cooperation with Volcom and its auditors. The audits conducted by Volcom also verify compliance with C-TPAT guidelines.

Brand supplier evaluation systems

The supplier evaluation systems put in place by PUMA, Gucci, Bottega Veneta and Volcom are based on specific approaches: PUMA's audits are performed by the PUMASafe team (Social Accountability and Fundamental Environmental Standards, a team of twelve internal auditors dedicated to these systems), whereas Gucci and Bottega Veneta rely on an external, independent audit firm. Volcom uses its own teams to carry out audits, but also calls on external firms and sometimes uses the results of audits carried out by other sector leaders.

PUMASafe ensures that its suppliers meet the strict requirements set by the PUMA Social Handbook. In 2013, 24 sites were removed from PUMA's supplier lists because they had failed to achieve a sufficient level of compliance. In addition to carrying out social audits which focus on the deficiencies of its suppliers, PUMA also works with other brands to identify concrete solutions to enable them to set up more responsible practices. The PUMASafe team conducted 411 audits in 2013, of which 349 related to direct suppliers, mainly in China (31.3%), but also in Vietnam (21.6%), Cambodia (11%), Indonesia (10.2%) and Bangladesh (7.6%). Overall, 56% of the suppliers audited obtained A or B+ ratings, while 14% failed the audit by obtaining a C or a D. More than 65% of the companies audited improved their rating in relation to their previous audit, thanks notably to the support provided by PUMA. The three main reasons for non-compliance related to health and safety, wages and freedom of association.

In 2013, an instance of the use of child labour was revealed by a PUMA audit of a site in China: PUMA's audit teams discovered that 78 of the 96 participants of a work placement scheme

organised at the site by the local school were under 16. The school had also failed to take adequate consideration of the educational objectives of the students, who were underpaid and housed in dangerous accommodation. Under PUMA's child labour protocol the PUMASafe team was able to take swift action to resolve the situation with site management. The work placement scheme was immediately terminated; the young workers were paid in accordance with the site's wage scales and also granted scholarships. The company then took financial responsibility for the students' food and education and adopted procedures to prevent any recurrence.

Gucci also runs an intense programme of social audits, carried out by external experts, who frequently operate on an unannounced basis. Audits are conducted for both direct suppliers and tier 2 suppliers. In order to roll out this strategy, Gucci has developed a global risk matrix and various evaluation tools, to provide good visibility in terms of production conditions. Of the 1,517 social audits conducted in 2013, 562 took into account social and environmental issues, which represents a 40% increase on the previous year. The number of suppliers audited remained stable, at 1,218 in 2013. After the years of commitment to its suppliers, the long-standing partnerships it has built with them and the stability of its supply chains, Gucci was

able to reduce the number of audits it carried out in 2013 while keeping the number of suppliers audited at the same level. The maturity of these supplier partnerships allowed Gucci to reduce the frequency of its social audits and devote more time to assisting its suppliers with sustainability issues, such as by expanding audits to include environmental themes and by working together on EP&L implementation.

Bottega Veneta continued to pursue its ambitious social audit policy. The total number of audits performed in 2013 came to 731, which is significant given that the brand has 406 active suppliers. For each case of non-compliance, the supplier has to set up an action plan which depends on the seriousness of the problem: serious violations must be resolved within a month, non-serious issues within three months and minor issues within six months. In December 2013, 544 cases of non-compliance (including 375 minor issues and non-serious violations) were thus in the process of being resolved. The vast majority related to health and safety.

Volcom's social audit programme covered 63 of its direct suppliers (or 84%) in 2013. These audits led to one outright delisting, while another site is to receive no further orders unless the follow-up audit results in an acceptable rating.

Number of audits performed by Kering in 2013 and 2012

	2013	2012	Change 2013/2012
Gucci	1,517	2,356	-36%
Bottega Veneta	731	686	+7%
PUMA	411	422	-3%
Volcom	63 ⁽¹⁾	N/A	-
Total number of social audits	2,722	3,464	-21%

(1) 10 audits were performed directly by the brand; 53 were conducted by partners.

4.4. *risk management and development of responsible products*

Kering's responsibility towards society extends across the value chain, and the Group is keen to help raise awareness of sustainability issues among consumers, while ensuring that its products respect their health and the environment.

Consumer health and safety

To ensure the safety of the products they sell to their customers, the Group's brands have put in place quality control procedures that comply with the strictest international consumer health and safety and environmental standards, such as REACH, US CPSIA, China SAC GB Standards, Japan Industrial Standards (JIS), etc.

In accordance with its Handbook for Environmental Standards, PUMA has banned the use of dozens of chemical substances deemed detrimental to human health and the environment and exceeds the current regulatory requirements. Substances such as certain heavy metals, phthalates, organic compounds, azodyes, chlorobenzenes, etc., are listed in its Restricted Substances List (RSL). The document also sets out the test procedures that need to be carried out to ensure RSL compliance and, where applicable, the maximum authorised levels for certain substances. The PUMA Handbook for Environmental Standards is distributed to the brand's suppliers who must in turn agree to respect the principles defined in the document.

Additionally, PUMA continued to participate in the ZDHC (Zero Discharge of Hazardous Chemicals) campaign launched in 2011, an initiative that aims to eliminate all hazardous chemical waste from production processes in the textile industry by 2020. ZDHC posts regular updates on the progress made with this programme on its website.

Similar steps have been taken by the Group's Luxury Division and these efforts are to be stepped up in 2014 with the introduction of a Group-level product compliance platform, which will define a common framework for all the luxury brands in order to strengthen the processes that verify product compliance with the regulations in force around the world. The aim will also be to ensure that materials (leather, fabrics, metal, etc.) and compounds used in products respect the RSL, end products comply with physical and mechanical testing requirements, and customer communication (composition, usage, maintenance, etc.) is of a high standard.

Developing responsible products: a long-term strategy

Overall, Kering's sustainability strategy seeks to influence the way in which products are designed as far up the supply chain as possible. This is due to two key factors:

- the findings of the first EP&Ls carried out by the Group clearly indicate that the biggest environmental concerns are located far upstream at the raw materials end of the value chain (farming, cultivation and mining), rather than at the Group's own operations and sites;
- designing more environmentally friendly products is challenging without sustainable materials and processes. In terms of sustainability, the most important advances are likely to be achieved in sourcing and by focusing on the processing technologies used in the supply chain.

In 2013, therefore, the brands in part concentrated their efforts on gradually upgrading sourcing and processes. Given the time it takes to effect such a major transformation, the portion of the Group's production represented by more sustainable products is still growing. Nevertheless, the Group's brands strive each year to create new lines of sustainable products, as pilot ranges to test a desired result, or as consumer awareness-raising to cultivate the market's appetite for sustainable products, or with a view to sharing the results of their labours with charities or associations with which they wish to collaborate.

With leather accounting for a significant portion of the materials used by the Group and having major environmental impact, notably through the tanning process, in 2013 Bottega Veneta and Gucci experimented with innovative tanning techniques that require no heavy metals and save almost 30% of water. The first handbags produced from leather processed using this new technique are to go on sale in 2014.

Among the other noteworthy initiatives involving leather, Gucci launched its first "zero deforestation" handbag collection in 2013, in partnership with EcoAge. Having introduced traceability along the entire length of its value chain, Gucci was able to certify that the Brazilian farms that raise the livestock that produces the leather from which its bags are produced do not contribute to the deforestation of the Amazon rainforest. This represents a good way of addressing the destruction of rare ecosystems while supporting Brazilian farmers.

At the same time, the metals used in footwear, leather goods and ready-to-wear have come under close examination: Gucci, for example, is using an increasing amount of zamak (a family of alloys consisting of zinc, aluminium, magnesium and sometimes copper) as a substitute for brass. This new

material is already used to make all the accessories in the children's collections, and is now being tested for introduction into the women's and men's shoe collections. Additionally, all Gucci's children's ready-to-wear collections are now nickel-free, in line with EU Standard EN 1811. Finally, in 2013 the brand joined forces with its main suppliers to analyse the possibility of introducing recycled metals into its collections and to investigate the traceability of these materials.

Another particularly important resource for the Group, cotton, is also the subject of a large number of initiatives. In 2013, 53% of the cotton used by Stella McCartney was organic. Organic cotton was also chosen by Volcom for its *VCo-Logical* collections. Bottega Veneta is considering introducing organic cotton for several products in 2014, and in particular GOTS-certified fabrics (Global Organic Textile Standard).

Meanwhile, 38% of the volume of cotton used by PUMA in 2013 was organic. Since India is a major supplier of organic cotton, PUMA has joined forces with the Textile Exchange NGO and the firm PE International to conduct the first research into the lifecycle of organic cotton. The brand was then able to contribute to the exchange of knowledge and data and streamline discussions on the subject by providing clear, quantified data (organic cotton is 40% less water-intensive and 80% less energy-intensive than non-organic cotton).

In order to meet the Group's PVC elimination targets, the brands are developing pilot products to test the use of bio-plastics in their collections. Sergio Rossi is currently testing a new bio-plastic to replace the PVC used in its *Cléo* sandals collection. Meanwhile, Gucci has opted to replace PVC with polyurethane to coat the fabrics used in its handbags and footwear, and Bottega Veneta has taken the same route for its *Marco Polo* handbag which now uses polyurethane. Bottega Veneta also uses Apinat bio-plastic for the soles of its sports shoes. These initiatives are the result of research carried out a long way upstream by the Idea Lab on Alternative Plastics set up by Kering, which is now benefiting all the Group's brands. Nine of Kering's brands were present at three meetings held in 2013, the last of which took place in October at Düsseldorf's international trade fair for plastics (K-fair), where the teams met major players in the plastics industry and discovered their latest innovations. At the same time, Kering teamed up with the Fraunhofer Institute to develop an innovative method for comparing plastics based on sustainability criteria that now enables the brands to select the most appropriate plastics.

Having won Kering's 2012/13 sustainability award for innovation and sustainability with its Sustainable Wool project, Stella McCartney spent 2013 setting up supplier listings and sourcing for this new sustainable fabric which originates from Patagonia in Argentina and is certified by Ovis XXI and Nature Conservancy. The first ready-to-wear pieces in this fabric will be showcased in the autumn 2014 collection.

With the aim of taking on board environmental considerations as far upstream as possible in the product design process, in October 2013 Volcom set up a working group made up of its product development team and led by Textile Exchange, to focus on developing more sustainable garments. This "lifecycle" approach also adopted by PUMA led the brand to receive recognition from the Cradle-to-Cradle Institute in its annual awards, when PUMA was named 2013 Innovator of the Year for its *InCYLE* collection.

To capitalise on these initial successes and to systematise research into ecological alternatives for each product, the Group's brands are able to draw on the support of the Materials Innovation Lab (MIL) developed by Kering. The objective of this laboratory based in northern Italy is to offer a range of sustainable materials to assist the development of their collections. Working with the Sustainability Department, the MIL team shares its expertise with the brands and works with strategic suppliers to identify materials that are better for the environment.

Beyond the products themselves, the brands also strive to reduce the environmental footprint of their packaging. At Gucci and Bottega Veneta all packaging and printed communications are already FSC-certified, and Volcom started following suit in 2013 by using only recycled materials for its main product packaging and catalogues. Also in 2013, Yves Saint Laurent switched all its cardboard boxes and paper carrier bags to 100% FSC- or PEFC-certified card, which is fully recyclable and derived from ECF pulp (elemental chlorine free) last year.

In terms of awareness-raising, Volcom continued to educate and involve its markets and customers. For many years, Volcom has organised surfing events that qualify for Deep Blue Surfing Event certification, which involves planning all aspects of the entire event with sustainability in mind: reducing emissions at source, collecting and sorting waste, offering only recycled goods and organic, locally farmed, seasonal foods, calculating and offsetting carbon emissions linked to participant and spectator travel to the event, selling charity products to raise money for local Hawaiian initiatives, involving local schools in the preparation of the events, cleaning up the beaches in partnership with local NGOs, etc. In addition to wanting to make these events as eco-conscious as possible, the initiatives provide Volcom with a powerful way of educating people and raising awareness of sustainability challenges.

Under Volcom's *I:CO* programme, recycling bins have been placed in certain stores to collect clothes that its customers no longer wear.

Similarly, PUMA established its Bring Me Back programme in 2013 which provides collection points in all its stores and points of sale to allow customers to send unwanted clothing, footwear and accessories for recycling.

4.5. *initiatives carried out by the Kering Foundation and sponsorship programmes*

Kering Corporate Foundation: Five years campaigning on behalf of women

Established in 2008, the Kering Foundation – formerly PPR Corporate Foundation for Women's Dignity and Rights – has two objectives: to combat violence against women and to support initiatives to empower women. By pursuing one of the eight millennium development goals set out by the UN, "To promote gender equality and empower women", the Foundation commits Kering to a key issue that ties in with its activities and customers and an area in which the Group can play a key role alongside governments and communities.

In August 2013 the Kering Foundation completed its first five-year mandate having carried out an initial cycle of initiatives that helped more than 140,000 women, in partnership with 47 NGOs worldwide.

An Activity Report published in the summer of 2013 and available on the Group's website looks back at five years of action and highlights a number of key long-term partnerships. The report provides facts and figures on violence against women and the progress made so far, alongside testimonials from employees, experts, associations and beneficiaries explaining the impact of these projects.

At its meeting on June 26, 2013, the Board of Directors extended the mandate of the Kering Foundation for a further five years (2013-2018). To mark the occasion, the Foundation is strengthening its actions to combat violence against women under a new programme with a new tagline: "Stop violence. Improve women's lives".

To be consistent with the Group's new identity and to increase its global impact, the Foundation is refocusing its initiatives on three regions: the Americas, Western Europe and Asia. In each of these regions the Foundation will focus on a main cause (sexual violence, harmful traditional practices and domestic violence, respectively) and on targeted partnerships with NGOs and social entrepreneurs. The Group's local positioning and the involvement of its staff strengthen the Foundation's influence, leading to stronger awareness and more effective prevention of violence against women.

• **Working alongside NGOs**

The Foundation supports projects run by local and international organisations that aim to stamp out violence against women. In 2013 it also enabled 21 employees to participate in community projects for two weeks as part of their paid leave, so that they could contribute their time and skills to partner associations.

The Foundation has formed strong relationships with its partners to secure the future of their projects and their impacts. In 2013 the Foundation continued to support four projects under partnerships set up in 2009 and 2011.

For example, the Kering Foundation Board of Directors renewed the partnership that began in 2009 with AFESIP in Cambodia, which favours a broad approach to combating violence through a prevention programme for trafficked women and offering shelter and training to help them to find a permanent way out of prostitution.

Renewed support for the *Enda el Alto* association, which offers shelter, care and training for homeless girls in Bolivia, allowed one Kering employee to boost the skills of the team of social workers there and help them expand their workshop by organising the production line, calculating costs and optimising management.

The Foundation also decided in 2013 to support a research project led by Human Rights Watch into violence committed against women fleeing the Syrian conflict.

• **Partnering social entrepreneurs acting for the benefit of women**

Combining economic efficiency with social objectives, social entrepreneurs are key players in the development of innovative solutions. The Foundation helps them to grow their projects by providing €15,000 in financial assistance as well as the skills of the Group's employees.

In 2013 the Foundation continued to support the three prizewinners of the 2012 Social Entrepreneur Awards:

- **AFRIPads**, a business that encourages the educational and vocational integration of girls in Uganda by producing washable sanitary pads. In addition to receiving guidance on human resources procedures, the managers received training during a four-day assignment at the site in the autumn of 2013;
- **Filles du Facteur**, which supports the empowerment of women producing crocheted accessories from recycled plastic bags, and is supported by a Kering staff member. In addition to providing guidance on brand positioning and distribution strategy throughout the year, the employee went to Burkina Faso in November 2013 to give a training course to the women that produce the accessories;
- **Relmu Wital**, a cooperative preserving the ancestral expertise of the Mapuche women weavers in Chile, and is supported by a Volcom employee. His help with the redefinition of the product offering and marketing strategy gave rise to the "Give Back Series", a collection of 1,200 hats that went on sale at Volcom stores around the world.

Over the summer, moreover, after the Kering Foundation put it into contact with *Coup de Pouce*, an association that organises community projects, the cooperative received 36 volunteers, including five Kering employees, to build workshops for six weavers and improve their working conditions.

- **Raising awareness among staff and the public in association with the Group's brands**

To combat violence against women it is necessary to build awareness with a view to changing social representations and behaviour: the Kering Foundation has made raising awareness among its employees and the general public a key part of its programme.

When François-Henri Pinault joined forces with *Fédération Nationale Solidarité Femmes* (FNSF) in 2010 to sign a Charter to prevent and combat domestic violence, the Group pledged to inform and raise awareness of the issue among its employees in France: since 2010, 120 employees been trained in how to put potential victims into contact with the right organisations.

In 2013, the Kering Foundation extended this commitment to Italy and selected the *Donne in Rete contro la violenza* (Di.Re) association as its national partner. After receiving instruction from FNSF's internal trainer, representatives from D. i.Re were sent to Gucci as part of a pilot scheme which in turn saw 80 employees receive training. The success of this scheme led François-Henri Pinault to sign the "*Carta sulla prevenzione e la lotta contro le violenze alle donne*" domestic violence Charter on November 14, 2013. This Charter will now be distributed to more than 6,000 employees based in Italy.

To mark International Women's Day on March 8, the Kering Foundation supported "*À Travers Elles*", a photography exhibition by Carole Mathieu, in partnership with Fnac. The exhibition featured portraits of French actresses portraying the emotions of victims of domestic violence.

On November 25, International Day for the elimination of violence against women, the Foundation carried out a number of awareness-raising events in partnership with the brands:

- for the second year running, Stella McCartney designed a White Ribbon for Women badge in partnership with the Kering Foundation. On November 22-30, a limited edition metal badge was given to every customer who made a purchase in one of Kering's luxury brands' 60 stores in Europe. Internet users were able to share the badge virtually using social media. In total, the campaign reached 55 million people, including 16 million in China, via social networks like Twitter, Facebook, LinkedIn and Sina Weibo;
- the Kering Foundation also supported and broadcast the new FNSF campaign in France entitled "The Phone", a short film against domestic violence made by Ivan Pierens.

For the third year running, the Kering Foundation joined the Gucci Tribeca Documentary Fund to present three Spotlighting Women Documentary Awards. The winning film projects were chosen to highlight the extraordinary fates and contributions of women around the world:

- *Democracy*, by Andreas Dalsgaard, Nicolas Servide and Viviana Gomez, which follows the leader of a corruption task force working within the Colombian Congress;
- *Disruption*, by Pamela Yates, about a group of activists in Latin America fighting poverty through the economic emancipation of women;

- *What Tomorrow Brings*, by Beth Murphy, which tells the story of the creation of the first girls' school in a remote Afghan village.

The three winners collectively received the total sum of USD 50,000 and support from the Tribeca Film Institute to finalise and promote their films.

The issues that motivate our brands to take action

The support of the brands provides real leverage to partnership projects set up in the local community, by giving them access to professional skills and expertise. Although all the Group's brands develop their own community initiatives to tie in with their activities and their locations, the Kering Foundation encourages the sharing of best practice and offers support for the brands in developing initiatives for women.

- **Kering's Luxury Division supports women's empowerment projects, including education, healthcare and culture**

The Luxury Division brands have shown their attachment to projects supporting women in various ways.

In February 2013 Gucci launched the Chime For Change movement to support access to education, healthcare and justice for girls and women around the world. On June 1, a concert presenting artists like Beyoncé, Jennifer Lopez and Madonna was held with the aim of raising awareness and collecting funds. It raised USD 4.4 million via Catapult, the first crowd-funding platform dedicated to helping women. So far the movement has worked with 87 non-profit organisations and helped to support 260 projects located in 81 countries. Gucci also raised USD 19,600 for Equality Now, an organisation that campaigns against gender discrimination worldwide. Meanwhile, Boucheron donated €35,000 to the National Society for the Prevention of Cruelty to Children (NSPC) in the United Kingdom in 2013, which notably launched the country's first helpline for victims of genital mutilation.

The Group's brands also supported medical research, especially into cancer and AIDS. These two themes were actively supported by Bottega Veneta and Sergio Rossi, which donated more than €30,000 to various organisations, including the Italian association *Lega Italiana per la Lotta contro i Tumori* (LILT), which conducts research into breast cancer. Children's health was also a strong focus for the brands. Gucci donated USD 273,000 to China Children and Teenagers' Foundation (CCTF) to help disadvantaged children suffering from amblyopia, a condition that leads to impaired vision. Stella McCartney also raised funds in support of medical research, notably to help children, by donating more than USD 15,000 in total. Saint Laurent and Bottega Veneta attended a charity dinner organised by the association *Un Avenir pour les Enfants du Monde* (AEM): a total of €16,690 was contributed by the two brands to support access to healthcare for hundreds of children in Rwanda.

Child protection and education also remain a priority for Luxury Division brands. Gucci continued its partnership with UNICEF, having donated a total of USD 18 million since 2005, including USD 1.5 million this year, notably for the *Schools for Africa* and *Schools for Asia* programmes. 2013 marks Gucci's ninth year of support for these programmes which help to provide access to education for children in Sub-Saharan Africa and Asia. Meanwhile, after seven years of commitment to Artists for Peace and Justice, Brioni donated a further €50,000 to this association which aims to provide education for children living in the poorest areas of Haiti. Alexander McQueen gave a total of USD 115,000 in support of children's health and education thanks to an auction organised by Save the Children and the Crystal Charity lunch and fashion show. The Girard-Perregaux and JEANRICHARD brands also contributed €36,800 to children's charities. Specifically, Girard-Perregaux supported the Canadian Steve Nash Foundation, which helps disadvantaged children, while JEANRICHARD continued the partnership it began in 2012 with the Kind Surf Foundation, which organises surfing programmes for underprivileged children.

The Luxury Division brands demonstrated a strong commitment to cultural initiatives in 2013. Boucheron, which became a patron of the arts by partnering the *Comédie Française* in 2011, donated €30,000 to the Paris theatre and contributed €90,000 towards the organisation of its fourth ball. At the international level, Boucheron also donated €300,000 to support the work of Japanese photographer Hiroshi Sugimoto, who also produced a play using the traditional art of puppetry known as *bunraku*, which is now on UNESCO's Intangible Cultural Heritage list. The University of Los Angeles' Hammer Museum has received €4,000 in sponsorship from Stella McCartney for its Kids' Art Museum Project (KAMP), as well as €157,200 from Bottega Veneta. In addition, Bottega Veneta supported photographer Alex Prager, by providing €31,450 in sponsorship to enable him to present his first exhibition at the Corcoran Gallery in Washington. Gucci continued its commitment to cinema for the ninth consecutive year, by donating USD 250,000 to the Film Foundation which supports the restoration of old film archives, as well as USD 117,900 to the Tribeca Film Institute,

through the Gucci Tribeca Documentary Fund, which supports film-makers that make documentaries highlighting social themes and promotes film-making. The Group's brands also supported the art of fashion: Brioni reaffirmed its connection to the Abruzzo region of Italy by contributing €25,000 to the Museum of Fashion Foundation in Penne, while Saint Laurent showed its commitment to young designers by supporting the *Association Nationale pour le Développement des Arts de la Mode* (ANDAM), by providing €40,000 in funding. Finally, Saint Laurent, Stella McCartney and Kering donated nearly USD 170,000 to the Metropolitan Museum Costume Institute Ball.

- **Kering Sport & Lifestyle: health, sport and solidarity**

Volcom continued its "*Let the Kids Ride Free*" campaign launched 12 years ago, offering children and teenagers opportunities to take part in surf, snowboard and skateboard competitions for free. The sports brand invested USD 685,000 in the campaign in 2013 and reached 7,000 young people. Young people aged between nine and 16 can also take part in the Summer Soul Surf Camp to experience surfing and learn about water sports safety. The brand also supported numerous environmental initiatives, including the "1% for the Planet" organisation which it has supported since 2008, by donating USD 35,000 this year. Finally, 135 women weavers from the Relmu Wital association in Chile benefited from the guidance of a Volcom employee for one year as part of the mentoring programme organised by the Kering Foundation. This partnership also led to the creation of the "*Give Back Series*", a collection of 1,200 hats made by the Mapuche women, which were "Fair Trade" certified and distributed in Volcom stores all over the world.

In 2013, PUMA reran Project Pink, its breast cancer awareness-raising campaign. The brand paid all profits from the sale of Project Pink garments to the Dr Susan Love Research Foundation – selected by online voters – amounting to a total contribution of USD 50,000. PUMA also continued to support victims of natural disasters through its Charity Cat organisation. This year, PUMA paid out €25,000 to victims of flooding in Germany and the typhoon in the Philippines.

5. *cross-reference table*

pursuant to articles r.225-104 and r.225-105 of the french commercial code (code de commerce)

Justification of exclusions

This report contains information on all social, environmental and societal issues required by the decree governing the application of Article 225 of the Grenelle 2 law, with the exception of:

- noise, which is not applicable to Kering's sectors of activity;

- the amount of provisions and guarantees for environmental risk, which is not consolidated at Group level and concerns only a very small number of sites (tanneries and production sites).

This information relates to the activities and brands of the Group's Luxury and Sport & Lifestyle Divisions. Subsidiaries whose activities are considered to be discontinued under IFRS rules have been deliberately excluded from the scope of the published information.

Article	Description	Section of the Reference Document
1° Employee information		
§ 1°a	Total number of employees and breakdown of employees by gender, age and region	Section 2.1.
	Hires and redundancies	Section 2.1.
	Remuneration and changes in remuneration	Section 2.1.
§ 1°b	Organisation of working time	Section 2.1.
	Absenteeism	Section 2.1.
§ 1°c	Organisation of social dialogue, procedures for informing, consulting and negotiating with employees	Section 2.6.
	Collective bargaining agreements	Section 2.6.
§ 1°d	Health and safety in the workplace	Section 2.5.
	Bargaining agreements signed with trade unions and employee representatives concerning health and safety in the workplace	Section 2.5.
	Work-related accidents, in particular frequency and severity, and work-related illnesses	Section 2.5.
§ 1°e	Training policies	Section 2.3.
	Total number of training hours	Section 2.3.
§ 1°f	Measures taken to promote gender equality	Section 2.4.
	Measures taken to promote the employment and integration of people with disabilities	Section 2.4.
	Policy concerning the fight against discrimination	Section 2.4.
§ 1°g	Promotion of and compliance with the core conventions of the International Labour Organisation as regards:	
	respect for the freedom of association and the right to collective bargaining;	Sections 2.2. and 4.3.
	the elimination of discrimination in respect of employment and occupation;	Section 2.4.
	the elimination of forced and compulsory labour;	Sections 2.2. and 4.3.
	the effective abolition of child labour.	Sections 2.2. and 4.3.

Article	Description	Section of the Reference Document
2° Environmental information		
§ 2°a	Organisation of steps taken to address environmental issues and environmental assessment and certification procedures	Sections 1.2. and 3.1.
	Initiatives taken to train and raise awareness among employees on environmental protection	Sections 3.1. and 4.3.
	Resources assigned to the prevention of environmental risks and pollution	Data not available. See "Justification of exclusions" section above.
	Amount of provisions and guarantees covering environmental risks	Data not available. See "Justification of exclusions" section above.
§ 2°b	Measures taken to prevent, reduce and rectify emissions into air, water and soil that have a significant impact on the environment	Sections 3.3. to 3.6.
	Measures taken to prevent, recycle and eliminate waste	Section 3.5.
	Steps taken to address noise and any other form of pollution relating to a specific activity	Data not available. See "Justification of exclusions" section above.
§ 2°c	Water consumption and supply of water in accordance with local regulations	Section 3.4.
	Raw materials consumption and measures taken to promote more efficient use	Section 3.4.
	Energy consumption and measures taken to improve energy efficiency and use of renewable energy	Section 3.3.
	Land use	Section 3.4.
§ 2°d	Greenhouse gas emissions	Section 3.3.
	Adapting to the consequences of climate change	Section 3.3.
§ 2°e	Measures taken to protect and develop biodiversity	Section 3.6.
3° Employee information		
§ 3°a	Community, economic and social impact with respect to employment and regional development	Section 4.1.
	Community, economic and social impact on local residents	Section 4.1.
§ 3°b	Dialogue with stakeholders	Sections 4.2. and 4.3.
	Partnership and sponsorship initiatives	Section 4.5.
§ 3°c	Incorporating social and environmental issues in the purchasing policy	Sections 4.3. and 4.4.
	Scale of outsourcing and steps taken to raise awareness among suppliers and subcontractors with respect to corporate social responsibility	Section 4.3.
§ 3°d	Steps taken to fight against corruption	Sections 2.2. and 4.3.
	Measures taken to promote consumer health and safety	Section 4.4.
§ 3°e	Steps taken for the protection of human rights	Sections 2.2. and 4.3.

6. *cross-reference table: global compact*

Principe	Description	Section of the Reference Document
Human rights		
1	Supporting and respecting the protection of internationally proclaimed human rights	Section 2.2. Section 2.4. Section 4.3.
2	Ensuring that Kering is not complicit in human rights abuses	Section 2.2. Section 2.4. Section 4.3.
Labour		
3	Upholding the freedom of association and the effective recognition of the right to collective bargaining	Section 2.2. Section 2.6. Section 4.3.
4	Eliminating all forms of forced and compulsory labour	Section 2.2. Section 4.3.
5	Ensuring the effective abolition of child labour	Section 2.2. Section 4.3.
6	Eliminating discrimination in respect of employment and occupation	Sections 2.4 and 4.3.
Environment		
7	Supporting a precautionary approach to environmental challenges	Section 2.2. Section 3.1. Section 3.2.
8	Undertaking initiatives to promote greater environmental responsibility	Sections 3. and 4.
9	Encouraging the development and diffusion of environmentally friendly technologies	Section 3. Section 4.4.
Anti-corruption		
10	Working against corruption in all its forms, including extortion and bribery	Section 2.2. Section 4.3.

7. report of the statutory auditors, appointed as independent third-parties, on the consolidated environmental, social and societal information published in the management report

This is a free translation into English of the original report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Kering, and appointed as independent third-parties, for whom the application request for accreditation request has been approved by the French National Accreditation Body (COFRAC) on September 12, 2013 for Deloitte & Associés and on October 28, 2013 for KPMG, we hereby present you with our report on the social, environmental and societal information prepared for the year ended December 31, 2013 presented in the Management Report included in the Reference Document (hereinafter the “CSR Information”), pursuant to Article L.225-102-1 of the French Commercial Code.

Responsibility of the company

The Board of Directors of Kering is responsible for preparing a Management Report including CSR Information in accordance with the provisions of Article R. 225-105-1 of the French Commercial Code, prepared in accordance with the reporting protocols used by the company (hereafter the “Reporting Protocols”), which are available on request from the company's Sustainability and Human Resources Departments and for which a summary is presented on the Group internet site (www.kering.com).

Independence and quality control

Our independence is defined by regulatory texts, the profession's Code of ethics as well as by the provisions set forth in Article L. 822-11 of the French Commercial Code. Furthermore, we have set up a quality control system that includes the documented policies and procedures designed to ensure compliance with rules of ethics, professional auditing standards and the applicable legal texts and regulations.

Responsibility of the Statutory Auditors

Based on our work, our responsibility is:

- to attest that the required CSR Information is presented in the Management Report or, in the event of omission, is explained pursuant to the third paragraph of Article R. 225-105 of the French Commercial Code (Statement of completeness of the CSR information);
- to express limited assurance on the fact that, taken as a whole, the CSR Information is presented fairly, in all material aspects, in accordance with the adopted Reporting Protocols (Formed conclusion on the fair presentation of the CSR Information).

Our work was carried out by a team of nine people between December 2013 and March 2014. To assist us in conducting our work, we referred to our corporate responsibility experts.

We conducted the following procedures in accordance with professional auditing standards applicable in France, with the order of May 13, 2013 determining the methodology according to which the independent third party entity conducts its assignment and, with regard to the formed conclusion on the fair presentation of the Information, with the ISAE (International Standard on Assurance Engagements) 3000⁽¹⁾.

⁽¹⁾ ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

1. *Statement of completeness of the CSR Information*

Based on interviews with management, we familiarized ourselves with the Group's sustainable development strategy, with regard to the social and environmental impacts of the company's business and its societal commitments and, where appropriate, any resulting actions or programs.

We have compared the CSR Information presented in the Management Report with the list set forth in Article R. 225-105-1 of the French Commercial Code.

In the event of omission of certain consolidated information, we have verified that explanations were provided in accordance with the third paragraph of the Article R. 225-105 of the French Commercial Code.

We have verified that the CSR Information covered the consolidated scope, i.e., the company and its subsidiaries within the meaning of Article L. 233-1 of the French Commercial Code and the companies that it controls within the meaning of Article L. 233-3 of the French Commercial Code, subject to the limits set forth in section 5 of the Chapter 3 of the 2013 Reference Document and in the environmental and social methodological summaries, available on the Kering Internet site (www.kering.com).

Based on these procedures and considering the limitations mentioned above, we attest that the required CSR Information is presented in the Management Report.

2. *Limited assurance on the fair presentation of the CSR Information*

Nature and scope of procedures

We conducted around twenty interviews with thirty people responsible for preparing the CSR Information in the departments in charge of the CSR Information collection process and, when appropriate, those responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Reporting Protocols with respect to their relevance, completeness, reliability, neutrality and understandability, taking into consideration, when relevant, the sector's best practices;
- verify that a data-collection, compilation, processing and control procedure has been implemented to ensure the completeness and consistency of the CSR Information and review the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of the tests and controls according to the nature and significance of the CSR Information with regard to the company's characteristics, the social and environmental challenges of its activities, its sustainable development strategies and the sector's best practices.

Concerning the CSR Information that we have considered to be most important⁽¹⁾:

- for the consolidating entity, we consulted the documentary sources and conducted interviews to corroborate the qualitative information (organization, policies, actions), we performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the data consolidation, and we verified their consistency with the other information presented in the Management Report;
- for a representative sample of entities that we have selected⁽²⁾ according to their activity, their contribution to the consolidated indicators, their location and a risk analysis, we held interviews to verify the correct application of the procedures and performed substantive tests using sampling techniques, consisting in verifying the calculations made and reconciling the data with supporting evidence. The selected sample represented 29% of the Group headcount and between 23% and 100% of the environmental quantitative information.

(1) The relevant quantitative and qualitative information is presented in Appendix.

(2) Puma Germany, Puma USA, Puma Argentina, Gucci Italy, Luxury Goods International (Gucci), Gucci USA, Bottega Veneta Italy, Saint Laurent France, Kering Foundation, Volcom, Boucheron.

Regarding the other consolidated CSR Information, we have assessed its consistency in relation to our understanding of the Group.

Finally, we have assessed the relevance of the explanations relating to, where necessary, the total or partial omission of certain information.

We believe that the sampling methods and sizes of the samples we have used in exercising our professional judgment enable us to express limited assurance; a higher level of assurance would have required more in-depth verifications. Due to the use of sampling techniques and the other limits inherent to the operations of any information and internal control system, the risk that a material anomaly be identified in the CSR Information cannot be totally eliminated.

Conclusion

Based on our work, we did not identify any material anomalies likely to call into question the fact that the CSR Information, taken as a whole, is presented fairly, in accordance with the Reporting Protocols.

Paris La Défense and Neuilly-sur-Seine, 31 March 2014

French original signed by:

KPMG Audit		Deloitte & Associés
<i>Département de KPMG SA</i>		
Hervé Chopin	Philippe Arnaud	Antoine de Riedmatten
Partner	Partner	Partner
	Climate Change & Sustainability Services	

appendix: csr information considered the most important with regard to kering's activities

Quantitative information

Total number of employees and breakdown by gender, manager/non-manager and contracts
 Breakdown of fixed-term and permanent contracts among new hires
 Breakdown of permanent employee departures by reason
 Number of employees trained
 Number of training hours
 Energy consumption
 CO₂ emissions related to energy consumption and B to B transport
 Industrial water consumption
 Number of women supported by the Kering Foundation
 Number of social audits

Qualitative information

Corporate governance for sustainability
 Distinctions and presence in Socially Responsible Investment indexes
 Launch of a new platform dedicated to mobility and professional development
 Creation of the Materials Innovation Lab (MIL)
 Communication of a new enriched version of Kering's Code of ethics.
 Social benefits within Gucci (Gucci Corporate Welfare Plan) and Bottega Veneta (Bottega Veneta for me)
 Kering University actions
 Integration programs (Gucci experience and Bottega Veneta core)
 International leadership training program (ILP) of PUMA ("People@PUMA")
 Leadership program of Bottega Veneta
 Goals of Well-being program of PUMA
 Distinction "Great to place to work" for Bottega Veneta in Italy
 Sustainability leads and network of managers dedicated to sustainability issues at Saint Laurent and Bottega Veneta
 Deep Blue Surfing Event certification given to two surf competitions organized by Volcom
 Gucci integrated management system (SA8000, ISO14001, OHSAS18001 certification)
 Use of renewable energy at Saint Laurent and Bottega Veneta
 Energy efficiency program at Boucheron
 Certified (FSC or PEFC) packaging at Saint Laurent
 Second life recycle and Golden Rules programs at Saint Laurent
 Reuse of scrap leather at Gucci and Bottega Veneta
 Responsible Jewellery Council certification at Gucci, Bottega Veneta and Boucheron
 Deploying the Environmental Profit & Loss account (EP&L) across group brands

chapter 4

corporate governance

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1. *kering governance*

At the Combined General Meeting on May 19, 2005, the shareholders adopted the new Articles of Association of PPR (since renamed Kering) establishing a system of management with a Board of Directors instead of a Supervisory Board and an Executive Board. François-Henri Pinault is Chairman of the Board of Directors and Chief Executive Officer of the Company.

The Board opted to combine the roles of Chairman of the Board and Chief Executive Officer and retained this option following the renewal by the Combined General Meeting on June 18, 2013 of the directorship of François-Henri Pinault, who is both related to the controlling shareholder and very involved in conducting the business of the Group of which he has very strong in-depth knowledge and experience.

The Combined General Meeting on June 18, 2013 renewed the term of office of Jean-François Palus, Group Managing Director of the Kering group, as a Director for four years.

The Company refers to the Corporate Governance Code of Listed Corporations resulting from the consolidation of the October 2003 AFEP and MEDEF report, the January 2007 and October 2008 AFEP and MEDEF recommendations on the remuneration of Directors and executive corporate officers and the April 2010 AFEP-MEDEF recommendation on boosting the representation of women in the boardroom, which was revised in June 2013 (the revised AFEP-MEDEF Code). The Board of Directors has members from around the world with eleven members of French, German and Italian nationalities. Four Directors are women. In 2013, five of the eleven Directors were independent with regard to the criteria presented in the revised AFEP-MEDEF Code.

Mr. François Pinault is Honorary Chairman but is not a Director.

The operating rules and procedures of the Board of Directors are defined by law, the Company's Articles of Association, the internal rules of the Board and the specialised Committees provided for in those rules (see Chairman's report, page 134).

The provisions of the Company's Articles of Association regarding Directors do not in general deviate from the basic legal standards. There are special provisions for the term of office of Directors (four years, renewable), the age limit (no more than two-thirds of the Directors may be over 70) and the minimum number of shares that each Director must own (500).

In order to avoid having to reappoint all Board members at the same time and to streamline the reappointment process, the Combined General Meeting on May 7, 2009 amended the Company's Articles of Association in order to implement a staggered renewal of the Board of Directors.

The Directors' duties and individual remuneration are described below.

2. information on directors and executive corporate officers

As of December 31, 2013, the Board of Directors was composed of eleven members, five of whom were independent Directors with regards to the criteria presented in the revised AFEP-MEDEF Code.

There are no employee-elected Directors.

List of members of the Board of Directors with information on their positions in other companies

The following information is presented separately for each Director:

- professional experience and expertise in the area of business management;
- directorships and positions held in 2013;
- other directorships and positions held in the last five years.

Among Kering's Directors and executive corporate officers, only François-Henri Pinault, Jean-François Palus, Patricia Barbizet and Jochen Zeitz hold or have held legal representative or corporate executive functions in the Group's main subsidiaries.

François-Henri Pinault

Born on May 28, 1962

Kering: 10, avenue Hoche, 75008 Paris

Chairman and Chief Executive Officer

A graduate of HEC, François-Henri Pinault joined the Pinault group in 1987 where he had various responsibilities in the main subsidiaries of the Group. After starting off as a salesman in the Évreux branch of Pinault Distribution, a subsidiary specialised in wood importation and distribution, in 1988 he set up said company's purchasing group for which he was responsible until September 1989.

Appointed Chief Executive Officer of France Bois Industries, the Company comprising the industrial activities of the Pinault group, he managed the 14 plants of this subsidiary until December 1990, when he returned to Pinault Distribution to become Chairman. In 1993, his responsibilities were broadened upon his appointment as Chairman of Cfao and as member of the Executive Board of Pinault Printemps Redoute. Four years later, he was appointed Chairman and Chief Executive Officer of Fnac, a position he held until February 2000. He

was then appointed Deputy Chief Executive Officer of Pinault Printemps Redoute with responsibility for developing the Group's Internet activities. François-Henri Pinault has been a member of the Board of Directors of Bouygues SA since December 1998. He became the co-manager of Financière Pinault in 2000 and was appointed Chairman of the Artémis group in 2003. In 2005, he was appointed Chairman of the Executive Board and then Chairman and Chief Executive Officer of PPR, since renamed Kering.

After serving as Chairman of the Executive Board of PPR (from March 21, 2005 to May 19, 2005), Vice-Chairman of the Supervisory Board (from May 22, 2003 to March 21, 2005), and member of the Supervisory Board (from January 17, 2001), François-Henri Pinault has been the Chairman and Chief Executive Officer of Kering since May 19, 2005. Following the Combined General Meeting on June 18, 2013, the Board of Directors renewed his term of office as Chairman and Chief Executive Officer for the duration of his directorship which will expire at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2016.

Other directorships and positions held as of December 31, 2013:

Position	Company	Country	Start 1 st term of office
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at the level of the majority shareholder group:

Manager	Financière Pinault SCA	France	October 2000
Chairman of the Board of Directors	Artémis SA	France	May 2003
Member of the Management Board	SC Château Latour	France	June 1998
Member of the Board of Directors	Christie's International Plc	United Kingdom	May 2003

within the Kering group:

Deputy Chairman of the Administrative Board	PUMA SE ⁽¹⁾	Germany	July 2011
Non-executive Director	Kering Holland NV	Netherlands	April 2013
Non-executive Director	Kering Netherlands BV	Netherlands	April 2013
Chairman of the Board of Directors	Sowind Group SA	Switzerland	July 2011
Chairman of the Supervisory Board	Boucheron Holding SAS	France	May 2005
Chairman of the Board of Directors	Yves Saint Laurent SAS	France	June 2013
Director	Stella McCartney Ltd	United Kingdom	June 2011
Director	Brioni SpA	Italy	January 2012
Director	Sapardis SE	France	May 2008
Member of the Board of Directors and Chairman	Volcom Inc.	United States	July 2011
Director	Kering International Ltd	United Kingdom	May 2013

outside the Kering group:

Director	Bouygues ⁽¹⁾	France	December 1998
Director	Soft Computing ⁽¹⁾	France	June 2001

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Director	Fnac SA	France	from October 1994 to June 2013
Chairman of the Supervisory Board	Yves Saint Laurent SAS	France	from April 2005 to June 2013
Chairman of the Supervisory Board	Kering Holland NV (formerly Gucci Group NV)	Netherlands	from October 2005 to April 2013
Vice-Chairman of the Supervisory Board	Cfao ⁽¹⁾	France	from October 2009 to July 2012
Chairman of the Supervisory Board	PUMA AG ⁽¹⁾	Germany	from June 2007 to July 2011
Vice-Chairman of the Board of Directors	Sowind Group SA	Switzerland	from June 2008 to July 2011
Chairman and Chief Executive Officer	Redcats SA	France	from December 2008 to April 2009
Director	Tennesse	France	from 2001 to November 2009

(1) Listed companies.

Number of shares held: 36,201, of which 19,201 are locked in

François-Henri Pinault is manager and managing partner of Financière Pinault, which directly and indirectly held 51,614,762 Kering shares as of December 31, 2013.

Patricia Barbizet

Born on April 17, 1955

Artémis: 12, rue François 1^{er}, 75008 Paris

Vice-Chair of the Board of Directors

A graduate of the *École Supérieure de Commerce de Paris*, Patricia Barbizet began her career with the Renault group as treasurer of Renault Véhicules Industriels then as Chief Financial Officer of Renault Crédit International. She joined the Pinault group in 1989 as Chief Financial Officer.

In 1992, she became Chief Executive Officer of Artémis and in 2004 Chief Executive Officer of Financière Pinault. She is also a Director of Total, Air France-KLM and Groupe Fnac, and member of the Supervisory Board of Peugeot SA.

After serving as Chair of the Supervisory Board of PPR (from December 2001 to May 2005) and member of the Supervisory Board of PPR (from December 1992), Patricia Barbizet has been Vice-Chair of the Board of Directors of Kering since May 19, 2005. Her term of office was renewed by the Combined General Meeting on June 18, 2013 and will expire at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2016.

Other directorships and positions held as of December 31, 2013:

Position	Company	Country	Start 1 st term of office
<i>at the level of the majority shareholder group, mainly:</i>			
Chief Executive Officer and Director	Artémis SA	France	1992
Chairman of the Board of Directors	Christie's International Plc	United Kingdom	March 2003
Chief Executive Officer, non-corporate officer	Financière Pinault SCA	France	June 2004
Member of the Supervisory Board	Financière Pinault SCA	France	January 2001
Managing Director	Palazzo Grassi	Italy	September 2005
Director	Société Nouvelle du Théâtre Marigny	France	February 2000
Member of the Management Board	SC Château Latour	France	July 1993
Permanent representative of Artémis on the Board of Directors	Agefi	France	July 2000
Permanent representative of Artémis on the Board of Directors	Sebdo Le Point	France	July 1997
<i>within the Kering group:</i>			
Non-executive Director	Kering Holland NV	Netherlands	April 2013
Member of the Board of Directors	Yves Saint Laurent SAS	France	June 2013
<i>outside the Kering group:</i>			
Director	Total ⁽¹⁾	France	May 2008
Director	Groupe Fnac ⁽¹⁾	France	June 2013
Member of the Supervisory Board	Peugeot SA ⁽¹⁾	France	April 2013
Director	Air France-KLM ⁽¹⁾	France	January 2003

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Director	TF1 ⁽¹⁾	France	from July 2000 to April 2013
Director	Bouygues ⁽¹⁾	France	from December 1998 to April 2013
Director	Fonds Stratégique d'Investissement	France	from December 2008 to July 2013
Member of the Supervisory Board	Kering Holland NV (formerly Gucci Group NV)	Netherlands	from July 1999 to April 2013
Member of the Supervisory Board	Yves Saint Laurent SAS	France	from June 2003 to June 2013
Director	Tawa Plc ⁽¹⁾	United Kingdom	from April 2011 to June 2012
Deputy Chief Executive Officer	Société Nouvelle du Théâtre Marigny	France	from April 2010 to January 2012
Director	Piasa	France	from April 2007 to January 2009
Director	Fnac SA	France	from October 1994 to May 2011

(1) Listed companies.

Number of shares held: 1,040

Jean-François Palus

Born on October 28, 1961

Kering: 10, avenue Hoche, 75008 Paris

Director and Group Managing Director

A graduate of HEC (class of 1984), Jean-François Palus began his career in 1985 with Arthur Andersen where he carried out audit and financial advisory duties.

Before joining Artémis in 2001 as corporate officer and Director, he spent ten years within the PPR group, holding successively the positions of Deputy Chief Financial Officer of the wood industry branch of Pinault SA (from 1991 to 1993), Group Financial Control Director (from 1993 to 1997), then Store Manager at Fnac (from 1997 to 1998) and lastly Corporate Secretary and member of the Executive Board of Conforama (from 1998 to 2001).

Since March 2005, Jean-François Palus has been in charge of mergers and acquisitions at PPR, reporting to François-

Henri Pinault, Chairman and Chief Executive Officer of the Group.

He was Chief Financial Officer of the PPR group from December 2005 to January 2012 and he has been Group Managing Director (*Directeur Général délégué*) of PPR (since renamed Kering) since February 26, 2008. Following the Combined General Meeting on June 18, 2013, the Board of Directors renewed his term of office as Group Managing Director for a term of four years.

Since October 2012, Jean-François Palus has headed Kering's Sport & Lifestyle Division with the assistance of Todd Hymel in his capacity as the Division's Chief Operating Officer. Jean-François Palus has also held the position of Chairman of the Administrative Board of PUMA SE since December 1, 2012.

Jean-François Palus has been a Director of Kering since May 7, 2009. His term of office will expire at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2016

Other directorships and positions held as of December 31, 2013:

Position	Company	Country	Start 1 st term of office
<i>within the Kering group:</i>			
Chairman of the Administrative Board	PUMA SE ⁽¹⁾	Germany	December 2012
Director	Pomellato SpA	Italy	July 2013
Director	Sowind Group SA	Switzerland	December 2013
Director	Brioni SpA	Italy	January 2012
Director	Kering Luxembourg SA	Luxembourg	May 2011
Member of the Board of Directors	Volcom Inc.	United States	July 2011
Member of the Board of Directors	Kering Americas Inc.	United States	June 2011
Chairman of the Board of Directors	LGI SA	Switzerland	April 2011
Director	Volcom Luxembourg Holding SA	Luxembourg	October 2012
Director	Kering Tokyo Investment	Japan	November 2013

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Director	Fnac SA	France	from November 2007 to June 2013
Director	Groupe Fnac	France	from September 2012 to June 2013
Chairman and Chief Executive Officer	Sapardis SE	France	from March 2007 to June 2013
Member of the Supervisory Board	Kering Holland NV (formerly Gucci Group NV)	Netherlands	from May 2006 to April 2013
Member of the Supervisory Board	Yves Saint Laurent SAS	France	from March 2011 to March 2013
Permanent representative of Kering on the Board of Directors	Redcats SA	France	from April 2006 to February 2013
Member of the Supervisory Board	Cfao ⁽¹⁾	France	from October 2009 to July 2012
Director	Caumartin Participations SAS	France	from June 2008 to September 2012
Director	Conforama Holding SA	France	from April 2006 to March 2011
Member of the Supervisory Board	PUMA AG ⁽¹⁾	Germany	from June 2007 to July 2011
Chairman and Chief Executive Officer	PPR Club de Développement	France	from June 2006 to 2009
Chairman	Redcats International	France	from December 2008 to April 2009
Director	PPR Luxembourg	Luxembourg	from April 2006 to 2010
Representative of Saprodis on the Management Board	SC Zinnia	France	from February 2008 to December 2009
Representative of Sapardis on the Management Board	SC Zinnia	France	from December 2009 to June 2013

(1) Listed companies.

Number of shares held: 56,550, of which 25,420 are locked in

Laurence Boone

Born on May 15, 1969

Bank of America – Merrill Lynch: 2 King Edward Street, London EC1A 1HQ, United Kingdom

Independent Director

Laurence Boone is a graduate of the Faculty of Economics of Paris-X Nanterre University and has a PhD in economics from the London Business School.

She began her career as an analyst at Merrill Lynch Asset Management from 1995 to 1996. She then became a researcher at the *Centre d'Études Prospective et d'Informations Internationales* (CEPII) (France's leading institute for research on the international economy) before joining the OECD as an economist in 1998. She successively became Director of Barclays Capital France in 2004 and

Managing Director and Chief Economist in 2010. She has been Managing Director, European Economic Research at Bank of America Merrill Lynch since July 2011.

The author of numerous articles, she taught at the *École Polytechnique*, ENSAE (the National School of Statistics) and the *École Normale Supérieure* and is currently an associate professor at the *Institut de Sciences politiques of Paris*. She is a member of the Circle of Economists and a corresponding member of France's Council of Economic Analysis. She is a Knight of the Legion of Honour.

Laurence Boone has been a Director of Kering since May 19, 2010. Her term of office will expire at the Annual General Meeting called to approve the financial statements for the year ended December 31, 2013.

Number of shares held: 500

Luca Cordero di Montezemolo

Born on August 31, 1947

Ferrari: Via Abetone Inferiore 4, 41053 Maranello – Modena, Italy

Independent Director (until December 2013)

A graduate of the law faculty of the University of Rome and of Columbia University in New York, Luca Cordero di Montezemolo began his career in 1973 as an assistant to the Chairman of Ferrari and manager of the Formula 1 team that won the world championships in 1975 and 1977. He was then appointed Director of Public Relations of Fiat in 1977, then in 1981 Chairman and Chief Executive Officer of ITEDI, which manages the press activities of the Fiat group, including the daily newspaper, *La Stampa*.

In 1984, he was appointed Chairman and Chief Executive Officer of Cinzano SpA in charge of the Azzurra Organisation, Italy's first involvement in the America's Cup. From 1985 to 1990, he was the manager of the Italia 90 Football World Cup organisation committee. Since 1991, he has been Chairman of Ferrari SpA, of which he was also the Chief Executive Officer until 2006. He is a Commander of the Legion of Honour.

Luca Cordero di Montezemolo has been a Director of Kering since May 19, 2005, after having served as a member of the Supervisory Board (from December 19, 2001 to May 19, 2005). His term of office was renewed by the Combined General Meeting on April 27, 2012 and will expire at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2015.

Other directorships and positions held as of December 31, 2013:

Position	Company	Country	Start 1 st term of office
Chairman	Ferrari SpA	Italy	1991
Chairman	Montezemolo & Partners SGR	Italy	2007
Chairman	Charme Management Srl	Italy	May 2007
Vice-Chairman	Unicredit SpA ⁽¹⁾	Italy	October 2012
Director	Nuovo Trasporto Viaggiatori SpA	Italy	October 2008
Director	Fiat SpA ⁽¹⁾	Italy	2004
Director	Telethon	Italy	January 2009
Director	Editrice La Stampa	Italy	2002
Director	Poltrona Frau SpA ⁽¹⁾	Italy	December 2003
Director	Tod's SpA ⁽¹⁾	Italy	April 2001
Director	Delta Topco Ltd	United Kingdom	March 2012
Director	Octo Telematics SpA	Italy	2010

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Chairman	Fiat SpA ⁽¹⁾	Italy	from 2004 to 2010
Director	Le Monde	France	from 2005 to 2009
Director	Citigroup ⁽¹⁾	United States	from 2004 to 2012

(1) Listed companies.

Number of shares held: 500

Yseulys Costes

Born on December 5, 1972

1000mercis: 28, rue de Châteaudun, 75009 Paris

Independent Director

Yseulys Costes holds a Masters degree in Management Sciences from Paris I-Panthéon University, a postgraduate degree in marketing and strategy from Paris IX-Dauphine University and an MBA from Robert O. Anderson School (USA).

Author of a number of works and articles on the topics of online marketing and databases, she was also the coordinator of IAB France (Interactive Advertising Bureau) for two years before founding 1000mercis.com in February 2000, of which she is now the Chair and Chief Executive Officer. The 1000mercis group, present in Paris

and in London, and listed on the Alternext market of NYSE Euronext Paris since January 2006, offers innovative solutions to companies seeking to optimise their advertising and marketing campaign on interactive media (Internet, mobile phones, etc.). The 1000mercis group currently has 250 employees and posted consolidated revenues of €40.3 million in 2013.

A researcher in interactive marketing, Yseulys Costes was received as a guest researcher at Harvard Business School and is a lecturer in interactive marketing at several prestigious French higher education establishments (HEC, ESSEC, Paris IX Dauphine University).

Yseulys Costes has been a Director of Kering since May 19, 2010. Her term of office will expire at the Annual General Meeting called to approve the financial statements for the year ended December 31, 2013.

Other directorships and positions held as of December 31, 2013:

Position	Company	Country	Start 1 st term of office
Chair and Chief Executive Officer	1000mercis SA ⁽¹⁾	France	October 2000
Chair of the Supervisory Board	Ocito SAS (1000mercis group)	France	2010
Member of the Supervisory Board	Numergy	France	2012
Member of the Supervisory Board	Vivendi ⁽¹⁾	France	April 2013
Director	SEB group ⁽¹⁾	France	May 2013

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Member of the Supervisory Board	Made in Presse SAS	France	from 2010 to 2012

(1) Listed companies.

Number of shares held: 500

Jean-Pierre Denis

Born on July 12, 1960

Arkéa group: 29808 Brest Cedex 09

Independent Director

Jean-Pierre Denis is a Finance Inspector (*inspecteur des finances*) and a graduate of HEC and ENA. He served as Chairman and Chief Executive Officer of the Oséo group from 2005 to 2007, and member of the Executive Board of Vivendi Environnement which became Veolia Environnement (from 2000 to 2003), Chairman of Dalkia (Vivendi group

then Veolia Environnement) (from 1999 to 2003), Advisor to the Chair of CGE which became Vivendi (from 1997 to 1999) and Deputy General Secretary of the French President's cabinet (from 1995 to 1997). He is currently Chairman of Crédit Mutuel Arkéa and Crédit Mutuel de Bretagne.

Jean-Pierre Denis has been a Director of Kering since June 9, 2008. His term of office was renewed by the Combined General Meeting on April 27, 2012 and will expire at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2015.

Other directorships and positions held as of December 31, 2013:

Position	Company	Country
Chairman	Fédération du Crédit Mutuel de Bretagne	France
Chairman	Crédit Mutuel Arkéa	France
Chairman	Arkéa Capital Partenaire	France
Director	Caisse de Crédit Mutuel de Cap Sizun	France
Director	Altrad	France
Chairman of the Board of Directors	Château Calon-Ségur SAS	France
Director	Soprol	France
Director	Paprec	France
Director and General Treasurer	French professional football league (association)	France

Other directorships and positions held in the last five years:

Member of the Supervisory Board of Oséo Bretagne.

Representative of Crédit Mutuel Arkéa on the Board of Directors of Crédit Foncier et Communal d'Alsace et de

Lorraine (CFCAL Banque) and of CFCAL SCF (until May 2011).

Director of Glon Sanders (until 2013)

Number of shares held: 500

Philippe Lagayette

Born on June 16, 1943

Fondation de France: 40, avenue Hoche, 75008 Paris

Independent Director

A graduate of the *École Polytechnique* and ENA, Philippe Lagayette managed the activities of JP Morgan in France from July 1998 to August 2008. He was then Vice-Chairman of JP Morgan in EMEA from September 2008 to January 2010. He began his career within the French Ministry of Finance in 1970. In 1974, he joined the Treasury Department of the French Ministry of Economy and Finance and was appointed Deputy Director of that Department in 1980. He became Cabinet Director of the Minister of Economy and Finance in 1981, then joined the Bank of France in 1984 as Deputy Governor. Appointed Chief Executive Officer of *Caisse des dépôts et consignations* in 1992, he held this position until December 1997. Philippe Lagayette

is also Chairman of the *Institut des Hautes Études Scientifiques*, where he researches in mathematics and theoretical physics, Chairman of the *Fondation de France* and Chairman of the *Fondation de coopération scientifique pour la recherche sur la maladie d'Alzheimer*, specialised in research into Alzheimer's disease. He was Chairman of the French American Foundation from 2003 to 2010 and is a Commander of the Legion of Honour and a Commander of the National Order of Merit. He was appointed Senior Advisor for France at Barclays in March 2011 and is Chairman of PL Conseils.

Philippe Lagayette has been a Director of Kering since May 19, 2005, after having served as a member of the Supervisory Board (from January 20, 1999 to May 19, 2005). His term of office was renewed by the Combined General Meeting on April 27, 2012 and will expire at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2015.

Other directorships and positions held as of December 31, 2013:

Position	Company	Country	Start 1 st term of office
Senior Advisor	Barclays	France	March 2011
Chairman	<i>Fondation de France</i>	France	October 2010
Director	<i>Fondation de France</i>	France	2009
Chairman	<i>Institut des Hautes Etudes Scientifiques</i>	France	November 1994
Chairman	<i>Fondation de coopération scientifique pour la recherche sur la maladie d'Alzheimer</i>	France	November 2008
Director	Fimalac ⁽¹⁾	France	May 2003
Director	Renault SA ⁽¹⁾	France	May 2007

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Vice-Chairman in EMEA	JP Morgan	France	from September 2008 to January 2010
Managing Director and Chairman of the Paris Management Committee	JP Morgan Chase Bank	France	from 1998 to 2008
Chairman and Chief Executive Officer	JP Morgan et Cie SA	France	from July 1998 to August 2008
Chairman	French American Foundation	France	from 2003 to 2010

(1) Listed companies.

Number of shares held: 500

Baudouin Prot

Born on May 24, 1951

BNP Paribas: 3, rue d'Antin, 75002 Paris

Director

After graduating from HEC in 1972 and from ENA in 1976, Baudouin Prot joined the French Ministry of Finance where he spent four years before serving as Deputy Director of Energy and Raw Materials at the French Ministry of Industry for three years. He joined BNP in 1983 as Deputy Director of Banque Nationale de Paris Intercontinentale, before becoming the Director for Europe in 1985. He joined the Central Networks Department in 1987 and was promoted to Central Director in 1990 then Deputy Chief Executive

Officer of BNP in charge of networks in 1992. He became Chief Executive Officer of BNP in 1996 and Deputy Chief Executive Officer of BNP Paribas in 1999. In March 2000, he was appointed Director and Deputy Chief Executive Officer of BNP Paribas then Director and Chief Executive Officer of BNP Paribas in May 2003. He is an Officer of the National Order of Merit and a Knight of the Legion of Honour.

Baudouin Prot has been a Director of Kering since May 19, 2005, after having served as a member of the Supervisory Board (from March 11, 1998 to May 19, 2005). His term of office was renewed by the Combined General Meeting on June 18, 2013 and will expire at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2016.

Other directorships and positions held as of December 31, 2013:

Position	Company	Country	Start 1 st term of office
Chairman of the Board of Directors	BNP Paribas SA ⁽¹⁾	France	December 2011
Director	Lafarge SA ⁽¹⁾	France	May 2011
Director	Veolia Environnement SA ⁽¹⁾	France	April 2003
Director	Erbe SA	Belgium	June 2004
Director	Pargesa Holding SA	Switzerland	May 2004

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Director and Chief Executive Officer	BNP Paribas SA ⁽¹⁾	France	from May 2003 to December 2011
Director	Accor SA ⁽¹⁾	France	from January 2006 to February 2009
Director	BNL SpA	Italy	from February 2007 to September 2008

(1) Listed companies.

Number of shares held: 600

Caroline Puel

Born on October 12, 1963

Ji Qing Li Building 2 Room 1204, Chaoyang District, 100020 Beijing, China

Director

Caroline Puel is a graduate of the *Institut d'Études Politiques (Sciences-Po)* of Paris, a graduate in Chinese of the *Institut Français des Langues Orientales* and a former student of the Institute of Diplomacy of Beijing.

She began her career as a Press Attaché at the French Embassy in China (1984 then 1987-1988). In 1989, she joined Radio France International (RFI) as a reporter, then war correspondent (India, Pakistan, first Gulf War, Yugoslavia, etc.). In 1992, she joined the French daily newspaper *Libération* in Paris. From 1993 to 1997, she was based in Hong Kong, as Asia correspondent for *Libération* and *Le Point* magazine. In 1995, she set up their offices in China and coordinated special editions on China. She left *Libération* in 2000 in order to remain in China and has since managed the office of *Le Point* in Asia,

based in Beijing, covering China and its area of influence, including North Korea, Mongolia and Southeast Asia. From 2003 to 2007, she served as China correspondent for the Radio Suisse Romande and Radio France (France Info, France Inter and France Culture). An art critic and a writer, author of 15 or so books about Chinese contemporary artists, Caroline Puel received the Albert Londres Prize in 1997 for her coverage of China.

Ms. Puel, who has observed the evolution in China over the last 25 years, often comes back to Europe for lectures. She taught at *Sciences-Po* in Paris from 2004 to 2010. She was a member of the Steering Committee of the Women's Forum Asia from 2006 to 2010. In January 2011, she published her book on the 30 years that changed China (*Les trente ans qui ont changé la Chine 1980-2010*).

Caroline Puel has been a Director of Kering since May 19, 2010. Her term of office will expire at the Annual General Meeting called to approve the financial statements for the year ended December 31, 2013.

Number of shares held: 500

Jochen Zeitz

Born on April 6, 1963

6 ruelle du Four, 1147 Montriches, Switzerland

Director

Jochen Zeitz graduated in International Marketing and Finance from the European Business School in 1986 after having studied in Germany, France and the United States. He began his professional career with Colgate-Palmolive in New York and Hamburg. After joining PUMA in 1990, he was appointed Chairman and CEO of PUMA in 1993, becoming the youngest Chairman in German history to head a listed European company at the age of 30. Jochen Zeitz spearheaded the restructuring of PUMA, which was in financial difficulties. He transformed PUMA into a leading Sport & Lifestyle company and one of the top three brands in footwear, apparel and accessories by sticking to a long-term development plan that he introduced in 1993.

He previously held the positions of CEO of the Sport & Lifestyle Division of PPR (renamed Kering) and Chief Sustainability Officer of PPR and was Chairman of the Administrative Board of PUMA SE until November 2012.

He has received numerous awards during his professional career, including "2001 Entrepreneur of the Year", "Strategist of the Year" for three years in a row by the Financial Times, "Trendsetter of the Year" and "Best of European Business Award 2006". In 2004, the German Federal President awarded him with the Federal Cross of Merit of the Republic of Germany.

Jochen Zeitz has been a Director of Kering since April 27, 2012. His term of office will expire at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2015.

Other directorships and positions held as of December 31, 2013:

Position	Company	Country	Start 1 st term of office
Director	Harley Davidson Inc. ⁽¹⁾	United States	August 2007
Director	Wilderness Holdings Ltd. ⁽¹⁾	Botswana	2010

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Chairman and CEO	PUMA AG ⁽¹⁾	Germany	from 1993 to July 2011
Chairman of the Administrative Board	PUMA SE ⁽¹⁾	Germany	from July 2011 to November 2012

(1) Listed companies.

Number of shares held: 500

3. remunerations of corporate officers

3.1. remunerations of executive corporate officers (chief executive officer and group managing director)

The remunerations of executive corporate officers include a fixed portion and a variable portion. The Board of Directors establishes the rules for setting such remuneration each year based on the recommendations issued by the Remuneration Committee.

The amounts payable, which are shown in the two tables below, correspond to remunerations granted to the

executive corporate officer during each of the fiscal years shown, regardless of the actual payment date.

The amounts shown as paid correspond to all remuneration received by the executive corporate officer during each of the fiscal years shown.

Gross amounts (in euros)	2013		2012	
	Amounts payable for the year	Amounts paid during the year	Amounts payable for the year	Amounts paid during the year
François-Henri Pinault Chairman and Chief Executive Officer				
Fixed remuneration	1,099,996	1,099,996	1,099,996	1,099,996
Annual variable remuneration	1,239,480	1,478,400	1,478,400	1,815,000 ⁽¹⁾
Multi-annual variable remuneration	0	0	NA	NA
Exceptional remuneration	0	0	0	0
Directors' fees (Kering)	64,951	61,080	61,080	43,235 ⁽¹⁾
Directors' fees (subsidiaries)	112,500	112,500	88,125	78,125
Benefits in kind	18,866	18,866	19,784	19,784
TOTAL	2,535,793	2,770,842	2,747,385	3,056,140
Total employer contributions borne by the Group	1,060,000 ⁽²⁾	1,205,034	1,200,000 ⁽²⁾	1,181,128
Total cost for the Group	3,595,793	3,975,876	3,947,385	4,237,268

Gross amounts (in euros)	2013		2012	
	Amounts payable for the year	Amounts paid during the year	Amounts payable for the year	Amounts paid during the year
Jean-François Palus Group Managing Director				
Fixed remuneration	1,003,965	1,003,965	999,333	999,333
Annual variable remuneration	939,000	1,120,000	1,120,000	1,100,000 ⁽¹⁾
Multi-annual variable remuneration	0	0	NA	NA
Exceptional remuneration	0	0	0	0
Directors' fees (Kering)	55,663	52,869	52,869	43,235 ⁽¹⁾
Directors' fees (subsidiaries)	86,333	86,333	81,250	71,250
Benefits in kind	538,301	538,301	13,888	13,888
TOTAL	2,623,262	2,801,468	2,267,340	2,227,706
Total employer contributions borne by the Group	409,000 ⁽²⁾	582,600	792,000 ⁽²⁾	790,754
Total cost for the Group	3,032,262	3,384,068	3,059,340	3,018,460

(1) For 2011.

(2) Current estimates.

Annual variable remunerations payable for 2012 were paid during the first quarter of 2013 and those payable for 2013 were paid during the first quarter of 2014. Fees payable to Directors in respect of their duties as members

of the Board of Directors of Kering for 2012 were paid in February 2013 and those payable for 2013 were paid in February 2014.

For 2013, the Board of Directors set the remuneration of the Chairman and Chief Executive Officer and of the Group Managing Director on the basis of the recommendations of the Remuneration Committee. The structure of remuneration – amount of the fixed portion and the rate of the variable portion – is decided based on an analysis of market practices observed for senior executives of CAC 40 companies.

Fixed remuneration

The Board of Directors, acting on the recommendation of the Remuneration Committee, resolved to maintain unchanged the fixed remuneration for the Chairman and Chief Executive Officer and the Group Managing Director for 2013.

At its meeting on June 18, 2013, the Board of Directors noted, on the recommendation of the Remuneration Committee and, in the context of the deployment of the Group's international activities, the location of part of the Group Managing Director's activities in London. Consequently, the Board decided to implement for the Group Managing Director with effect from July 1, 2013, an *Employment Agreement* with Kering Netherlands BV, a Group subsidiary governed by Dutch law, as well as a *Service Agreement* (similar to an employment agreement) with Kering International Ltd, a Group subsidiary governed by English law. Under the terms of these two agreements, which correspond to the management of the Group's Divisions and the coordination of the Group's international support functions respectively, these two companies will each pay half of his fixed annual remuneration (€500,000 for Kering Netherlands BV and GBP 425,000 for Kering International Ltd), of his variable remuneration and, where appropriate, of the amounts due in respect of his multi-annual remuneration, the final allotment of which is decided by the Board of Directors.

These two employment agreements are related to and will remain in force during the Group Managing Director's term of office and will lapse on the termination thereof.

Annual variable remuneration

The variable remuneration of the Chairman and Chief Executive Officer is based on the achievement of precisely defined targets, assessed on the basis of the Group's results after the closing of the relevant fiscal year. For 2012 and 2013, the variable portion is equal to 120% of the fixed portion when targets are exactly met, and up to 180% of the fixed portion when they are exceeded. In 2012 and 2013, there were two targets, each accounting for 50% of the variable portion of remuneration, i.e., the Group's recurring operating income and the Group's free cash flow from operations. The rate of achievement of each of these targets must be at least 90% for variable remuneration to be paid.

In view of the fact that these two targets for 2012 were exceeded, the rate of variable remuneration was 112% of the amount of variable remuneration when targets are

exactly met, i.e., the Chairman and Chief Executive Officer's variable remuneration amounted to €1,478,400. In respect of 2013, the rate of achievement of the targets for recurring operating income and free operating cash flow was 90.8% and 103.3%, respectively, leading to a combined rate of variable remuneration of 93.9% of the target amount when targets are exactly met, i.e., the variable remuneration amounted to €1,239,480.

As in 2012, the Group Managing Director's variable remuneration for 2013 can be as much as 100% of the fixed portion of remuneration when targets are exactly met, and up to 150% of the fixed portion when they are exceeded, on the basis of the same quantitative criteria, in the same proportions and with the same minimum achievement rate as those applied to the variable remuneration of the Chairman and Chief Executive Officer. As for the Chairman and Chief Executive Officer, in view of the rate of achievement of the targets for 2012 and 2013, the Group Managing Director's variable remuneration amounted to €1,120,000 for 2012 and €939,000 for 2013.

Multi-annual variable remuneration

While performance share plans currently in progress will be allowed to run their course, a new long-term incentive system has been launched with effect from 2013. The scheme is based on Kering monetary units (and no longer on performance shares) known as "KMUs", whose initial value of €152 is indexed to changes in the Kering share price relative to a basket of nine Luxury and Sport & Lifestyle securities. These KMUs have a vesting period of three years as from January 1, 2013 of the years in which they are granted, after which they may be cashed by the beneficiaries over a two-year period (during two "windows" each year), when the beneficiaries may receive the cash equivalent of their KMUs based on the last assessed value.

At its meeting on June 18, 2013, the Kering Board of Directors, acting on the recommendation of the Remuneration Committee, decided to award a long-term performance bonus to the Chairman and Chief Executive Officer and to the Group Managing Director. The grant value of this remuneration is equal to 70% of their total annual cash-based remuneration (fixed remuneration plus variable remuneration in respect of the previous year).

In this context, and in accordance with the decision of the Board of Directors' meeting on June 18, 2013, 11,874 and 9,763 KMUs were granted to the Chairman and Chief Executive Officer and to the Group Managing Director, respectively, corresponding to a value of €1,804,000 and €1,484,000.

For the Chairman and Chief Executive Officer and Group Managing Director, final vesting of the KMUs is subject to the condition of a minimum 5% average increase in earnings per Kering share from continuing operations attributable to owners over the vesting period (i.e., three years). The value of the fully vested KMUs will be reduced in proportion to any under-performance of the Kering share and to the minimum average increase in earnings per Kering share

from continuing operations attributable to owners if said increase is below 5%, with all rights to the allotment of KMUs waived if said increase is equal to or less than 2.5%.

In addition, the Board of Directors has set an obligation for each beneficiary to purchase Kering shares at the end of the three-year vesting period. Under this obligation, the beneficiaries must invest a portion of the fully vested value of their long-term performance bonus in Kering shares, net of tax and social security contributions, for the duration of their term of corporate office within Kering SA. The number of Kering shares must correspond to at least 30% of the sum of the amounts vested at that date in respect of their current term of office, at each date on which the KMUs are converted into cash.

Benefits in kind

The benefits in kind of the Chairman and Chief Executive Officer correspond to the provision of a company car. With effect from July 1, 2013, will be entitled to Group Managing Director an annual allowance for residence in London set at a value of GBP 900,000 for the next three years, plus a company car and insurance.

No indemnity is payable to the Chairman and Chief Executive Officer or the Group Managing Director in the event of termination of their duties as corporate officers.

There are no supplementary defined benefit pension plans for the executive corporate officers.

	Employment contract		Supplementary pension plan		Indemnities or benefits owed or that may be payable on the termination or change of duties		Indemnities relating to a non-competition clause	
	Yes	No	Yes	No	Yes	No	Yes	No
Executive corporate officers								
François-Henri Pinault								
Chairman and Chief Executive Officer								
Term of office began on: May 19, 2005								
Term of office expires on:								
Annual General Meeting of 2017		X		X		X		X
Jean-François Palus								
Group Managing Director								
Term of office began on: February 26, 2008								
Term of office expires on:								
Annual General Meeting of 2017	X		X ⁽¹⁾			X		X

(1) At the beginning of 2010 the Board of Directors authorised the grant of a pension benefit to Jean-François Palus. This benefit takes the form of a transfer of an amount of €3.568 million to a fund entitling him to payment of a full pension (with a right of reversion) from the legal retirement age, and is not subject to his presence within the Group. However, to benefit from the plan, Jean-François Palus must not leave the Group for personal reasons before December 31, 2014 and the performance criteria for entitlement to the variable portion of his remuneration for 2009 and 2010 must be fulfilled.

This amount would finance a target pension annuity, of a non-guaranteed amount, set at approximately 25% of his annual remuneration paid in 2009 according to the actuarial rates applied within the Group.

Other information and commitments

No stock options were granted to executive corporate officers in 2013.

50,000 stock subscription options were exercised by François-Henri Pinault on February 18, 2013.

No stock options were exercised by Jean-François Palus in 2013.

Stock subscription options exercised by each executive corporate officer in 2013

	Number and date of the plan	Number of options exercised during the year	Strike price
François-Henri Pinault	2005/2 Plan May 19, 2005	50,000	€78.01
Jean-François Palus	-	0	-
TOTAL		50,000	

Details of the stock options previously granted to François-Henri Pinault and Jean-François Palus are shown on pages 314 to 315.

The executive corporate officers have formally undertaken not to use hedges on their stock options or performance shares, and no such hedges are currently in place.

Performance shares granted to each executive corporate officer in 2013

Further to the implementation of a new long-term incentive system based on monetary instruments, no performance shares were granted to executive corporate officers in 2013.

Performance shares granted to each executive corporate officer in prior years

Details of the performance shares previously granted to François-Henri Pinault and Jean-François Palus are shown on page 315.

At its meeting on April 27, 2012 held prior to the Annual General Meeting, the Board of Directors decided, upon the recommendations of the Remuneration Committee, to grant 11,682 performance shares to François-Henri Pinault and 8,416 performance shares to Jean-François Palus. These shares will vest on April 27, 2014, subject to an additional condition of a minimum average increase in (i) earnings per Kering share attributable to the owners of the parent for the Chairman and Chief Executive Officer, and (ii) earnings per Kering share from continuing operations attributable to owners of the parent during the vesting period for the Group Managing Director.

The percentage of shares granted to François-Henri Pinault and Jean-François Palus therefore represents 0.009% and 0.007%, respectively, of the share capital, and 10.71% and 7.72%, respectively, of the total number of shares granted to all of the beneficiaries on April 27, 2012.

The Board of Directors decided that at least 30% of the amount, after tax and social security deductions (at the standard rate, as if the shares were sold immediately), of the acquisition gain resulting from the sale of performance shares must be kept by François-Henri Pinault and Jean-François Palus, in the form of an equivalent number of shares thus granted (valued at the date of sale) up to the termination of their duties as executive corporate officers of Kering, unless the Board of Directors decides otherwise, thus releasing them from this restriction within the limit that it would then set.

The Board of Directors also decided, in accordance with the recommendations of the AFEP-MEDEF Code, to set the purchase obligation, when the performance shares become available, at 10% of the initial number of performance shares granted to François-Henri Pinault and Jean-François Palus.

At its meeting of March 18, 2014, the Board of Directors noted that François-Henri Pinault had not fulfilled the additional performance condition relating to the minimum average increase in earnings per Kering share attributable to owners of the parent. As a result, none of the performance shares granted to him will vest on April 27, 2014.

Performance shares that became available during 2013 for each executive corporate officer

	Number and date of the plan	Number of shares that became available during the year	Purchase conditions
Francois-Henri Pinault	2009-I Plan May 7, 2009	0	Francois-Henri Pinault waived his right to performance shares granted on May 7, 2009
Jean-François Palus	2009-I Plan May 7, 2009	6,030	10% of the number of shares originally granted (6,030) are to be purchased upon availability
TOTAL		6,030	

In 2013, a total of 9,211 and 13,581 performance shares vested for François-Henri Pinault and Jean-François Palus, respectively, under the 2011-I Plan of May 19, 2011. The shares will be available as from May 19, 2015.

Summary of remuneration, options and performance shares granted to each executive corporate officer

Gross amounts (in euros)

François-Henri Pinault Chairman and Chief Executive Officer	Amounts for 2013	Amounts for 2012
Remuneration payable	2,535,793	2,747,385
Value of multi-annual variable remuneration granted during the year ⁽¹⁾	1,472,732	
Value of options granted during the year ⁽¹⁾		
Value of performance shares granted during the year ⁽¹⁾		1,036,544
TOTAL	4,008,525	3,783,929

(1) This value corresponds to the value of the options and financial instruments at the grant date as determined in accordance with IFRS 2 after taking into account, in particular, any discount related to performance criteria and probability of presence in the Company at the end of the vesting period, but prior to the spreading of the expense over the vesting period in accordance with IFRS 2.

Gross amounts (in euros)

Jean-François Palus Group Managing Director	Amounts for 2013	Amounts for 2012
Remuneration payable	2,623,262	2,267,340
Value of multi-annual variable remuneration granted during the year ⁽¹⁾	1,210,905	
Value of options granted during the year ⁽¹⁾		
Value of performance shares granted during the year ⁽¹⁾		746,752
TOTAL	3,834,167	3,014,092

(1) This value corresponds to the value of the options and financial instruments at the grant date as determined in accordance with IFRS 2 after taking into account, in particular, any discount related to performance criteria and probability of presence in the Company at the end of the vesting period, but prior to the spreading of the expense over the vesting period in accordance with IFRS 2.

3.2. remuneration of non-executive corporate officers – directors' fees

The Annual General Meeting on May 19, 2010 increased the total amount of Directors' fees to be allocated to the members of the Board of Directors for 2010 from €660,000 to €809,000, due to the appointment of three additional Directors. This amount remained unchanged for 2013.

At its meeting on January 16, 2014, the Board of Directors decided, upon the recommendations of the Remuneration Committee, to allocate Directors' fees based on the actual presence of members at meetings of the Board and of specialised Committees held in 2013.

Out of the total amount set by the Annual General Meeting, the rule followed by the Board is to allocate €114,000 as a special portion to the Vice-Chair (€45,000) and to the Chairmen of the Audit, Remuneration and Appointments

Committees, respectively (€23,000 each), the balance being divided into two potentially equal portions:

- a fixed portion, allocated with a coefficient of 1 by Board membership, increased by 0.5 per committee;
- a variable portion, allocated with a coefficient of 1 per presence at each meeting of the Board and 0.5 for each attendance of a committee meeting.

For 2013, a total amount of €680,488 was paid to the non-executive Directors, allocated as follows:

- €114,000 for the special portion;
- €284,318 for the fixed portion;
- €282,170 for the variable portion.

The table below shows Directors' fees paid in 2012 and 2013 for fiscal years 2011 and 2012:

Members of the Board of Directors other than the Chief Executive Officer and Group Managing Director	Director's fees paid during the year (in euros)	
	2013	2012
Patricia Barbizet	224,628 ⁽¹⁾	226,997 ⁽¹⁾
Pierre Bellon ⁽²⁾	-	31,037
Laurence Boone	58,763	48,969
Allan Chapin ⁽²⁾	-	31,037
Luca Cordero di Montezemolo	58,032	39,272
Yseulys Costes	75,551	54,877
Jean-Pierre Denis	85,410	76,773
Philippe Lagayette	89,974	90,076
Aditya Mittal ⁽³⁾	16,423	17,375
Baudoin Prot	47,904	30,911
Caroline Puel	47,449	52,202
Jean-Philippe Thierry ⁽⁴⁾	18,981	83,004
Jochen Zeitz	31,937	25,000 ⁽⁵⁾
TOTAL	755,051	807,530

(1) Directors' fees paid by Kering and Kering Holland NV.

(2) The terms of office of Pierre Bellon and Allan Chapin expired on May 19, 2011.

(3) The term of office of Aditya Mittal expired on June 18, 2013.

(4) The term of office of Jean-Philippe Thierry expired on April 27, 2012.

(5) Directors' fees received in respect of his duties as Chairman of the Administrative Board of PUMA SE. Jochen Zeitz's remuneration also comprised his salary of €675,621 covering the period between April 27, 2012, the date on which he was appointed Director of Kering, and October 7, 2012 when he left his operational role within the Group.

In addition, on April 30, 2012 PUMA SE granted him 70,516 stock options, the value of which amounted to 3,145,014 as of the grant date.

Neither the Company, nor any company that it controls, has made any commitment vis-à-vis its Directors or executive corporate officers on account of the commencement, termination of or change in their duties or subsequent thereto.

No Director or executive corporate officer benefits from any particular benefit or specific pension plan. There is no conditional or deferred remuneration.

Other than the remuneration set out above, neither the Company, nor Artémis or Financière Pinault which control it, has paid any remuneration or granted any benefits, directly or indirectly, to its Directors or executive corporate officers in connection with their term of office, duties or assignments performed in or on behalf of the Company, and any company that it controls.

3.3. regulatory information on directors and executive corporate officers

To the Company's knowledge:

- none of the Directors or executive corporate officers have been convicted for fraud in the last five years;
- none of the Directors or executive corporate officers have been associated in the last five years with bankruptcy, receivership or liquidation proceedings as a member of an administrative, management or supervisory body or as Chief Executive Officer;
- no court order has been entered over the last five years against any of the Directors or executive corporate officers that prohibits them from acting as a member of an administrative, management or supervisory body of an issuer or from intervening in the management or running of the business of an issuer;
- no incrimination and/or official public penalty has been entered against any of the Directors or executive corporate officers by statutory or regulatory authorities (including designated professional bodies);
- none of the Directors or executive corporate officers have been given a commitment by the Company or any of its subsidiaries corresponding to items of remuneration, indemnities or benefits payable or potentially payable on account of the commencement, termination of or change in his or her duties or subsequent thereto;
- none of the Directors or executive corporate officers have indicated the existence of an agreement with a main shareholder, customer or supplier of the Company pursuant to which he or she was designated as Director or executive corporate officer.

Moreover, no service contract providing for the granting of benefits binds the Directors with the Kering group.

No assets belonging directly or indirectly to the Company's senior executives are used in Group operations.

In general, to the Company's knowledge, none of the Directors or executive corporate officers are in a position of potential conflict of interest between their duties with regards to the Company and their private interests or other duties or have existing family ties with another Director or executive corporate officer of the Company.

3.4. *other information on the company's board of directors*

Honorary Chairman of the Board of Directors

In accordance with the possibility provided for under the Company's Articles of Association, in its meeting on June 18, 2013, which followed the Combined General Meeting, the Board of Directors decided to confirm Mr. François Pinault, founder of the PPR group, since renamed Kering, as Honorary Chairman of the Board of Directors. In this capacity, Mr. François Pinault is invited to participate in the meetings of the Board of Directors and of the Strategy and Development Committee on a consultative basis.

Vice-Chair of the Board of Directors

In accordance with the possibility provided for under the Company's Articles of Association, in its meeting on June 18, 2013, which followed the Combined General Meeting, the Board of Directors renewed Patricia Barbizet's term of office as Vice-Chair of the Board of Directors for the same duration as her term of office as Director. In this capacity, Patricia Barbizet prepares and coordinates the work of the Board of Directors and may chair Board meetings when the Chairman is absent.

Non-voting Directors

- Alexis Babeau, Deputy Chief Executive Officer of Kering's Luxury Division (appointed by the Board of Directors at its meeting on January 20, 2012);
- Patrizio di Marco, Chairman and Chief Executive Officer of Gucci (appointed by the Board of Directors at its meeting on February 14, 2013);
- Marco Bizzarri, Chairman and Chief Executive Officer of Bottega Veneta (appointed by the Board of Directors at its meeting on February 14, 2013);
- Björn Gulden, Chief Executive Officer of PUMA (appointed by the Board of Directors at its meeting on October 24, 2013).

The main role of non-voting Directors is to attend Strategy and Development Committee meetings and, as required, Board of Directors' meetings, to provide the necessary information, expertise and knowledge of the Group's various businesses. They serve on a consultative basis. In May 2007, the Annual General Meeting deemed appropriate that the Board be allowed to decide on the number of non-voting Directors and amended Article 18 of Kering's Articles of Association accordingly.

4. group management

Group management is composed of the Group Executive Committee headed by François-Henri Pinault, Chairman and Chief Executive Officer, and Jean-François Palus, Group Managing Director.

The Executive Committee

The Executive Committee meets regularly, with the CEOs of the Group's major brands and Kering's main operating officers. The ten-member Executive Committee is the Group's key operational body and reflects Kering's transformation into a more streamlined, group. It affords the CEOs of its major brands the opportunity to be more closely involved in the Group's key strategic decision-making processes, alongside Kering's main operating officers.

Members of the Executive Committee

- François-Henri Pinault (since March 2005), Chairman and Chief Executive Officer, Kering;
- Jean-François Palus (since December 2005), Group Managing Director, Kering;
- Alexis Babeau (since March 2011), Deputy Chief Executive Officer, Luxury Division, Kering;
- Louise Beveridge (since March 2011), Senior Vice-President, Communications, Kering;
- Marco Bizzarri (since February 2012), Chairman and Chief Executive Officer, Bottega Veneta;
- Patrizio di Marco (since February 2012), Chairman and Chief Executive Officer, Gucci;
- Jean-Marc Duplaix (since February 2012), Group Chief Financial Officer, Kering;
- Belén Essioux-Trujillo (since May 2012), Senior Vice-President, Group Human Resources, Kering;
- Marie-Claire Daveu (since September 2012), Group Chief Sustainability Officer and Head of International Affairs, Kering;
- Björn Gulden (since July 2013), Chief Executive Officer, PUMA.

Monthly activity and budget review meetings

The Executive Management of Kering, and the CEOs of the major brands of the Divisions, hold monthly meetings to assess developments in the activities. This assessment is based on operational and financial factors.

Insider Good Practices Committee

Composed of the Group Managing Director and the Head of the Legal Department, the Insider Good Practices Committee draws up the timetable of black-out periods for trading in Kering securities, lists of insiders, letters of information and monitoring in relation to rules on insider dealing, which are sent to the relevant managers and senior executives of the Group as well as to occasional and permanent insiders, in accordance with the General Regulations of the French financial markets authority (*Autorité des marchés financiers* – AMF). The members of the Group's Executive Committee are required to consult the Insider Good Practices Committee before trading in Company shares or similar financial instruments.

Pursuant to the provisions of Article 223-26 of the AMF's General Regulations, to the Company's knowledge, no transactions were carried out by the individuals referred to in Article L. 621-18-2 of the French Monetary and Financial Code (*Code monétaire et financier*) on Kering's financial instruments during 2013, with the exception of the following transaction.

On February 18, 2013, François-Henri Pinault exercised 50,000 subscription options at a strike price of €78.01 and sold 48,500 shares resulting from the exercise of these subscription options at a price of €164.50 per share.

Ethics Committee

Kering's Ethics Committee was set up in 2005, and is now supported by two regional Ethics Committees: the Asia-Pacific Ethics Committee and the Americas Ethics Committee and an international hotline available for all Group staff. The Ethics Committees are composed of representatives of the Group's brands and Kering staff. Their regional organisation reflects the Group's policy of delegating responsibility, which results in better quality responses to queries. Operating on a "last resort" basis under the authority of the Group Ethics Committee to which they report, these Committees ensure that Group's ethical principles are applied consistently.

5. report by the chairman of the board of directors

on the conditions of preparation and organisation of the work performed by the board, and on the internal control and risk management procedures implemented by the company

Pursuant to Article L. 225-37, paragraph 6 of the French Commercial Code (*Code de commerce*) amended by Act No. 2008-649 of July 3, 2008, the conditions of preparation and organisation of the work performed by the Board of Directors and the internal control and risk management procedures implemented by the Company are reported hereinafter. This report specifies, in particular, the procedures relating to the preparation and processing of financial and accounting information for the consolidated

financial statements and the parent company financial statements; the first part of this report was presented to the Appointments Committee on February 17, 2014 and the second part was the subject of deliberations by the Company's Audit Committee on January 18, 2014.

The Board of Directors approved the entire report at its meeting on February 20, 2014 in accordance with the provisions of Article L. 225-37 of the French Commercial Code.

5.1. membership of the board of directors

5.1.1. Current membership of the Board

The Board is composed of Directors with wide and diversified experience, in particular, in relation to corporate strategy, finance, insurance, economics, the retail sector, industry, accounting, management and supervision of commercial and financial corporations. The Articles of Association provide for a renewable four-year term of office for Directors.

In order to avoid reappointing the entire Board simultaneously and to favour the smooth renewal of Directors, the Combined General Meeting on May 7, 2009 adopted an amendment to Article 10 of the Company's Articles of Association in order to implement a staggered renewal of the Board of Directors.

The Board is currently made up of eleven Directors:

Name	Position	Age	Independent Director ⁽¹⁾	Participation on a committee					Start 1 st term of office	End of current term of office	Nationality
				Audit	Remuneration	Appointments	Strat. & Dev.	Sustainability			
François-Henri Pinault	Chairman and Chief Executive Officer	51					✓	✓	2005	2017	French
Patricia Barbizet	Vice-Chair	58		✓	✓	✓	✓	✓	2001	2017	French
Jean-François Palus	Group Managing Director	52						✓	2009	2017	French
Laurence Boone	Director	44	✓		✓				2010	2014	French
Yseulys Costes	Director	41	✓	✓	✓		✓		2010	2014	French
Luca Cordero di Montezemolo	Director	66	✓ ⁽²⁾			✓		✓	2001	2016	Italian
Jean-Pierre Denis	Director	53	✓	✓	✓				2008	2016	French
Philippe Lagayette	Director	70	✓		✓		✓		1999	2016	French
Baudouin Prot	Director	62				✓			1998	2017	French
Caroline Puel	Director	50							2010	2014	French
Jochen Zeitz	Director	50						✓	2012	2016	German

(1) According to the criteria of the AFEP-MEDEF Consolidated Code set out in section 5.2.5 below.

(2) Independent Director until December 2013.

Four non-voting Directors appointed by the Board of Directors for a term of four years pursuant to Article 18 of the Company's Articles of Association attend meetings of the Board of Directors, as required, on a consultative basis.

The Board has set up five Committees responsible for assisting it in performing its task: the Audit Committee, the Remuneration Committee, the Appointments Committee, the Strategy and Development Committee and the Sustainability Committee.

A detailed list of the Directors and the non-voting Directors is set out in a previous section of the Reference Document, on pages 118 to 125, and 132.

5.1.2. Changes in the membership of the Board of Directors

The Combined General Meeting on June 18, 2013 renewed the terms of office of François-Henri Pinault, Jean-François Palus, Baudouin Prot and Patricia Barbizet for four-year terms as provided for in the Articles of Association. Aditya Mittal's term of office expired at the close of the Meeting.

In accordance with the provisions of the French law dated January 27, 2011 on professional equality and the balanced representation of women and men on boards of Directors and supervisory boards, amending in particular Article L. 225-37 of the French Commercial Code, pursuant to which this report has been drawn up, the principle of balanced representation of women and men will be taken into consideration for the Board in accordance with the law. Women currently represent 36% of the Board of Directors' members, exceeding the required minimum proportion of 20% to be met by the date of the Annual General Meeting which is due to take place in 2014.

5.2. *conditions of preparation and organisation of the work of the board of directors*

5.2.1. Internal rules of the Board

The Board of Directors performs the duties and exercises the powers granted to it by law and the Articles of Association.

It determines and assesses the strategy, objectives and performance of the Company and ensures their implementation. Subject to the powers expressly granted to Annual General Meetings and within the limit of the corporate purpose, it is called upon to handle any question relating to the smooth running of the Company and handles all matters concerning the Company through its decisions.

The Board carries out the controls and verifications it deems appropriate.

The conditions of preparation and organisation of the work of the Board of Directors are defined by law, the Company's Articles of Association, the internal rules of the Board and the work of its specialised Committees. The Board has established internal rules for each committee.

Pursuant to its internal rules and the law, the Board of Directors meets at least four times a year. To enable Directors to prepare in the best possible way for the topics to be examined during the meeting, a complete file is sent to them in due time ahead of the meeting; it includes, per topic addressed, the necessary information on all items on the agenda.

In line with the relevant regulatory requirements, the internal rules, which were amended to take into account the new recommendations of the AMF regarding the prevention of insider trading practices by senior executives, also set the rules applicable to Directors in relation to restrictions on trading in the securities of the Company, or more generally the Group, by establishing "black-out periods":

- the Directors must refrain from trading directly or indirectly in the listed securities and financial instruments of the Company and the Group for a period of 30 calendar days preceding each of the periodic publications relating to the annual and half-year consolidated financial statements and 15 calendar days preceding each of the quarterly publications relating to consolidated revenue and ending at the close of the trading day following the publication of the relevant official press release. In no way does this black-out period replace the legal and regulatory provisions regarding insider trading with which each member of the Board must comply at the time he/she decides to trade, no matter when this might occur outside the defined black-out periods;

- the same obligations apply to each Director insofar as the Director has knowledge of insider information relating to any financial instrument listed on a regulated market, where the issuer of those financial instruments has an insider relationship with the Group. Consequently, the internal rules require the reporting of all dealings in these securities.

The internal rules set the frequency and conditions of Board meetings and provide for meeting participation by videoconference and/or conference call.

They also establish the principle of regular assessment of the functioning of the Board and set the terms and conditions by which Directors' fees are allocated.

According to the internal rules, Directors are required to inform the Chairman of the Board of any conflicts of interest, or of any possible conflicts, between their duties towards the Company and their private interests and/or other duties, and they may not vote on any matters that concern them directly or indirectly.

The Chairman of the Board of Directors may ask the Directors at any time for a written statement confirming that they are not involved in any conflicts of interest.

In order to reinforce its methods of functioning and in the interest of good governance, the internal rules of the Board of Directors set forth and formally lay down the rules governing the organisation and operating methods of the Board as well as the missions of its five Committees: the Audit Committee, the Remuneration Committee, the Appointments Committee, the Strategy and Development Committee and the Sustainability Committee.

Executive Management may in all circumstances be heard within said Committees.

5.2.2. Executive Management

After the Combined General Meeting on May 19, 2005 adopted the new Articles of Association of Kering (then PPR), introducing governance by a Board of Directors, the Board of Directors opted to have the duties of Chairman and Chief Executive Officer held by one person, and maintained this option in May 2009. This choice has proven to be an efficient corporate governance factor in light of the organisation of the Kering group: François-Henri Pinault is the Chairman and Chief Executive Officer of Kering, the Group's parent company. He is related to the controlling shareholder, is closely involved in conducting the Group's business and has in-depth knowledge and experience of this business. The management of the Luxury and Sport & Lifestyle Divisions is entrusted to the Chairman and Chief Executive Officer and to the Group Managing

Director, respectively. The Chairmen and Chief Executive Officers of the main brands (Gucci, Bottega Veneta and PUMA), as well as the Deputy Chief Executive Officer of the Luxury Division are members of the Executive Committee and attend Board of Directors' meetings as non-voting Directors. They are all thus able to provide, at those Board meetings, which they are invited to attend, their views and information concerning the Group's Divisions and brands so that the non-executive Directors and more generally the Board may be well-informed.

On the proposal of the Chairman and Chief Executive Officer, the Board of Directors' meeting on February 22, 2008 appointed a Group Managing Director (*Directeur Général délégué*) whose term of office was renewed on June 18, 2013 and who has the same powers with regard to third parties as the Chief Executive Officer. The Group Managing Director was appointed as Director by the Combined General Meeting on May 7, 2009 for a four-year term, renewed on June 18, 2013, for another four-year term.

The Chairman and Chief Executive Officer and the Group Managing Director both take part, on an equal level, in the work of the Board of Directors, 45% of which consists of independent Directors and which operates smoothly thanks to frequent meetings, the regular attendance of its members and the assistance of its specialised Committees, as described below.

5.2.3. Limitations by the Board of Directors of the powers of the Chief Executive Officer and Group Managing Director

In connection with the Board of Directors' statutory role of determining the business orientation of the Company and ensuring its implementation, and without prejudice to the legal provisions governing the authorisations required to be granted by the Board (related-party agreements, endorsements, suretyships and guarantees, divestments of shareholdings or sale of real property, etc.), the Company's Articles of Association provide that certain decisions of the Chief Executive Officer and Group Managing Director, by virtue of their nature or significance, require the prior approval of the Board of Directors:

- a) matters and transactions that have a substantive effect on the strategy of the Group, its financial structure or its scope of business activity;
- b) except in the event of a decision by the Annual General Meeting, issues of securities, regardless of the nature thereof, that are liable to cause a change in the share capital;
- c) the following transactions by the Company or any entity controlled by the Group, insofar as they each exceed an amount set annually by the Board of Directors (which was €500 million in 2013):
 - all investments or divestments, including the acquisition, sale or exchange of holdings in all existing or future businesses,
 - all purchases or sales of Company real property.

These transactions are regularly submitted to the Board of Directors, which examines them carefully.

5.2.4. Compliance with a Code of Corporate Governance

On October 22, 2008, the Board of Directors announced that it had examined and adopted, as a reference corporate governance framework, the AFEP-MEDEF recommendations of October 6, 2008 on the remuneration of executive corporate officers of listed companies and deemed that the corporate governance policies already implemented by the Company complied with all the aforementioned recommendations.

Accordingly, the Company now refers to the Corporate Governance Code of Listed Corporations resulting from the consolidation of the October 2003 AFEP and MEDEF report, the aforementioned January 2007 and October 2008 AFEP-MEDEF recommendations and the April 2010 AFEP-MEDEF recommendation on higher representation of women in the boardroom, as revised in June 2013 ("the revised AFEP-MEDEF Code"), and has done so, in particular, for the preparation of this report. The revised AFEP-MEDEF Code is available in French on the MEDEF's website at: www.medef.com.

Two provisions of the revised AFEP-MEDEF Code were not adopted:

AFEP-MEDEF recommendations

Director independence criteria (section 9-4 of the Code) – One of the criteria to be reviewed in order for a Director to qualify as independent is not to have been a Director of the company for more than twelve years.

Kering practice and explanations

In the case of Philippe Lagayette, the Board of Directors decided not to apply the independence criterion limiting a Director's term of office to twelve years.

On the recommendation of the Appointments Committee, the Board of Directors noted that Philippe Lagayette (appointed to the Board in January 1999), has had no responsibilities in the banking sector since early 2010. The Board was unanimous in agreeing that his first-class expertise, his other duties outside the Group (including directorships in prestigious companies that also require independent representation) and his acknowledged moral authority show that such length of service on the Board has a positive impact on his knowledge of the Group, its background and its activities, and generates a continuous and outstanding contribution to the work of the Board, all of which overwhelmingly rebuts the presumption of the revised AFEP-MEDEF Code. This belief is further supported by Philippe Lagayette's role, both at Kering and on the Boards of Directors of other listed companies, as chairman of these specialised advisory committees.

Composition of the Appointments Committee (section 17.1 of the Code) – the Committee should have a majority of independent Directors.

The Committee is composed of three Directors: Patricia Barbizet, chair, Luca Cordero di Montezemolo and Baudouin Prot.

The Company does not comply with the AFEP-MEDEF recommendations regarding the proportion of independent members within the Appointments Committee. The composition of the Committees of the Board of Directors, and particularly that of the Appointments Committee, is under examination, as part of discussions on possible changes in the composition of the Board itself, which will be proposed to the Annual General Meeting of May 6, 2014.

5.2.5. Independence of Directors

In order to assess the independence of a Director and to avoid possible risks of conflicts of interest, the Board applied the criteria defined in the revised AFEP-MEDEF Code, whereby a Director cannot:

- be an employee or executive corporate officer of the Company, an employee or Director of its parent or a company that the latter consolidates and not have been in such position in the past five years;
- be a Director or executive corporate officer of a company in which the Company holds a directorship, directly or indirectly, or in which an employee appointed as such or a Director or executive corporate officer of the Company (currently in office or having held office for less than five years) is a Director;

- be a significant customer, supplier, investment banker, or commercial banker of the Company or the Group, or for which the Company or the Group represents a significant portion of the activity;
- have any close family ties with a Director or executive corporate officer;
- have been the auditor of the Company within the past five years;
- have been a Director of the Company for over twelve years.

Upon analysing the situation of each Director with regard to these criteria and following a review by the Appointments Committee on February 17, 2014, the Board of Directors classified as independent Directors, without prejudging the independence of the other Directors, the following members: Laurence Boone, Yseulys Costes, Jean-Pierre Denis and Philippe Lagayette.

The Board of Directors noted that as of December 2013, Luca Cordero di Montezemolo had been a Director of Kering for more than 12 years and, having verified that he fulfils the personal independence criteria, acknowledges that he cannot however qualify as independent with regard to the criteria presented in the revised AFEP-MEDEF Code under the same conditions as Philippe Lagayette.

Regarding Baudouin Prot, the Board noted that although the Kering group maintains ordinary and arms' length relationships with the BNP Paribas group, BNP Paribas group declared that his activities for the Kering group did not engender a conflict of interest with regards to Kering.

Regarding Caroline Puel, the Committee noted that although the Kering group maintains arms' length relationships with certain journalists of *Le Point*, Caroline Puel declared that the nature of her professional activities did not engender a conflict of interest with regard to Kering.

Accordingly, four Directors out of the eleven Directors on the Board are classified as independent Directors, it being noted that the revised AFEP-MEDEF Code recommends that those companies with a controlling shareholder, which is the case of Kering, comply with the rule that at least one-third of the Board members should be independent Directors.

5.2.6. Activity of the Board of Directors and its specialised Committees

Activity of the Board of Directors in 2013 and up to February 20, 2014

Activity of the Board of Directors in 2013

During 2013, the Board met eleven times with an average attendance rate of 89.0%; the Chairman of the Board chaired all Board meetings.

Dates	Directors present (attendance rate)
January 18	10/12 (83.3%)
February 14	11/12 (91.7%)
March 19	10/12 (83.3%)
April 17	10/12 (83.3%)
June 18 (before the Combined General Meeting)	10/12 (83.3%)
June 18 (after the Combined General Meeting)	10/11 (90.9%)
July 25	9/11 (81.8%)
October 24	11/11 (100%)
November 13	11/11 (100%)
December 4	9/11 (81.8%)
December 20	11/11 (100%)

The work of the Board of Directors mainly involved reviewing the annual and interim financial statements, the Group's business activity and strategic issues.

During its meeting on January 18, 2013, the Board reviewed the work of the Audit Committee on key focus points for the closing of the 2012 financial statements and the Group's Internal Audit activity and heard a presentation on business activity in 2012 and PUMA's current situation.

The Board granted and allocated the Directors' fees for 2012 in accordance with the terms and conditions of its internal rules.

On February 14, 2013, following a review by the Audit Committee, which met two days before, the Board of Directors adopted the 2012 financial statements and reports in view of the Annual General Meeting. It adopted the draft Management Report of the Board of Directors to the Annual General Meeting and approved the Chairman's report on corporate governance, internal control and risk management.

On March 19, 2013, the Board met to deliberate on the Group's 2013 budget. The Board heard a presentation on the work of the Remuneration Committee concerning the proposed policy for 2013 with regard to the long-term remuneration of the Group's senior executives and, on the recommendation of the same Committee, determined the variable components of the remuneration of the Chairman and Chief Executive Officer and the Group Managing Director for 2013.

The Board met on April 17, 2013 to discuss the distribution of Groupe Fnac shares to Kering's shareholders and the listing of these shares on Euronext Paris, following which it convened the Combined General Meeting of June 18, 2013.

On June 18, 2013, the Board met prior to the Annual General Meeting held on the same day. On the recommendation of the Remuneration Committee, it decided to award a long-term performance bonus to the Chairman and Chief Executive Officer and to the Group Managing Director in recognition of their performance in the 2012 fiscal year. The plan decided upon for the two executive corporate officers is based on synthetic monetary instruments (and no longer on performance shares), whose initial value is indexed to the performance of the Kering share relative to a basket of nine Luxury and Sport & Lifestyle securities. In accordance with the AFEP-MEDEF recommendations, the Board made these grants subject to an additional performance condition and to an obligation to purchase Kering shares at the end of the vesting period. Lastly, the acquisition of a controlling interest in Pomellato SpA was presented to the Board of Directors.

After the Annual General Meeting on June 18, 2013, the new Board of Directors met to renew the terms of office of the Chairman and Chief Executive Officer, the Vice-Chair of the Board, the Group Managing Director and Honorary Chairman and to appoint the non-voting Directors. It also renewed the remuneration of the Chairman and Chief Executive Officer and Group Managing Director decided at the meeting of the Board on March 19, 2013 stipulating that, since it corresponds to separate duties, the full package of the Group Managing Director, excluding Directors' fees, will be paid equally, starting from July 1, 2013, by a Dutch subsidiary of the Group and a British subsidiary under the terms of the *Employment Agreement* signed with the former, and the *Service Agreement* signed with the latter. It also authorised an annual allowance for residence

in London of a value of GBP 900,000, excluding a company car and insurance for the Group Managing Director. The Board set at €500 million the amount of the authorisation given to the Chief Executive Officer, with the possibility to sub-delegate such authorisation, to carry out certain transactions, in particular those referred to in Article 15-II of the Company's Articles of Association, and approved the implementation of the share buy-back programme authorised by the Annual General Meeting on the same day.

On July 25, 2013, the Board reviewed the work of the Audit Committee, which had met two days before, heard the Statutory Auditors and a report on business activity for the first half of 2013, and adopted the interim financial statements and reports. It heard the report on its self-assessment carried out in conjunction with an external firm and discussed the improvement proposals mentioned below.

During the meeting on October 24, 2013, a report was presented to the Board on the Group's business activities, and its strategic content was the main subject of this discussion. It appointed Björn Gulden, Chief Executive Officer of PUMA as a new non-voting Director.

The meeting of November 13, 2013 focused on the examination of the offers received for La Redoute. After the meeting, the Board issued a press release expressing its wish to continue evaluating the options available and stressed that the one-off expenses announced by PUMA on November 8, 2013 would affect Kering's consolidated net income, Group share.

The Board of Directors met again on December 4, 2013, to examine the four offers received for La Redoute and Relais Colis. After examining the takeover offers, Kering's Executive Management decided to enter into exclusive negotiations with Nathalie Balla – the current Chairman and CEO of La Redoute – and Eric Courteille – Chief Financial Officer of Redcats – who presented a takeover plan for La Redoute and Relais Colis supported by a team of managers from the two companies.

On December 20, 2013, the Board decided to pay an interim dividend for 2013 as from January 24, 2014.

Activity of the Board of Directors in 2014 up to February 20, 2014

Between January 1, 2014 and February 20, 2014, the Board of Directors met twice.

During its meeting on January 16, 2014, the Board reviewed the work of the Audit Committee on key focus points for the closing of the 2013 financial statements and the Group's Internal Audit activity and heard a presentation on business activity in 2013. The Board granted and allocated the Directors' fees for 2013 in accordance with the terms and conditions of its internal rules.

On February 20, 2014, the Board of Directors met to adopt the 2013 annual financial statements and reports to be submitted to the Annual General Meeting as well as to approve this report.

Assessment of the Board of Directors

In accordance with its internal rules, since 2004 the Board of Directors carries out an annual self-assessment. At least once every three years, an independent Director or third-party expert appointed by the Board assesses and reports on its members and activity. The last assessment was carried out by a specialised firm which reported to the Board on July 25, 2013.

This operational assessment of the Board of Directors was conducted in February and March 2013 by means of individual interviews with each member.

From a general perspective, the Board of Directors appears to run satisfactorily, and the Audit, Appointments and Remuneration Committees provide excellent support.

All Directors considered that the Board put the skills of the individual members to good use.

The Directors were unanimous in voicing their complete confidence in the Executive Management.

A suggestion was made to boost the international dimension and the length of service of the Board, in order to bring in new skills, particularly in those industries on which the Group has chosen to focus its organisation, and to diversify its age range.

Meetings of the Board were considered to be open and frank, allowing members to discuss matters freely in a friendly and respectful manner. Some Directors, however, highlighted the dominance of financial issues, and would like to see the Board spend more time on strategy.

There was a general consensus in favour of more discussions on the organisation, succession plans for senior executives and key figures within the Group.

Some Directors also felt that they would like to have more time alone with Executive Management during Board meetings.

Audit Committee

Set up in December 2002, the main assignment of the Audit Committee, within the limit of the duties of the Board of Directors, is to review the annual and interim financial statements, to verify the relevance, continuity and reliability of accounting methods applied within the Company and the main subsidiaries and the implementation of internal control and risk management procedures in the Group, to be familiar with the policies implemented within the Group in relation to sustainability and respect for the environment, and to listen to and question the Statutory Auditors. The Committee is notified of the main problems identified by the Kering group's Internal Audit Department.

The Audit Committee reports to the Board on a regular basis and provides it with its opinions or recommendations on all matters within its scope of duties. Meetings of the Audit Committee give rise to a written and approved report.

The Committee may call on external experts and hear any person.

Each year it reviews the fees charged by the Company's Statutory Auditors and assesses their independence. The Audit Committee also considers potential Statutory Auditors for appointment.

The Committee is currently made up of three Directors: Jean-Pierre Denis, Chairman, and Yseulys Costes, both of whom are independent Directors, and Patricia Barbizet.

The Audit Committee members all have recognised financial or accounting skills, combining their expertise in general and operational management of banks and businesses as confirmed by their professional careers (see pages 119 and 122 of the Reference Document).

In accordance with the AFEP-MEDEF Consolidated Code, two-thirds of the members of the Committee are independent Directors.

Activities of the Audit Committee in 2013 and up to February 20, 2014

In 2013, the Committee met four times, with an attendance rate of 100%.

During the 2013 financial year, the Chief Financial Officer and Group Internal Audit Director were frequently invited to present their work to and answer questions at meetings of the Committee.

On January 15, 2013, the Head of the Internal Audit Department reported to the Committee on the Internal Audit activities within the Group in 2012 (audit assignments and monitoring of action plans); the Committee reviewed the accounting options for the annual financial statements and the scope of the Statutory Auditors' assignment as well as their independence and general programme for audit work in order to make its recommendations to the Board of Directors.

On February 12, 2013, the Committee met before the meeting of the Board held to adopt the 2012 financial statements, a topic to which it devoted most of its work, and heard the Statutory Auditors in relation to their reports on the financial statements. It also reviewed the services provided by Artémis in 2012.

On June 7, 2013, the Internal Audit missions for the Group were presented to the Committee.

With a view to the meeting of the Board on July 25, 2013 to adopt the interim financial statements, the Committee met two days before to review the financial statements.

Since the beginning of 2014, the Audit Committee has met twice, with all of its members present.

On January 15, 2014, the Head of the Internal Audit Department reported to the Committee on the Internal Audit activities within the Group in 2013; the Committee reviewed the accounting options for the annual financial statements and the scope of the Statutory Auditors' assignment as well as their independence and general programme for audit work in order to make its recommendations to the Board of Directors. The Committee also heard a report on the performance of the Kering share.

On February 18, 2014, the Committee met before the meeting of the Board to adopt the 2013 financial statements, a topic to which it devoted most of its work, and heard the Statutory Auditors in relation to their reports on the financial statements. It also reviewed the services provided by Artémis in 2013, and issued a favourable opinion on the proposal to renew the term of Office of Deloitte & Associés as Statutory Auditors.

On February 20, 2014, the Committee informed the Board of its work and recommendations.

Remuneration Committee

The Remuneration Committee's role is to review and make proposals to the Board of Directors on all items and terms of remuneration of the Chairman and Chief Executive Officer and the Group Managing Director (as explained above in the section "Remuneration of executive corporate officers") and the method of allocating Directors' fees granted to the Board by the Annual General Meeting. It reviews and assesses the remuneration policy for senior executives as well as the remuneration and benefits received or deferred, stock options, free share grants and/or similar benefits including retirement benefits and any other benefits granted to members of the Kering group Executive Committee.

The Remuneration Committee is composed of five Directors: Philippe Lagayette, Chairman of the Committee, Laurence Boone, Yseulys Costes and Jean-Pierre Denis, all four of whom are independent Directors, and Patricia Barbizet. Accordingly, with regard to the criteria of the revised AFEP-MEDEF Code, independent Directors represented the majority of the Remuneration Committee's members.

Activities of the Remuneration Committee in 2013 and up to February 20, 2014

In 2013, the Committee met twice, with an attendance rate of 100%.

In particular, on February 13, 2013, it met on the subject of the variable remuneration of the Chairman and Chief Executive Officer, the Group Managing Director and the members of the Executive Committee for 2012 and fixed remuneration for the coming fiscal years.

The Committee met in March 2013 to discuss the Group's long-term performance pay policy and suggested changes to this policy, specifically the substitution of performance shares by monetary units whose value is indexed to the performance of the Kering share price relative to a basket of

nine Luxury and Sport & Lifestyle securities, for designated Group employees and executive corporate officers. The Committee gave its opinion on the proposed grant policy, as regards the Chairman and Chief Executive Officer and the Group Managing Director, recommending an additional performance condition as well as a purchase obligation in accordance with the recommendations of the revised AFEF-MEDEF Code. The Committee also reviewed the criteria for determining the variable remuneration of the Chairman and Chief Executive Officer and the Group Managing Director for 2013.

On February 12, 2014, four members of the Committee met to review the variable remuneration for 2013 and the fixed remuneration of the Executive Committee, the Chairman and Chief Executive Officer and the Group Managing Director. The Remuneration Committee reported on its work and recommendations to the Board of Directors.

Appointments Committee

Set up in March 2003, the Appointments Committee reviews the proposed appointment of Directors as well as their situation with regard to the independence criteria defined by the Board. This review must be carried out prior to each appointment and at any time deemed appropriate by the Committee. It provides its opinions and recommendations in these matters to the Board.

The Committee is composed of three Directors: Patricia Barbizet, Chair, Luca Cordero di Montezemolo, independent Director (until December 2013), and Baudouin Prot.

Activities of the Appointments Committee in 2013 and up to February 20, 2014

In 2013, the Appointments Committee met once with two thirds of its members present.

On February 11, 2013, the Committee met to discuss the succession plan for the Group's senior executives, the assessment of the independence of Directors, the composition of the Board and of its Committees.

On February 17, 2014, the Committee met in the presence of all its members to discuss the succession plan for the Group's senior executives, the assessment of the independence of Directors, and the self-assessment and membership of the Board and its Committees. In addition, it reviewed a draft of the section of this report dealing with corporate governance.

The Appointments Committee reported on its work and made its recommendations to the Board of Directors.

Strategy and Development Committee

Within the limits of the duties of the Board of Directors, the Strategy and Development Committee's role is to identify, analyse and support the Kering group's strategic development initiatives.

The Committee is composed of four Directors: Patricia Barbizet, Chair, François-Henri Pinault, and Yseulys Costes and Philippe Lagayette, who are both independent Directors.

Activities of the Strategy and Development Committee in 2013 and up to February 20, 2014

On March 15, 2013, the Committee met with all members in attendance to examine the profitability of the Group's equity, and the Group and brand strategy.

The Committee did not meet in early 2014.

Sustainability Committee

The Sustainability Committee's role is to support the Company and the Group in establishing, implementing and monitoring good corporate governance, taking into account the aim of the Board and Executive Management to maintain a high level of sustainable development in their economic, social and environmental context, the Group's clear ambitions in terms of ethics and the social responsibility policies and practices upheld by the Group, its senior executives and employees.

The Committee is composed of five Directors: Jochen Zeitz, Chairman of the Committee, François-Henri Pinault, Patricia Barbizet, Jean-François Palus and Luca Cordero di Montezemolo, an independent Director (until December 2013).

Activities of the Sustainability Committee in 2013 and up to February 20, 2014

The Committee's first meeting took place on March 19, 2013, to approve the terms of its mission and to discuss the Group's sustainability strategy and objectives. It heard a presentation on the role and organisation of the various players responsible for governing sustainable development within the Group.

The Committee did not meet in early 2014.

5.2.7. Shareholder participation

All shareholders are entitled to attend Annual General Meetings in accordance with the conditions provided for by law. The terms and conditions of said attendance are specified in the provisions of Article 20 of the Articles of Association and are set out again on page 325 of the Reference Document.

5.2.8. Information likely to have an impact in the event of a public offer

No information other than that related to (i) the current shareholding structure (Artémis being the majority shareholder, with 40.9% of the capital and 57.5% of voting rights of Kering), (ii) the double voting right provided for under the Articles of Association, (iii) the share buy-back programme, and (iv) the authorisations given by the Annual General Meeting to increase the capital, as expressly described in the Reference Document, is liable to have an impact in the event of a public offer or can have the effect of delaying, deferring or preventing a change of control.

To the Company's knowledge, there are no agreements between shareholders that could restrict the transfer of shares or the exercise of voting rights.

5.2.9. Remuneration policy with regard to Directors and executive corporate officers

Directors' fees paid to the members of the Board of Directors

The Annual General Meeting determines the total amount of Directors' fees allocated to members of the Board of Directors.

On the basis of the recommendations of the Remuneration Committee, the Board of Directors allocates Directors' fees on the basis of the actual presence of members at meetings of the Board and of specialised Committees held during the relevant fiscal year.

Out of the total amount set by the Annual General Meeting, the rule followed by the Board is to allocate €114,000 as a special portion to the Vice-Chair (€45,000) and to the Chairmen of the Audit, Remuneration and Appointments Committees, respectively (€23,000 each), the balance being divided into two potentially equal portions:

- a) a fixed portion, allocated with a coefficient of 1 by Board membership, increased by 0.5 per committee;
- b) a variable portion, allocated with a coefficient of 1 per presence at each meeting of the Board and 0.5 for each attendance of a Committee meeting.

In respect to 2013, Kering paid the members of its Board of Directors €801,102 in Directors' fees.

Other remuneration

The remuneration and benefits granted to executive corporate officers primarily depend on the level of responsibilities attached to their functions, the Group's results and achievement of the targets pursued. They also take into account the remuneration paid by companies that are comparable in terms of size, business sector and international presence.

The variable portion of the remuneration paid to executive corporate officers is exclusively based on the achievement of financial targets. The Board of Directors adopted two financial criteria for 2013, which are based on Group performance indicators in terms of free cash flow and recurring operating income generation, each of these items accounting for one half. When targets are exactly met, the variable portion is equal to 120% of the fixed remuneration of the Chairman and Chief Executive Officer and at 100% of that of the Group Managing Director.

None of Kering's executive corporate officers benefit from provisions granting them a specific indemnity in the event they leave the Group.

The individual remuneration of the Directors and executive corporate officers of Kering is detailed on pages 126 to 131 of the Reference Document.

5.3. *internal control and risk management procedures implemented by the company*

This part of the Report by the Chairman of the Board of Directors on the risk management and internal control system within the Group is based on the AMF's reference framework published in July 2010. This framework takes into account the legislative and regulatory changes since the framework was first published in 2007, including the Act of July 3, 2008 and the Ordinance of December 8, 2008, which transposed EU Directive 2006/46/EC into French law and also supplemented the Financial Security Act of August 1, 2003.

The AMF's framework is based not only on the aforementioned French and EU legislation and regulations, but also on internal control and risk management good practices and international standards, in particular ISO 31000 and COSO II. The COSO II standard was analysed in depth when the risk management policy was drafted. This policy is set out in the section "The components of risk management".

5.3.1. Scope and principles of organisation

Kering is the parent company of the Kering group, whose main entities are the Luxury Division and the Sport & Lifestyle Division. The following report aims to describe the internal control procedures in the Group, in particular, the procedures relating to the preparation and processing of financial and accounting information. The scope of the Group covered by the report includes all fully-consolidated subsidiaries, i.e., the companies in which the Group directly or indirectly exercises exclusive control.

As a holding company, Kering's own activity consists in defining and implementing its strategy, organising and managing its holdings, stimulating the development of its Divisions, coordinating the financing of their activities, providing support and communication functions, and defining and implementing the insurance cover policy.

The internal control function follows the general organisation of the Group. It is both:

- decentralised at the level of the Divisions: Executive Management of the operational and legal entities is responsible for managing and coordinating the internal control process;
- unified around a common methodology and a single set of standards. The Kering holding company coordinates its deployment across the Group, supported by teams at Kering APAC and Kering Americas.

The section devoted to internal control procedures covers the Luxury Division. PUMA AG, listed on the German market, is subject to regulatory obligations applicable to internal control and risk reporting, which are described in the company's annual report and which may be consulted to supplement this report. It should be noted that the Kering group's best practices in this area have been adopted by the PUMA group. PUMA SE's Audit Committee keeps the Kering Audit Committee regularly informed.

5.3.2. General principles of risk management

According to the definition of the AMF, risks represent the possibility that an event may occur and could have an impact on people, assets, the environment, the company's objectives and its reputation.

Risk management covers areas that are much wider than just financial risks: for example, strategic, operational, reputational and compliance risk. Risk management is a key management tool that helps:

- create and preserve the value, assets and reputation of the Company;
- make the Company's decision-making and processes more secure to make it easier to achieve objectives;
- ensure that initiatives are consistent with the Company's values;
- bring Company employees together to develop a shared view of the main risks.

5.3.3. The components of risk management

The Group constantly strives to make its operations more secure and to improve its methodology to identify and deal with risks. In 2013, the Group pressed ahead with changes to its risk management methodology initiated in 2011 and the means used for its risk management system. The Group's risk management system provides an organisational framework, a three-step risk management process and continuous monitoring of the system.

5.3.3.1. An organisational framework

This organisational framework includes:

- an organisation that sets out the roles and responsibilities of the various persons involved and sets out procedures, as well as consistent and clear standards, for the system;
- a risk management policy that sets out the objectives of the system in line with the Company's culture, the shared language used, and the process to identify, analyse and deal with risks;
- an IT system that makes it possible to share information about risks internally.

Risk Committee

Within the scope of the Group's risk management policy and in accordance with Kering's corporate governance, Kering's Executive Management created a "Kering group Risk Committee" in 2011. This Committee is composed of the Group Managing Director, the Head of the Legal Department, the Head of the Internal Audit Department and the Head of the Security Department. As the Group's operations and activities expand, and become more complex and more international, the Risk Committee helps identify and manage strategic, operational, reporting and compliance risks that could have an impact on the Group's business operations. Internal rules establish the rules for the Committee and how it operates.

The Risk Committee reviews (i) the validation and monitoring process for the Group's risk management policy, (ii) the monitoring of the topicality and relevance of the analysis of strategic, operational, reporting and compliance risks, (iii) the analysis summaries of general and specific risks, and (iv) the validation and monitoring of the rolling-out of action plans aimed at better controlling identified risks.

The Risk Committee's work may be brought to the attention of the Audit Committee, which is informed of the Committee's internal rules and has access to the reports from its meetings.

Risk manager

The risk manager function was also created within the Company to coordinate this reinforced risk management system, ensure that the Executive Management teams of the Divisions analyse the main risks within their scope of business, and provide the members of the Risk Committee, prior to each meeting, with the information and documents necessary for their work and their discussions.

Risk management policy

After reviewing in particular the COSO II standard, the Group implemented a risk management policy that was sent to the Internal Control Departments of the Divisions. This document describes the methods used by the Group for the risk analysis work that it conducts every two years.

5.3.3.2. A three-step risk management process:

The risk management process involves:

- identifying risks: this step makes it possible to identify and centralise the main risks. A risk is characterised by an event, one or more internal or external sources, and one or more consequences. Risk identification within the Group is part of a continuous effort with biannual assessments;
- analysing risks: this step involves reviewing the potential consequences of the main risks (for example, financial, human, legal or reputational consequences) and assessing whether they may occur as well as the level of risk control. This is also a continuous effort, and assessments are conducted twice a year during work group sessions with the main managers of the Divisions; the risk management policy describes in detail the criteria and procedures for these assessments;
- dealing with risk: during this last step, the most appropriate action plan(s) for the company is (are) identified.

This risk mapping system was put in place several years ago and has been strengthened since 2011 with the presentation made to the Risk Committee of a consolidated risk map for each Division. The risk management process is monitored over the long-term.

In 2012, the Group requested its brands to include risk management in their budget process.

In 2013, the Group deployed special software for the management of risk identification and analysis which guarantees a common methodology across both Divisions and extends the responsibilities of the managers included in these work sessions.

5.3.3.3. Oversight of the risk management system

The risk management system is monitored and reviewed on a regular basis to help continuously improve the system. The objective is to identify and analyse the main risks and to learn from risks that have materialised.

The Risk Committee meets at least twice a year to review the risk maps drawn up by the Executive Management teams of the Group and the Divisions, and to monitor the progress of the special action plans.

The Committee discusses its self-assessment once a year.

The Risk Committee met twice in 2013 and the Audit Committee was made aware of its work.

5.3.4. Link between risk management and internal control

The risk management and internal control systems are complementary, and together help control the Group's activities:

- the risk management system is designed to identify and analyse the main risks. Risks are dealt with, and addressed in action plans that can be adapted to the

organisation, may include project management, and may also involve implementing controls. The controls to be implemented are part of the internal control system and may be reviewed based on the risk maps;

- the internal control system relies on the risk management system to identify the main risks to be controlled;
- the audit plan uses the risk map to test the assessment of the level of control of the risks identified.

The link between and the combined balance of the two systems depend on the control environment, which is their common base, particularly: the risk and control culture of each company and the ethical values of the Group.

5.3.5. General principles of internal control

5.3.5.1. Definition of internal control

The internal control procedures applicable within the Kering group rely on a set of means, policies, conduct, procedures and appropriate actions to ensure that the necessary measures are taken in order to control:

- activities, operational effectiveness and the efficient use of resources;
- strategic, operational, financial or compliance risks that could have a significant impact on the Company's assets or the achievement of its objectives.

Internal control is defined as a process conducted by Executive Management, under the supervision of the Board of Directors, and implemented by senior executives and all employees. Regardless of its quality and its degree of application, it cannot provide an absolute guarantee of the achievement of goals falling within the following categories:

- compliance with laws and regulations in force;
- application of guidelines and directions set by Executive Management;
- smooth operation of internal processes, particularly those contributing to the safeguarding of assets;
- reliability of financial and accounting information.

5.3.5.2. Limits of internal control

The probability of meeting such objectives is subject to the limits inherent in any internal control system, such as:

- human errors or malfunctions occurring when decisions are made or applied;
- deliberate collusion amongst several individuals, enabling them to elude the control system;
- situations in which implementing or maintaining a control would be more expensive than the risk that it is supposed to remedy.

Furthermore, it is understood that in pursuing the objectives indicated above, companies are faced with events and

uncertainties beyond their control (unexpected changes in the markets, competitive environment or geopolitical situation, or error in forecasting or assessing the effects of such changes on the organisation, etc.).

5.3.6. Components of internal control

The quality of the internal control system is based on the following components:

- the control environment based on rules of conduct and integrity supported by Management and communicated to all employees;
- an organisation that clearly defines responsibilities and has adequate resources and skills;
- a system to identify, analyse and manage the main risks;
- ongoing oversight of the internal control system and regular review of the functioning of the system.

5.3.6.1. Internal control environment

The Group's internal control system is based on a decentralised organisation that clearly defines responsibilities through the Group Charter. It includes principles and values governing the conduct and ethics of all its employees, presented in the Code of Business Practices. It also includes an Internal Control Charter. Moreover, it relies on human resources management that ensures the competency, ethical conduct and involvement of its employees.

The Group Charter

The Kering group adopted a Group Charter several years ago which was updated in 2012 and provides the framework for the decentralisation of the organisation and the responsibility of senior executives. The Charter defines the guiding principles governing the relations between Kering and the Divisions. It also defines, within each functional area, (i) the matters that fall within the delegated responsibility of the Divisions, (ii) those that must be communicated to Kering within sufficient timeframes, and (iii) those requiring the prior authorisation of Kering.

Group principles and values

The ethical principles of the Kering group are set out in the Code of ethics, first circulated in 2005 and then recirculated in 2009 and 2013 to all Kering group's employees.

The third edition of the Code of ethics included a Suppliers' Charter and the adoption of the precautionary principle, especially in environmental protection. It also presents new developments in the Group's ethics organisation and the steps to take in cases of suspected non-compliance with key Kering commitments.

The Code sets out the Group's commitments and rules of conduct towards its main stakeholders:

- employees;
- customers and consumers;
- business partners and competitors;
- the environment;
- civil society;
- shareholders and financial markets.

This intensification of promotion and respect for ethics within the Group has also seen the implementation of an online training programme in ethics and code compliance for all Kering employees worldwide. It is based on case studies that show ethics in the light of daily professional life, and will be updated annually.

In addition to the first circulation of its code of ethics in 2005, Kering has also set up a Group Ethics Committee. This Committee is now supported by two regional Ethics Committees: the Asia-Pacific (APAC) Ethics Committee and the Americas Ethics Committee. A global hotline is also available to all staff in all twelve of the Code's languages.

The Ethics Committees are composed of representatives of the Group's brands and Kering staff (Corporate, Kering APAC and Kering Americas). This entire structure is managed by Kering's Chief Sustainability Officer and Head of International Affairs.

The Ethics Committees have three main functions:

- supervising the circulation and application of the Code of ethics and the principles that it defends;
- responding to any issues raised by a Group employee, be it a simple request for clarification or a question relating to the interpretation of the Code and its application, or a claim submitted to the Committee due to alleged non-compliance with one of the Group's ethical principles;
- generating initiatives for developing the Group's sustainable development policy and activities.

The changes made to the Code and the organisation of ethics within the Group are examined in detail in section 3 "Sustainability".

The Divisions may in addition set up their own specific additional procedures and guidelines, such as supplier gift charters.

Moreover, the Insider Good Practices Committee, made up of the Group Managing Director and the Head of the Legal Department, implements preventive measures to protect against insider trading activities (e.g., a calendar of black-out periods, a list of permanent and occasional insiders, newsletters, etc.).

The Internal Control Charter

The Kering group adopted an Internal Control Charter in 2010 that was circulated throughout the Group. The Charter defines internal control and sets out its objectives as

presented in the AMF's reference framework. It also specifies the limits of internal control, which cannot under any circumstances provide an absolute guarantee that the Company's objectives will be achieved. The Charter specifies that the holding company serves to unite the various entities. It also sets out the responsibilities of each Division in implementing an internal control system that is adapted to their types of activities.

The Charter defines the role of each person involved in the internal control system and the bodies responsible for oversight and assessment.

Furthermore, the Charter establishes the tools in place to assess internal control and risks: self-assessment of internal control and mapping of major risks.

Human resources policy

Quality of human resources and cohesion of management are key success factors of the Group. Kering makes sure that the various Divisions apply human resources policies that are adapted to their context and the challenges they face, while meeting the highest local standards. The principle of autonomy and empowerment of the Divisions is also applied, but the Group guarantees the consistency of the policies implemented and their alignment with Kering's values and actions defined centrally.

With regard to social policy, the Divisions apply high standards of dialogue and participation of employees in the Company, while the Group engages in dialogue at the level of the Group's employee representative bodies, the Group Works Council and the European Works Council. In 2010, the European Works Council and Kering's Group management adopted a "Framework of Commitment on the quality of life at work and the prevention of work-related stress". Kering has also set up an employee opinion survey conducted every two years, which also concerns the Divisions. The survey was conducted again in 2013. The Group develops cross-functional training programmes and carries out people reviews every year of the Divisions' managerial resources: Kering thus ensures that there is a good match both now and in future between the managerial resources and the challenges facing the Divisions. Furthermore, the Group maintains an active market monitoring policy for all key positions for which the internal succession plan does not appear sufficiently strong.

5.3.6.2. Organisation and resources

The organisation of internal control depends on actively-involved persons at every level of the chain of responsibility, from Executive Management to all employees, as well as the bodies responsible for oversight and assessment: the Board of Directors, the Audit Committees, the Internal Audit and Risk Departments and the Statutory Auditors.

The Executive Committee

The Kering group Executive Committee, which is an Executive Management body, is composed of the Chairman and Chief Executive Officer, the Group Managing Director, the Deputy Chief Executive Officer of the Luxury Division, the Chief Executive Officer of PUMA SE, the Chairmen and Chief Executive Officers of Gucci and Bottega Veneta, and the Kering functional Directors (Human Resources, Finance, Sustainability, International Institutional Affairs and Communications).

The Executive Committee meets regularly, frequently, and whenever required, in accordance with the policies of the Strategy and Development Committee, in order to:

- draw up and coordinate the Group's operating strategy;
- define the priorities through objectives assigned to the Divisions and the main functional projects;
- develop synergies between the Divisions;
- propose acquisitions and disposals to the Board of Directors;
- ensure proper implementation of the policies and projects defined within the framework of Kering Sustainability.

Kering group strategies and goals are discussed each year via the medium-term plans and the budgets of the business units of each of the Divisions.

Executive Management teams

The Executive Management teams define, coordinate and oversee the Group's internal control system. They are also in charge of initiating the necessary corrective measures. The Executive Management teams' involvement is of key importance to the internal control system, given the Kering group's organisation.

Oversight of the system results in an annual report on internal control prepared by the Chief Executive Officer of PUMA.

Management and employees

Management is the operational actor of internal control; it relies on internal control to perform its duties and reach its objectives. In this respect, management implements the internal control operations related to its area of responsibility and ensures that the internal control system is adapted to its activities.

Employees must have the knowledge and information necessary to set up, operate and oversee the internal control system, with regard to the assigned objectives. In their day-to-day activities, they must follow the principles and rules of control and may suggest ways to improve and detect malfunctions.

The bodies responsible for oversight and assessment are:

The Board of Directors

The Board of Directors contributes to the overall control environment through the skills of its members. The Board is regularly informed about the methodologies used for internal control and the management of major risks, which it presents in its Board report.

Audit Committees

Under the responsibility of the Board of Directors, to which it regularly reports on these matters, the Kering Audit Committee, comprising three members, two of whom are independent, is in charge of monitoring:

- the procedures for preparing financial information;
- the effectiveness of internal control and risk management systems;
- the statutory audits of annual financial statements and, if need be, consolidated financial statements performed by the Statutory Auditors;
- the independence of the Statutory Auditors.

The Kering Audit Committee also carries out the following actions:

- verifies that the Group has Internal Audit Departments that are structured and adapted to the tasks of identifying, detecting and preventing risks, anomalies or irregularities in the management of the Group's affairs;
- assesses the relevance and quality of the methods and procedures used;
- reviews the Internal Audit reports, and the recommendations issued;
- approves the annual Internal Audit plan;
- reviews the work conducted by the Risk Committee and has access to the minutes of its meetings.

Kering's Audit Committee meets at least four times a year. Similarly, there is an Audit Committee within the Luxury Division and PUMA, whose methods of operating and actions are identical to those of Kering's Audit Committee; they meet prior to the meeting of Kering's Audit Committee.

Internal Audit and Risk Management Departments

PUMA, as a company listed in Germany, is required to have an Internal Audit Department. This Department works with the Kering group's Internal Audit Department to provide full coverage of the Group to the audit teams.

Through their work, the Internal Audit and Risk Management Departments help assess the internal control system; they make recommendations to improve how the system operates. The Internal Audit and Risk Management Departments are also in charge of coordinating risk management, in particular through risk mapping, and monitoring the action plans. The Heads of the Internal Audit Departments report the main

results of their assessments to Executive Management and the Audit Committee.

At the level of Kering, the Group Internal Audit Department, which reports to the Chairman, coordinates, harmonises and optimises the working methods and tools. It also offers its services (regulatory intelligence, expertise, resources, etc.) and conducts cross-functional operational missions in specific fields.

The Group Internal Audit Department centrally administers and analyses internal control pursuant to the Financial Security Act and the new AMF reference framework described in more detail in the section below entitled "Oversight of the system".

The Group Internal Audit Department also carries out an active watch with regard to best internal control practices.

The Internal Audit Departments check the control procedures implemented by other Departments and conduct operational and financial audits within their remit. During 2013, the Internal Audit teams taken together conducted around sixty audit assignments, including special assignments.

The Internal Audit Departments draw up the audit plans, relying, in particular, on the Group's process guidelines and based on the major risks identified for the brands. They take account of special requests from senior management and other operational departments. These projects are discussed with the main persons in charge. The Audit Committees review and approve the audit plans thus drawn up.

The main issues identified by the Internal Audit Departments have been reported to the Audit Committees. The Audit Committees were informed of the issues identified and the action plans set up by the entities concerned.

Apart from these assignments, all of the Internal Audit resources in the Kering group are dedicated to promoting internal control on all business processes and activities, whether operational or financial, whether they relate to stores, warehouses or headquarters, distribution or manufacturing activities.

At the end of 2013, the Internal Audit Department of the Kering group consisted of 17 employees, down from 21 in 2012, when the figure included the internal auditors of Fnac and Redcats. Their rules of conduct are described in the Audit Charter to which they refer. In general, the Audit Charter stipulates that:

- at the end of each audit, the findings and recommendations are presented to the managers of the area or areas concerned;
- any agreements or disagreements made known by the audited parties concerning the proposed recommendations are included in the final report that specifies any action plan, responsibilities and the deadlines for implementation;

- the operational staff members concerned are responsible for implementing recommendations;
- the Internal Audit Department is in charge of verifying their implementation.

The Internal Audit activities performed are consistent with the work of the Audit Committees and the results of the work performed by the Statutory Auditors.

The Internal Audit Departments update their Audit Committee on progress made on the audit plan and the follow-up of their action plans at least twice a year.

In 2013, Kering's Internal Audit Department published its foundation documents that establish the methodology shared by both Divisions: the audit manual and the two audit approach documents. The development of the two audit approaches reflects the differences between the Divisions.

The Statutory Auditors

The Statutory Auditors review the internal control systems in order to certify the financial statements, by identifying the strengths and weaknesses, by assessing the risk of material misstatement, and where applicable, by making recommendations. Under no circumstances do the Statutory Auditors take the place of the company in implementing the internal control system.

The role of the Statutory Auditors is to annually certify the completeness, accuracy and fair presentation of the parent company and consolidated financial statements and issue a review report on the Group's interim consolidated financial statements.

The audit assignments are allocated between two Statutory Auditors: Deloitte and KPMG.

The main issues covered by the Auditors are as follows:

- identification of the risk areas and performance of tests by sampling in order to validate the completeness, accuracy and fair presentation of the financial statements with regard to their company or consolidated materiality level;
- validation of the main accounting treatments and options throughout the year, in coordination with the management of the Divisions and Kering;
- application of the accounting standards defined by Kering for the Divisions;
- preparation of an audit report for each Division, in order to certify the Kering consolidated financial statements, including any comments on internal control;
- presentation of a general overview for the Kering group presented to Kering's Management and to the Audit Committee;
- preparation of Statutory Auditors' reports for Kering's shareholders. These reports appear in the Reference Document on pages 110, 152, 281, 303 and 305.

5.3.6.3. Risk management

The risk management system is described in the section "Risk management" (see pages 187 to 193).

5.3.6.4. Oversight of the system

Three types of work are used for the ongoing oversight of internal control and regular review of the functioning of the system: work performed by Internal Audit, the remarks made by the Statutory Auditors and the annual self-assessments.

Within each Division, and for each process identified, the managers in charge are asked to assess the level of internal control using key controls for the smooth running of their activities, in order to identify any weaknesses within their activities and implement corrective measures.

Self-assessment is not simply a reporting tool intended for the Internal Audit Departments or the Audit Committees; it is also a system that allows the Executive Management teams of each Division to obtain reasonable assurance regarding the strength of the internal control system. Self-assessment makes it possible to strengthen the level of internal control through operational action plans.

The internal control analysis methodology is based on the following principles:

- a self-assessment, using questionnaires, conducted with the key operational staff members in each of the Divisions following the breakdown of activities into key processes. An overhaul of the self-assessment questionnaires was initiated in 2011 and continued in 2012 in order to make the questionnaires more efficient and tailored to business operations; in 2013 the self-assessment campaign was extended significantly to cover almost 89% of the identified activities at the Divisions and Kering;
- these questionnaires serve as a supplemental indicator for these operational staff members in terms of assessing the quality of the internal control procedures of which they are in charge. They make it possible to harmonise the level of internal control applied throughout the Group and for all activities to benefit from best practices, in particular within newly-acquired entities. They allow action plans for improvements to be launched based on the results of these self-assessments;
- the questionnaire regarding the finance, accounting and management process is circulated each year. It takes into account the AMF's reference framework and, in particular, its application guide. This questionnaire includes 50 or so questions on the mandatory key controls for the Group. It is circulated among the largest subsidiaries in the Luxury and Sport & Lifestyle Divisions. As regards the other processes, following the implementation of a dedicated application, in 2013 there was a significant increase in the number of processes covered and the number of subsidiaries included in the self-assessment campaigns for each of these processes.

The self-assessment of internal control is now performed annually, not only for the finance process but for all processes.

In 2013, the Group's Internal Audit Department began to extend its self-assessment procedures to directly-owned stores throughout the Luxury Division. These quarterly self-assessments give the sales network managers an idea of the effectiveness of their internal control and a teaching tool that helps store managers to meet their internal control obligations.

This approach was presented and approved by the Kering Audit Committee.

5.3.7. Description of internal control procedures relating to the preparation of financial and accounting information

Organisation of the accounting and management function

Financial and accounting information is prepared by the Finance Department. At the level of Kering, this department supervises the Financial Control Department, the Financing and Treasury Department, the Insurance Department, the Tax Department as well as the Financial Communications Department.

The production and analysis of financial information is based on a set of financial management procedures including:

- medium-term plans, which measure the consequences of strategic decisions of the Group's key financial and management indicators. They are also used for the annual assessment by the Group of values in use of assets relating to the various cash-generating units;
- budgets, drawn up on the basis of discussions between the operating Departments and the members of the Group's Executive Management, and broken down into two phases: a budget describing the main financial indicators and operating action plans is defined in the fourth quarter of the fiscal year and definitively approved in the first quarter of the following year, taking into account significant events that have occurred in the meantime, where applicable;
- monthly reporting monitors the performance of the Luxury and Sport & Lifestyle Divisions throughout the fiscal year via specific indicators whose consistency and reliability are reviewed by the Financial Control Department. This Department also oversees the consistency of the accounting treatment applied by the Divisions with Group rules and carries out, in collaboration with the financial controllers of the Divisions, an analytical review by comparison with the budget and the previous year;
- the Executive Management of Kering and the senior executives of the Group's Divisions hold monthly meetings to assess changes in activities on the basis of financial and operational data communicated by each of them;

- the Group regularly monitors changes in the off-balance sheet commitments of the Group's Divisions. This check is carried out, in particular, as part of the statutory consolidation process given that the Divisions are required to provide an exhaustive list of their commercial or financial commitments along with a follow-up from year to year.

Organisation of the consolidation function

The statutory consolidation of the financial statements is carried out at the end of June and December using the Group consolidation tool that allows the transfer of financial information from the Divisions after a complete process of approval of the consolidation reporting packages by their Statutory Auditors and by the Chief Executive Officers and Chief Financial Officers of the brands who then commit themselves via a signed representation letter, thus confirming the quality of the financial information transferred.

There are consolidation levels within the Divisions that guarantee a first level of control and consistency.

Kering's Financial Control Department coordinates the process and is in charge of producing the Group's consolidated financial statements. For this purpose, the department sends instructions to the Divisions specifying the list of reports to be sent, the common assumptions to be used as well as the specific points to be taken into account.

Financial Communications

The purpose of the Financial Communications Department is to provide continuous information, to convey a consistent and clear message as well as to respect the principle of equality between shareholders in relation to information.

Financial communication is meant for a diversified public composed mainly of institutional investors, individuals and employees. Executive Management, the Finance Department and the Financial Communications Department are the contacts for analysts and institutional investors. The Human Resources Department manages the information provided to employees alongside the Financial Communications Department.

Financial information is provided by the following means: Annual General Meetings, periodic publications, press releases, etc., and on all media: press, Internet, direct telephone contact, individual meetings, etc.

Financing and Treasury Department

The Financing and Treasury Department manages liquidity, counterparty, foreign exchange and interest rate financial risks and moreover coordinates the Group's cash management. It manages the Group's banking policy, gives instructions in terms of the allocation of activity by bank and coordinates Group invitations for bids. It ensures the consistency between published financial information and policies governing interest rate, foreign exchange and liquidity risk management. Almost all of the financing is set up by

Kering or Kering Finance. Exceptions are analysed on a case-by-case basis according to specific opportunities or constraints and require Kering's agreement.

Internal control is strengthened by the centralisation of certain functions within Kering:

The Legal Department

The Legal Department, apart from its specific function at Company level, assists the entire Group with important legal affairs and coordinates analyses or studies common to the Divisions or of significant interest for the Group. It also formulates Group policy and oversees its application. It provides the Divisions with a methodology for identifying standard risks enabling them to anticipate such risks and inform the Legal Department.

The Tax Department

The Tax Department coordinates the Group's tax policy, advises and assists the Divisions on all issues related to tax law as well as in the implementation of tax consolidation in France.

The Insurance Department

The Insurance Department sets up and manages the Group's insurance policy. It carries out assignments to identify, quantify and deal with risks (prevention, self-insurance or transfer to insurers or reinsurers).

The Communications Department

The Communications Department is involved in the Group's development by enhancing its trade image and reputation internally and externally.

The Information Systems Department

The Information Systems Department ensures optimal operational performance, control of IT risk and advanced information systems.

This report on internal control, resulting from the contribution of the various internal control players mentioned in the first section of this document, was presented in its draft version to Kering's Audit Committee for its opinion and was approved by Kering's Board of Directors on February 20, 2014.

Chairman of the Board of Directors

6. *statutory auditors' report*

prepared in accordance with article L. 225-235 of the french commercial code (code de commerce) on the report of the chairman of the board of directors year ended december 31, 2013

This is a free translation into English of the Statutory Auditors' report issued in French prepared in accordance with Article L. 225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Directors of Kering S.A. on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information issued in French and is provided solely for the convenience of English speaking users. This report should be read in conjunction and construed in accordance with French law and the relevant professional standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Kering S.A. and in accordance with Article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-37 of the French Commercial Code for the year ended December 31, 2013.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report on the internal control and risk management procedures implemented by the Company and containing the other disclosures required by Article L. 225-37 of the French Commercial Code, particularly in terms of corporate governance.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of accounting and financial information, and
- to attest that this report contains the other disclosures required by Article L. 225-37 of the French Commercial Code, it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of accounting and financial information. These procedures mainly consisted in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of accounting and financial information on which the information presented in the Chairman's report is based and the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining whether any significant weaknesses in the internal control procedures relating to the preparation and processing of accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our procedures, we have nothing to report on the information on the Company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with Article L. 225-37 of the French Commercial Code.

Other disclosures

We hereby attest that the Report of the Chairman of the Board of Directors includes the other disclosures required by Article L. 225-37 of the French Commercial Code.

Paris La Défense and Neuilly-sur-Seine, March 31, 2014

The Statutory Auditors

KPMG Audit
Département de KPMG SA
Hervé Chopin

Deloitte & Associés
Antoine de Riedmatten

chapter 5

financial information

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1. activity report

1.1. foreword – definitions

IFRS 5 – Non-current assets held for sale and discontinued operations

In accordance with IFRS 5 – Non-current assets held for sale and discontinued operations, the Group has presented certain activities as “Non-current assets held for sale or for distribution and discontinued operations”. The net income or loss from these activities is shown on a separate line of the income statement, “Net income (loss) from discontinued operations”, and is restated in the statement of cash flows and income statement for all reported periods.

Assets and liabilities relating to assets held for sale or for distribution and discontinued operations are presented on separate lines in the Group’s statement of financial position, without restatement for previous periods.

As stated in Note 12 to the consolidated financial statements, Groupe Fnac and Redcats are classified as “Non-current assets held for sale or for distribution and discontinued operations”. As of January 1, 2013, Redcats Asia is no longer presented under “Non-current assets held for sale or for distribution and discontinued operations” following the Group’s decision to retain this activity.

Definition of “reported” and “comparable” revenue

The Group’s “reported” revenue corresponds to published revenue. The Group also uses “comparable” data to measure organic growth. “Comparable” revenue is 2012 revenue restated for the impact of changes in Group structure in 2012 or 2013, and for translation differences relating to foreign subsidiaries’ revenue in 2012.

Definition of recurring operating income

The Group’s total operating income includes all revenues and expenses directly related to Group activities, whether these revenues and expenses are recurring or arise from non-recurring decisions or transactions.

“Other non-recurring operating income and expenses” consists of unusual items, notably as concerns the nature or frequency, that could distort the assessment of Group entities’ economic performance, as defined by French national accounting board (*Conseil National de la Comptabilité* – CNC) recommendation No. 2009-R.03 of July 2, 2009.

Consequently, Kering monitors its operating performance using “Recurring operating income”, defined as the difference between total operating income and other non-recurring operating income and expenses (see Notes 8 and 9 to the consolidated financial statements).

Recurring operating income is an intermediate line item intended to facilitate the understanding of the entity’s operating performance and which can be used as a way to estimate recurring performance. This indicator is presented in a manner that is consistent and stable over the long-term in order to ensure the continuity and relevance of financial information.

Definition of EBITDA

The Group uses EBITDA to monitor its operating performance. This financial indicator corresponds to recurring operating income plus net charges to depreciation, amortisation and provisions on non-current operating assets recognised in recurring operating income.

Definition of free cash flow from operations and available cash flow

The Group also uses an intermediate line item, “Free cash flow from operations”, to monitor its financial performance. This financial indicator measures net operating cash flow less net operating investments (defined as purchases and sales of property, plant and equipment and intangible assets).

“Available cash flow” corresponds to free cash flow from operations plus interest and dividends received less interest paid and equivalent.

Definition of net debt

As defined by CNC recommendation No. 2009-R.03, net debt comprises gross borrowings, including accrued interest, less net cash.

Net debt includes fair value hedging instruments recorded in the statement of financial position relating to bank borrowings and bonds whose interest rate risk is fully or partly hedged as part of a fair value relationship (see Note 31 to the consolidated financial statements).

The financing of customer loans by fully-consolidated consumer credit businesses is presented in borrowings. Group net debt excludes the financing of customer loans by consumer credit businesses.

1.2. 2013 highlights

PPR becomes Kering

Having completed its transformation into a global leader in apparel and accessories operating in the Luxury and Sport & Lifestyle markets, on March 22, 2013 the Group announced its decision to change its name to "Kering" to better reflect its new identity. This name change was approved at the Annual General Meeting held on June 18, 2013.

Distribution of Groupe Fnac shares to Kering shareholders and listing of Groupe Fnac shares on NYSE Euronext Paris

In line with the principle announced on October 9, 2012, at its April 17, 2013 meeting Kering's Board of Directors unanimously approved the listing of Groupe Fnac shares through a distribution of Groupe Fnac shares to Kering shareholders. This listing had previously been approved by the employee representative bodies of both Groupe Fnac and Kering SA.

At the Annual General Meeting of June 18, 2013, Kering's shareholders authorised the payment of an additional cash dividend of €2.25 per share (following an interim cash dividend of €1.50 paid on January 24, 2013), and an additional dividend in the form of Groupe Fnac shares at a ratio of one Groupe Fnac share for every eight Kering shares held.

On June 20, 2013 prior to the start of market trading:

- the rights to the balance of the cash dividend for 2012 were detached from the Kering shares and the dividend was paid;
- the rights to the allotment of Groupe Fnac shares were detached from the Kering shares and the deliveries of Groupe Fnac shares began.

Consequently, the Groupe Fnac share allotment rights began trading on Euronext Paris on June 20, 2013.

Kering distributed a total of 15,672,034 shares representing just under 95% of Groupe Fnac's capital as of the ex-dividend date, in view of the fact that a 5% stake in the company had already been sold in the first half of 2013 to Kernic Met BV (a company indirectly held by Kering), which in turn had transferred title to the 830,907 shares concerned as part of a financial forward contract.

In accordance with IFRIC 17, as of June 20, 2013 – the date on which the Groupe Fnac shares were delivered to their shareholders and first listed – the Groupe Fnac shares were derecognised by Kering based on a fair value of €314 million for 95% of the shares (15,672,034 shares x €20.03).

The derecognition led to a €256 million post-tax disposal loss in 2013, taking into account the costs of the distribution and Groupe Fnac's net income in the first half of the year.

This disposal loss was recorded in "Net income (loss) from discontinued operations".

Kering continues its divestment of Redcats and finalises the Group's transformation

On January 3, 2013, Kering announced that it had received a firm offer from Alpha Private Equity Fund 6 ("APEF 6") to acquire Redcats' Children and Family division – comprising the Cyrillus and Vertbaudet brands – for an enterprise value of €119 million. The transaction was completed on March 28, 2013.

On February 5, 2013, Kering announced the closing of the sale of OneStopPlus to Charlesbank Capital Partners and Webster Capital in accordance with the terms of the definitive sale agreement announced on December 5, 2012. This transaction marked the final step in the sale of all of Redcats USA's operations.

On February 25, 2013, Kering announced that Redcats had entered into an agreement to sell its Nordic activities, Ellos and Jotex to Nordic Capital Fund VII for an enterprise value of €275 million. The transaction was completed on June 3, 2013.

During the second half of 2013, Kering continued the process for its planned sale of La Redoute and Relais Colis. On December 4, 2013, after examining the four takeover offers, Kering's Board of Directors decided to enter into exclusive negotiations with Nathalie Balla – the current Chairman and CEO of La Redoute – and Eric Courteille – Chief Administrative Officer of Redcats – who presented a takeover plan supported by a team of managers from the two companies. In line with the undertakings it gave in relation to the takeover, Kering will recapitalise La Redoute and Relais Colis at the same time as the sale is carried out. This recapitalisation will ensure that both companies enjoy a healthy financial position backed by a significant cash surplus and that the new owners will be able to fund their transformation and modernisation measures.

Nathalie Balla and Eric Courteille presented the details of their business plan to the relevant employee representative bodies in January 2014 in accordance with the standard information and consultation procedure required under French law, and they are currently pursuing negotiations with La Redoute's trade unions.

The results of Redcats' businesses during the year amounted to a €562 million loss and were recorded under "Net income (loss) from discontinued operations". This amount includes Kering's €315 million recapitalisation undertaking in relation to La Redoute, the impairment losses recorded against Redcats' residual assets and the disposal gains and losses on activities sold during the period. It does not include the cost of financing the social guarantees to be granted to the employees concerned by the modernisation measures at La Redoute and Relais Colis. The total cost of this financing, which cannot as yet be reliably estimated,

will lead Kering to set up a trust guaranteeing the application of the employee measures approved in a majority collective agreement with trade unions. The associated costs will be recognised in 2014.

Kering strengthens its portfolio of luxury brands

In early January 2013, Kering completed its acquisition of a majority stake in the Chinese fine jewellery brand Qeelin. Launched in 2004, Qeelin is the first Chinese luxury jeweller to have developed an international network of stores in the most prestigious shopping districts worldwide. At the time of acquisition, it operated 14 stores (seven in Mainland China, four in Hong Kong and three in Europe) and is sold in a number of multi-brand stores such as Colette in Paris and Restir in Tokyo.

On January 15, 2013, Kering acquired a majority stake in the luxury designer brand Christopher Kane with a view to developing the brand's business in close partnership with its eponymous creator, the Scottish designer Christopher Kane. Founded in 2006, Christopher Kane is a distinctive and exciting brand with a unique DNA.

Qeelin and Christopher Kane have been fully consolidated in Kering's financial statements since January 1, 2013. As of December 31, 2013, Kering valued the Qeelin brand at €20 million on a provisional basis following the initial purchase price allocation process, which will be completed during 2014.

On March 25, 2013, Kering announced that it had acquired a majority stake in France Croco and Tannerie de Périers. Founded in 1974, France Croco is a leading independent tannery located in Normandy and specialised in the sourcing, tanning and processing of crocodile skins.

This acquisition will allow Kering's brands to further secure a sustainable supply of high quality crocodile skins and France Croco's activities are highly complementary to those of Caravel, another tannery owned by Kering which specialises in sourcing and tanning precious skins. France Croco and Tannerie de Périers have been consolidated in Kering's financial statements since the second quarter of 2013. The purchase price allocation process for this acquisition was still in progress at end-December 2013.

On April 22, 2013 Gucci further demonstrated its commitment to the excellence of "Made in Italy" and to Tuscany by announcing that it had acquired the Italian porcelain maker, Richard Ginori, as part of its plans to expand into the tableware market. Richard Ginori was not consolidated by the Group at end-December 2013.

On April 24, 2013, Kering announced that it had signed an agreement with RA.MO SpA to acquire a majority stake in

the Italian jewellery group Pomellato. The Pomellato group has two brands: Pomellato, which is positioned in the fine jewellery segment and Dodo, positioned in the accessible jewellery segment. Through this acquisition Kering has extended and strengthened its portfolio of luxury brands in the high-growth jewellery segment. The transaction was completed on July 5, 2013, following clearance by the competition authorities. In view of the date on which Kering took over control of the group, Pomellato has been consolidated since July 1, 2013. As of December 31, 2013, Kering valued the Pomellato and Dodo brands at €210 million on a provisional basis following the initial purchase price allocation process, which will be completed during 2014.

On September 6, 2013, Kering announced that it was acquiring a minority shareholding in the New York based fashion brand Altuzarra, founded by the Franco-American designer Joseph Altuzarra in 2008. This investment marks the beginning of a partnership which will enable Kering to accompany Altuzarra in the next stage of its growth. Altuzarra was not consolidated in Kering's financial statements at December 31 2013.

On November 19, 2013, Kering and Tomas Maier announced that they had entered into a joint venture to develop the business of the Tomas Maier brand in partnership. Tomas Maier will continue to be Creative Director of Bottega Veneta, a position he has held since 2001. The joint venture was not consolidated in Kering's financial statements at December 31, 2013.

Other highlights

On April 18, 2013, PUMA SE announced that it had appointed Björn Gulden as Chief Executive Officer effective July 1, 2013. Mr. Gulden – who is a member of Kering's Executive Committee – brings to PUMA solid international experience of nearly 20 years in the Sporting Goods and footwear industry where he has held a variety of management positions, notably with Adidas, Helly Hansen and Deichman.

In the first half of 2013, Kering redeemed both the €600 million worth of bonds issued in 2005, including the additional bonds issued in 2006, and the second €200 million tranche of the bonds indexed to the Kering share price that were issued in May 2008. To extend the maturity of its debt, Kering carried out a first bond issue on July 15, 2013, involving €500 million worth of seven-year bonds with a fixed-rate coupon of 2.5%, and a second – which also represented €500 million – on October 8, 2013, involving five-year bonds with a 1.875% fixed-rate coupon.

1.3. 2013 business review

The main financial indicators taken from Kering's consolidated financial statements for 2013 are presented below:

(in € millions)	2013	2012	Change
Revenue	9,748.4	9,736.3	+0.1%
Recurring operating income	1,750.1	1,791.5	-2.3%
as a % of revenue	18.0%	18.4%	-0.4 pts
EBITDA	2,045.9	2,066.6	-1.0%
as a % of revenue	21.0%	21.2%	-0.2 pts
Net income attributable to owners of the parent	49.6	1,048.2	-95.3%
o/w continuing operations excluding non-recurring items	1,229.3	1,268.8	-3.1%
Gross operating investments	(677.7)	(441.9)	+53.4%
Free cash flow from operations	857.5	930.2	-7.8%
Total equity	11,195.9	12,118.7	-7.6%
o/w attributable to owners of the parent	10,586.6	11,413.8	-7.2%
Net debt	3,442.9	2,491.7	+38.2%

Revenue

(in € millions)	2013	2012	Reported change	Comparable change ⁽¹⁾
Luxury Division	6,470.2	6,212.3	+4.2%	+7.2%
Sport & Lifestyle Division	3,247.0	3,531.9	-8.1%	-2.8%
Eliminations	31.2	(7.9)	-	-
Total revenue	9,748.4	9,736.3	+0.1%	+4.0%

(1) On a comparable Group structure and exchange rate basis.

Consolidated revenue from continuing operations amounted to €9,748 million in 2013, up 0.1% on 2012 as reported and 4.0% based on a comparable Group structure and exchange rates.

Revenue for the Luxury Division rose 4.2% as reported and 7.2% based on comparable data, with sustained growth posted for all geographic areas.

Revenue generated by the Sport & Lifestyle Division contracted 8.1% as reported and 2.8% based on comparable data.

The year-on-year increase in reported consolidated revenue includes a positive impact of close to €107 million from changes in Group structure in 2013 (primarily due to the Pomellato acquisition).

Exchange rate fluctuations had a negative €467 million effect on revenue, of which €246 million was attributable to the depreciation of the yen against the euro and €69 million was due to the depreciation of the US dollar.

Revenue by geographic area

(in € millions)	2013	2012	Reported change	Comparable change ⁽¹⁾
Western Europe	3,057.9	2,937.5	+4.1%	+2.7%
North America	2,038.3	1,978.9	+3.0%	+5.7%
Japan	982.8	1,158.3	-15.2%	+6.7%
Sub-total – mature markets	6,079.0	6,074.7	+0.1%	+4.3%
Eastern Europe, Middle East and Africa	723.6	685.2	+5.6%	+9.3%
South America	476.0	536.7	-11.3%	-3.7%
Asia-Pacific (excluding Japan)	2,469.8	2,439.7	+1.2%	+3.2%
Sub-total – emerging markets	3,669.4	3,661.6	+0.2%	+3.4%
Total revenue	9,748.4	9,736.3	+0.1%	+4.0%

(1) On a comparable Group structure and exchange rate basis.

The Group's balance in terms of geographic presence and sales formats makes it more resilient to changes in the economic environment despite the volatility in the global economy over the last several quarters. Revenue generated outside the eurozone climbed 5.8% in 2013 (based on comparable data) and accounted for 79% of the Group total.

Growth in mature markets was sustained at 4.3% (based on comparable data), driven by Japan and North America. Emerging markets were up 3.4% on a comparable basis, and now account for 38% of sales with 25.3% of this amount generated in the Asia-Pacific region (excluding Japan).

Quarterly information

(in € millions)	First quarter	Second quarter	Third quarter	Fourth quarter	Total 2013
Gucci	865.9	888.9	864.8	941.2	3,560.8
Bottega Veneta	229.0	236.6	259.3	290.9	1,015.8
Yves Saint Laurent	127.2	128.1	139.3	162.3	556.9
Other Luxury brands	301.3	301.4	353.7	380.3	1,336.7
Luxury Division	1,523.4	1,555.0	1,617.1	1,774.7	6,470.2
PUMA	781.6	692.3	824.8	703.2	3,001.9
Other Sport & Lifestyle brands	61.1	51.9	71.4	60.7	245.1
Sport & Lifestyle Division	842.7	744.2	896.2	763.9	3,247.0
Corporate	4.3	8.8	9.7	8.4	31.2
Kering total	2,370.4	2,308.0	2,523.0	2,547.0	9,748.4

(in € millions)	First quarter	Second quarter	Third quarter	Fourth quarter	Total 2012
Gucci	847.9	879.9	914.6	996.4	3,638.8
Bottega Veneta	218.0	211.5	241.6	274.0	945.1
Yves Saint Laurent	108.8	114.7	130.0	119.3	472.8
Other Luxury brands	283.2	260.5	306.7	305.2	1,155.6
Luxury Division	1,457.9	1,466.6	1,592.9	1,694.9	6,212.3
PUMA	820.9	752.9	892.2	804.7	3,270.7
Other Sport & Lifestyle brands	65.6	54.6	77.5	63.5	261.2
Sport & Lifestyle Division	886.5	807.5	969.7	868.2	3,531.9
Corporate	(2.5)	(2.3)	(2.2)	(0.9)	(7.9)
Kering total	2,341.9	2,271.8	2,560.4	2,562.2	9,736.3

<i>(comparable change)</i>	First quarter	Second quarter	Third quarter	Fourth quarter	Full-year 2013
Gucci	+4.0%	+4.1%	+0.6%	+0.2%	+2.2%
Bottega Veneta	+8.8%	+17.2%	+15.8%	+13.4%	+13.8%
Yves Saint Laurent	+18.7%	+14.4%	+12.0%	+42.0%	+21.6%
Other Luxury brands	+6.9%	+18.7%	+9.4%	+11.4%	+11.3%
Luxury Division	+6.4%	+9.4%	+5.6%	+7.4%	+7.2%
PUMA	-2.3%	-4.0%	-0.8%	-4.5%	-2.8%
Other Sport & Lifestyle brands	-5.7%	-2.4%	-2.3%	+1.5%	-2.3%
Sport & Lifestyle Division	-2.5%	-3.9%	-0.9%	-4.1%	-2.8%
Corporate	-	-	-	-	-
Kering total	+3.3%	+5.2%	+3.4%	+4.0%	+4.0%

Recurring operating income

Kering's recurring operating income came to €1,750 million in 2013, down 2.3% on 2012 on a reported basis. The recurring operating margin was 18.0% for the year, with the Luxury Division reporting an improved margin, at 26.0%. The recurring operating margin for the Sport & Lifestyle Division narrowed, down to 6.2%.

<i>(in € millions)</i>	2013	2012	Change
Luxury Division	1,682.6	1,611.6	+4.4%
Sport & Lifestyle Division	200.4	304.8	-34.3%
Corporate	(132.9)	(124.9)	-6.4%
Recurring operating income	1,750.1	1,791.5	-2.3%

The Group's gross margin for 2013 amounted to €6,091 million, up €131 million or 2.2% on the previous year as reported. Over the same period, operating

expenses increased by 4.1% as reported, including a 2.8% rise in payroll expenses. The Group's average headcount was 31,415 in 2013, representing a 6.9% increase on 2012.

EBITDA

At €2,046 million, EBITDA was 1.0% lower than in 2012, and the EBITDA margin edged back 0.2 basis points to 21.0% from 21.2%.

<i>(in € millions)</i>	2013	2012	Change
Luxury Division	1,913.3	1,815.3	+5.4%
Sport & Lifestyle Division	258.3	370.8	-30.3%
Corporate	(125.7)	(119.5)	-5.2%
EBITDA	2,045.9	2,066.6	-1.0%

Other non-recurring operating income and expenses

Other non-recurring operating income and expenses consist of unusual items that could distort the assessment of each brand's financial performance.

In 2013, this item represented a net expense of almost €443 million and chiefly included (i) €361 million in asset impairment losses (of which €280 million concerned goodwill related to PUMA), (ii) €30 million in restructuring costs (primarily in the Luxury Division). The remaining €50 million includes acquisition costs for new brands, the impacts of the reorganisation measures implemented

at PUMA as part of the strategic objectives of the new management team, and expenses incurred in connection with disputes and litigation with external parties.

In 2012, this item represented a net expense of €25 million and chiefly included (i) €159 million in restructuring costs (of which €125 million related to PUMA's Transformation Programme), (ii) €54 million in asset impairment losses (of which €50 million concerned the Sergio Rossi brand), (iii) €233 million in net gains on asset disposals (the majority of which corresponded to the gain on the sale of the Group's stake in Cfao), and (iv) a €25 million expense for the arbitration procedure in the dispute between PUMA and its former partner in Spain (Estudio 2000).

Net finance costs

The Group's net finance costs can be analysed as follows:

<i>(in € millions)</i>	2013	2012	Change
Cost of net debt	(175.8)	(211.4)	-16.8%
Other financial income and expenses	(36.5)	63.7	-
Finance costs, net	(212.3)	(147.7)	+43.7%

In 2013, the cost of net debt was just under €176 million, 17% lower than in 2012.

This year-on-year decrease was primarily due to a decrease in Kering's average cost of borrowing, notably as a result of lower interest rates on its floating rate debt, and to the impacts of the reorganisation of the Group's bond debt in 2012 and 2013.

The decrease in the cost of net debt was partly offset by the slight year-on-year rise in average net debt outstanding. Despite the full-year impact of the gain on the disposal of Cfao in second-half 2012, the Group's net debt increased

in line with the various acquisitions carried out by the Luxury Division in 2013 and the recapitalisation of Groupe Fnac prior to its distribution.

The €100 million year-on-year negative swing in "Other financial income and expenses" was mainly due to the accounting treatment of the ineffective portion of currency hedges, as well as the application of IAS 39 (chiefly corresponding to fair value remeasurements and discounting adjustments in respect of the 2008 bond issue indexed to the Kering share, which fell due in November 2012 and in May 2013).

Corporate income tax

The Group's income tax charge for 2013 breaks down as follows:

<i>(in € millions)</i>	2013	2012	Change
Tax on recurring income	(267.4)	(359.9)	-25.7%
Tax on non-recurring items	32.0	62.3	-48.6%
Total tax charge	(235.4)	(297.6)	-20.9%
Effective tax rate	21.5%	18.4%	+3.1 pts
Recurring tax rate	17.4%	21.9%	-4.5 pts

Kering's effective tax rate rose sharply in 2013 due to the fact that there were a number of non-recurring factors which generated operating expenses without any corresponding tax benefit.

Adjusted for the effect of non-recurring items and the related taxes, the recurring tax rate contracted by 4.5 percentage points to 17.4%. This improvement is chiefly attributable to the increased weighting of Luxury brands within consolidated income and the utilisation of previously unrecognised tax losses.

Share in earnings of associates

The Group's share in earnings of associates totalled €1.6 million in 2013, compared with €37 million in 2012.

The 2013 total corresponds to the contribution of Wilderness. The 2012 total primarily corresponded to the contribution of Cfao, which was accounted for by the equity method as from December 2009 based on Kering's residual interest in the company (42% as of June 30, 2012). Kering sold this residual stake during the second half of 2012.

Net income from continuing operations

Consolidated net income from continuing operations came to €862 million in 2013 versus €1,358 million for the previous year.

Attributable net income from continuing operations amounted to €869 million compared with €1,324 million in 2012.

Net income (loss) from discontinued operations

This item includes the income statement contributions from all assets (or groups of assets) accounted for in accordance with IFRS 5 – *Non-current assets held for sale and discontinued operations* (see Note 12 to the consolidated financial statements).

For the year ended December 31, 2013, the Group reported a net loss of €822 million under this item, mainly corresponding to the €256 million net loss recognised on the disposal of Groupe Fnac shares, after tax and distribution costs and the contribution of Groupe Fnac to first-half earnings, and a net €562 million expense recognised in relation to Redcats. The net expense for Redcats primarily includes disposal losses on the businesses sold during the year, as well as impairment losses recorded against Redcats' residual assets, and the undertaking given by Kering to recapitalise La Redoute in an amount of €315 million to cover future losses and the cost of enhancing La Redoute's production base. It does not include the cost of financing the social guarantees to be granted to the employees concerned by the modernisation measures at La Redoute and Relais Colis. The total cost of this financing, which cannot as yet be reliably estimated, will lead Kering to set up a trust guaranteeing the application of the employee measures

approved in a majority collective agreement with trade unions. The associated costs will be recognised in 2014.

For the year ended December 31, 2012, the Group reported a net loss of almost €276 million under "Net income (loss) from discontinued operations".

Non-controlling interests

Net income attributable to non-controlling interests represented a negative amount of approximately €10 million in 2013 versus a positive €34 million in 2012.

Non-controlling interests in PUMA's net income decreased during the year due to the combined effects of the Group's purchases of additional PUMA shares during 2013, which raised Kering's interest in PUMA to nearly 86% at December 31, 2013 from almost 83% one year earlier, and the decline in PUMA's net income, which was partly due to the recognition of non-recurring expenses.

This impact was significantly offset by an increase in the net income generated by operations carried out by the Group alongside non-controlling partners (including Sowind, Gucci in the Middle East, and Janed and Wheat at PUMA).

Net income attributable to owners of the parent

Adjusted for non-recurring items net of tax, attributable net income from continuing operations edged back 3.1%, coming in at €1,229 million versus €1,269 million in 2012. Adjusted for non-recurring items and excluding the impact of the May 2008 indexed bond issue, attributable net income for 2013 came in 4.6% higher than one year earlier.

Net income attributable to owners of the parent totalled close to €50 million, affected by significant non-recurring expenses and heavy net losses on discontinued operations. In 2012, net income attributable to owners amounted to €1,048 million.

Earnings per share

The weighted average number of Kering shares used to calculate earnings per share was 126.0 million in 2013, virtually unchanged from the number used for 2012.

Earnings per share from continuing operations came to €6.91, compared with €10.51 for the previous year.

Earnings per share stood at €0.39 in 2013 versus €8.32 for the previous year.

Excluding non-recurring items, earnings per share from continuing operations amounted to €9.76, down 3.1% on the 2012 figure. Adjusted for non-recurring items and excluding the impact of the May 2008 indexed bond issue, earnings per share for 2013 came in 4.6% higher than one year earlier.

The impact of dilutive instruments on the calculation of earnings per share was almost neutral in 2013.

1.4. analysis of operating performances by brand

Luxury Division

(in € millions)	2013	2012	Change
Revenue	6,470.2	6,212.3	+4.2%
Recurring operating income	1,682.6	1,611.6	+4.4%
<i>as a % of revenue</i>	26.0%	25.9%	+0.1 pt
EBITDA	1,913.3	1,815.3	+5.4%
<i>as a % of revenue</i>	29.6%	29.2%	+0.4 pt
Gross operating investments	435.6	337.3	+29.1%
Average headcount	19,050	17,384	+9.6%

Kering's Luxury Division posted sustained growth in both revenue and recurring operating income in 2013, despite a generally volatile economic environment, with particularly unfavourable conditions in certain regions, which contributed to an overall industry slowdown. All the Division's brands – both the main brands and Other Luxury brands – reported a rise in recurring operating margin (recurring operating income as a percentage of revenue).

This further improvement in profitability demonstrates the Division's ability to absorb the dilutive impact caused by the acquisition of its new brands – i.e. Christopher Kane and Qeelin (consolidated since January 1, 2013) and the Pomellato group (consolidated since July 1, 2013) – as well as the heavy investments incurred for developing its other brands, notably those that have been recently integrated into the Division, such as Brioni and JEANRICHARD.

The Division's performance in 2013 once again testifies to the strength and appeal of the Group's luxury brands as well as the success of the strategies put in place for each one in terms of positioning, product category, distribution channel and location.

Overall, revenue generated by the Luxury Division totalled €6,470 million in 2013, up 4.2% as reported and 7.2% on a comparable Group structure and exchange rate basis. Gucci contributed 55% of the Division's total revenue during the year (versus 58.6% in 2012) and the revenue contribution from the Division's other luxury brands (i.e. excluding Bottega Veneta and Yves Saint Laurent) topped 20% for the first time.

Retail sales in directly-operated stores rose 8.1% year on year (on a comparable basis) and accounted for 67.9% of the Division's total revenue. As the objectives for all of the Division's brands are to more effectively control their distribution and reinforce their exclusivity, the contribution of retail sales is expected to increase further in the future. Illustrating this, during the year, Yves Saint Laurent took over the direct control of its distribution activities in the United Arab Emirates and Balenciaga did the same in South Korea. Gucci incorporated into its directly-operated store network a

number of duty free stores in South Korea as well as points of sale in Holt Renfrew department stores in Canada.

Wholesale sales were 4.8% higher than in 2012 on a comparable basis. Growth for this distribution channel was negatively impacted in 2013 by the fact that the brands took over the direct control of certain points of sale, and the strategy put in place by Gucci to streamline its wholesale distribution network, particularly in Europe. However, those brands whose business is still relying predominantly on wholesale distribution recorded a sharp increase in their wholesale sales (up by more than 25% on average for Ready-to-Wear brands).

The weighting of each individual product category within the Division's overall revenue is becoming increasingly balanced, with Leather Goods accounting for 53.6% of the total in 2013, and the relative contributions of Ready-to-Wear and Shoes increasing to 16.2% and 12.9% respectively.

The Luxury Division's sales in emerging markets climbed 5.7% in 2013 based on comparable data, and these markets accounted for nearly 38.5% of the Division's total revenue.

The Asia-Pacific region (excluding Japan) – which contributed 31.1% of the Division's total revenue – delivered more modest growth of 3.4%. This figure reflects two main factors. First, growth in Greater China slowed to an average of 4.1%, although Bottega Veneta and Yves Saint Laurent reported further strong sales rises. And second, markets such as Taiwan, Guam and Vietnam held back the region's performance overall, for a variety of reasons including macro-economic factors.

However, in other emerging markets – including the Middle East and South America – the Luxury Division's brands turned in very robust revenue growth figures overall.

In the Division's traditional, more mature markets, revenue was up by a very solid 8.1% on a comparable basis in 2013.

Western Europe (representing 32.5% of total revenue) registered a 7.3% increase, driven not only by sales to tourists but also local customers, despite the difficult economic climate.

In North America (which accounted for 18.8% of the Division's sales), revenue rose 7.6% year on year, led in particular by Gucci which is reaping the benefits of the measures undertaken over the past several years to more effectively control its distribution channels and enhance its brand perception.

Sales momentum was especially brisk in the Japanese market, where the Luxury Division's brands posted 11.9% comparable-basis growth, propelled by the upswing in consumer spending in Japan which began in late 2012, as well as by an increase in purchases in the domestic market triggered by the weakening of the yen in 2013.

The Luxury Division's recurring operating income rose 4.4% year on year to just under €1,683 million. At 26.0%, recurring operating margin was up 10 basis points as reported, reflecting profitability gains achieved by the ensemble of all brands. Currency hedges had a favourable impact during the year but were not the only reason for the rise in recurring operating margin as the vast majority of the brands also recorded an increase in gross margin at constant exchange rates.

EBITDA rose 5.4% in 2013 to €1,913 million, which fuelled a 40 basis point increase in the EBITDA margin to 29.6%.

The Luxury Division's gross operating investments amounted to €436 million in 2013, up 29.1% on 2012. This increase stemmed from store openings, expansions and refurbishments (accounting for around 60% of the total) as well as significant investments in infrastructures, systems and the supply chain. It also reflects the Group's objective of allocating the resources required for developing the brands' businesses in line with their strategic plans. 2013 was a key year for stepping up the pace of Yves Saint Laurent's growth and integrating Brioni, with around two-thirds of the year-on-year increase in operating investments related to these two brands.

As of December 31, 2013 the Luxury Division had a network of 1,149 directly-operated stores, including 750 in mature markets and 399 in emerging markets (201 in Greater China). Net store additions during the year totalled 191. However, when adjusted for transfers of existing points of sale previously operated by third-party distributors (Yves Saint Laurent in the United Arab Emirates, Gucci and Balenciaga in South Korea, Brioni in China and Gucci in Canada) and the Qeelin store network as of January 1, 2013 and the Pomellato/Dodo network as of July 1, 2013, the number of net store additions amounted to 94. Out of these additions, 50 stores are in mature markets and 44 in emerging markets.

Gucci

<i>(in € millions)</i>	2013	2012	Change
Revenue	3,560.8	3,638.8	-2.1%
Recurring operating income	1,131.8	1,126.4	+0.5%
<i>as a % of revenue</i>	<i>31.8%</i>	<i>31.0%</i>	<i>+0.8 pt</i>
EBITDA	1,275.8	1,260.3	+1.2%
<i>as a % of revenue</i>	<i>35.8%</i>	<i>34.6%</i>	<i>+1.2 pt</i>
Gross operating investments	214.6	203.9	+5.2%
Average headcount	9,415	9,337	+0.8%

Gucci posted close to €3,561 million in revenue in 2013, down 2.1% year-on-year as reported but up 2.2% at comparable exchange rates.

Two of the key components of the strategy put in place by Gucci to reposition its brand and further enhance its exclusivity include the strengthening of its directly-operated store network and the achieving in-store operational excellence. In line with this, retail sales generated in directly-operated stores accounted for 76.8% of the brand's total sales in 2013, representing a 140 basis-point increase on 2012. Growth for this distribution channel came in at a very solid 4.8% overall at constant exchange rates, with an extremely balanced breakdown between mature markets (which reported a 4.7% sales rise) and emerging markets (where the increase was 4.8%). In the brand's mature markets, the main growth drivers were North America – where sales were buoyed by favourable market conditions – and Japan. Gucci's brand perception in North America and Japan is growing

constantly, illustrating the success of the repositioning strategy implemented over the past few years.

Wholesale sales contracted 7.2% on a comparable exchange-rate basis, chiefly as a result of Gucci's deliberate decision to (i) limit the increase in sales of Ready-to-Wear and leather goods to certain distributors (notably in Italy and especially in the first half of the year), (ii) reduce the number of points of sale by bringing certain operations back under direct management (notably in Canada), and (iii) incorporate 11 duty free points of sale in South Korea into the directly-operated store network.

For Leather Goods – which represented approximately 58% of the brand's total sales – handbag sales posted solid increases in sales, but luggage and small leather goods saw declines. The positive effects of the measures put in place over the last few seasons to fine-tune the offering and focus on ever-more sophisticated products largely benefited the overall performance of the handbags range in 2013. In 2013, this same repositioning effort

was stepped up in 2013 for luggage and small leather goods, leading to a reduction in the distribution of certain entry price products. Within Leather Goods, the proportion of “no logo” products and products in pure leather and precious skins increased again during the year. For example, no-logo handbags accounted for almost half the product category’s overall revenue, versus 37% in 2012.

The brand’s other main product categories (shoes and Ready-to-Wear, which together accounted for 25% of Gucci’s total revenue in 2013) recorded a rise in sales, buoyed by the commercial success of the Men’s shoe collections.

More generally, revenue generated from sales of Men’s collections increased sharply in 2013, as it had done already in 2012.

The product categories that Gucci has launched or revamped more recently – such as the children’s line and silk products (scarves, ties, etc.) – have proved to be solid growth drivers and positively contributed to traffic into the brand’s stores. In 2013 these categories all posted significant revenue increases.

Gucci’s sales in emerging markets were 0.4% higher than in 2012 based on comparable data. A number of markets, such as the Middle East, Latin America and Eastern Europe, saw sustained growth but sales in the Asia-Pacific region were down slightly. The contraction in the Asia-Pacific region was due to tougher macro-economic conditions and operational reasons specific to the brand, with certain Asian markets such as Taiwan, Singapore and Vietnam weighing on performance during the year. In Mainland China, where the brand operated 61 stores as of December 31, 2013, Gucci reported a moderate sales decline against a backdrop of consolidation, refurbishment of the existing store network, and repositioning of the brand’s offering.

Revenue generated by Gucci in its mature markets rose 3.5% on a comparable basis. In Western Europe, revenue growth was 1.0% in view of the difficult economic situation in the eurozone and despite the brand deliberately limiting sales to third-party distributors in the region, notably in the first half of the year. In North America, Gucci posted a solid increase in sales, up 5.3%, driven by the brand’s successful market repositioning in the region. This performance was achieved despite a reduction in the number of Japanese

tourists as a result of the weaker yen, whose adverse effects were notably felt in Hawaii. The Japanese domestic market was particularly buoyant in 2013, however, fuelling a 7.0% rise, at comparable exchange rates, in Gucci’s revenue in that country.

Gucci’s recurring operating income for 2013 edged up 0.5% on a reported basis year on year, coming in at €1,132 million. This led to an 80 basis-point increase in recurring operating margin to 31.8%, which represents a record high for the brand. Although the year-on-year increase was in part due to the positive impact of currency hedges, it also clearly reflects the underlying improvement in gross margin (at constant exchange rates) achieved as a result of the brand’s effective product mix. At the same time it demonstrates the results of Gucci’s strategy of positioning itself as a leading global brand in the Luxury market by further enhancing its exclusivity and increasing the proportion of revenue generated in the highest-price segments. The rise in gross margin also helped offset the impact of the increase in operating expenses during the year, which primarily stemmed from the higher store running costs incurred in connection with the brand’s objective of continually improving its store network.

EBITDA for 2013 totalled €1,276 million, up 1.2% as reported, and the EBITDA margin stood at 35.8%.

As of December 31, 2013, Gucci operated 474 stores directly, including 183 in emerging markets, of which 76 in Greater China. Excluding the incorporation into the directly-operated store network of 11 points of sale in South Korea and 8 boutiques in Holt Renfrew department stores in Canada, Gucci added a net 26 new stores in 2013 (compared with 53 net additions in 2012), of which 20 in mature markets.

Gucci’s gross operating investments amounted to €215 million in 2013, up 5.2% on 2012, when they rose by around 83%. 2013 therefore marked the first stage toward a stabilisation of the brand’s investment spending. Store-related investments accounted for over half of the brand’s total gross operating investments in 2013, with priority given to refurbishments in order to enhance both the network’s productivity and customers’ shopping experience and to provide a retail environment aligned with the brand’s ongoing repositioning.

Bottega Veneta

(in € millions)	2013	2012	Change
Revenue	1,015.8	945.1	+7.5%
Recurring operating income	330.6	300.1	+10.2%
as a % of revenue	32.5%	31.8%	+0.7 pt
EBITDA	354.8	320.6	+10.7%
as a % of revenue	34.9%	33.9%	+1.0 pt
Gross operating investments	62.0	41.3	+50.1%
Average headcount	2,891	2,339	+23.6%

Bottega Veneta's revenue topped €1 billion in 2013, coming in at just under €1,016 million, up 7.5% on a reported basis and 13.8% at comparable exchange rates. Between 2011 and 2013, the brand's revenue rose by almost 50% based on comparable data, representing one of the strongest growth rates among the luxury industry's high-end players.

With a view to preserving its high-end positioning and exclusivity, Bottega Veneta's preferred distribution channel is the brand's directly-operated stores. In 2013, retail sales in directly-operated stores increased by 15.2% on a comparable basis and this distribution channel accounted for 81.3% of the brand's total sales (versus 80.6% in 2012). In line with its aim of continually differentiating and enhancing its store network, in September 2013 the brand opened its first Maison concept store, on Via Sant' Andrea in Milan.

Wholesale sales rose 7.9% in 2013, with momentum picking up in the second half compared with the first six months which were affected by the fact that Cruise collection deliveries had been anticipated in late 2012. Throughout the course of the year, Bottega Veneta continued to apply its strategy of streamlining its distributor network in order to strengthen the brand's exclusivity, particularly in Europe.

Leather Goods remained the brand's core business, representing 85.6% of Bottega Veneta's total sales. The sales performance for this product category was extremely solid during the year, propelled by an offering made up of signature collections enriched by new seasonal designs featuring different forms, colours and functions. The brand's other product categories also saw sustained sales growth in 2013. For example, sales for the Men's shoes and Ready-to-Wear collections advanced by some 25% year on year. Against this very favourable backdrop, the brand launched its first Men's fragrance.

Bottega Veneta's sales growth in 2013 was evenly balanced between its traditional and emerging markets, which recorded respective revenue rises of 12.5% and 15.5% at comparable exchange rates. These figures are consistent with the brand's expansion strategy which is aimed at strengthening Bottega Veneta's positioning in all the regions where it is present.

Emerging markets accounted for 44.0% of the brand's total sales in 2013, with the Asia-Pacific region (excluding Japan) making up a significant portion of this contribution. Bottega Veneta's brand appeal is particularly high in Mainland China, where its sales rose 26.6% year on year on a comparable basis.

In its traditional markets, Bottega Veneta delivered another very solid showing despite the more complex macro-economic environment in Western Europe. Sales in this region – which represented 27.9% of the brand's total – advanced 12.6% on a comparable basis, led by demand from both local customers and tourists (excluding Japanese tourists). In Japan – which made up 14.6% of total sales – business was extremely buoyant during the year, with comparable-basis growth of 18.8% (down 5.8% on a reported basis), powered both by the brand's appeal and the weak yen which boosted momentum in the domestic market. In North America the year-on-year sales increase was 6.0% based on comparable data. Adjusted for the negative trends in Hawaii resulting from the lower numbers of Japanese tourists, sales in North America climbed by almost 10%.

Bottega Veneta posted recurring operating income of close to €331 million for 2013, with a record recurring operating margin of 32.5%, which represents a year-on-year increase of 70 basis points as reported. The positive effects arising from the brand's currency hedges as well as better absorption of fixed operating costs more than offset the initial dilutive effect on profitability caused by the store openings incurred in 2012 and 2013 and the launch of new product categories.

EBITDA totalled just under €355 million and the EBITDA margin climbed to 34.9%, up 100 basis points as reported.

Bottega Veneta's network of directly-operated stores totalled 221 as of December 31, 2013, including 90 in emerging markets. There were 25 net store additions during the year, versus 26 in 2012. In addition, the brand extended, refurbished or relocated or a total of 16 stores.

Bottega Veneta's gross operating investments rose by around 50% year on year to €62.0 million. Almost two thirds of these investments related to the store network and the remainder included financing for a new atelier and offices at Montebello Vicentino.

Yves Saint Laurent

(in € millions)	2013	2012	Change
Revenue	556.9	472.8	+17.8%
Recurring operating income	76.6	65.0	+17.8%
<i>as a % of revenue</i>	13.8%	13.7%	+0.1 pt
EBITDA	93.0	75.8	+22.7%
<i>as a % of revenue</i>	16.7%	16.0%	+0.7 pt
Gross operating investments	65.3	21.8	+199.5%
Average headcount	1,445	1,208	+19.6%

Following on from 2012, which saw the appointment of Hedi Slimane as Creative Director with total responsibility for the brand's image, 2013 marked a year of investment for Yves Saint Laurent, particularly in terms of opening new stores and strengthening the brand's exclusivity, on-line distribution and communications.

Against this backdrop of deep-seated change and after two years of strong growth, Yves Saint Laurent's revenue rose again in 2013, up 17.8% year on year as reported and 21.6% based on comparable exchange rates. Total sales topped the €500 million mark, coming in at €557 million.

Wholesale sales jumped 42.6% on a comparable basis. While this performance was partly due to the brand's decision to postpone to the first quarter of 2013 certain deliveries initially planned for 2012, it above all reflects the success of the brand's new creative vision as well as the depth and consistency of its product offering that led distributors to increase their orders.

Retail sales in directly-operated stores – which accounted for around 56% of the brand's total sales – rose by a very solid 14% on a comparable basis, with trends improving consistently quarter after quarter following on from a transition phase at the beginning of the year that was required in order to adapt production and merchandising processes and introduce the brand's new store concept. To illustrate this, during the fourth quarter of the year comparable-basis growth in retail sales in directly-operated stores had reached 30.7%.

Revenue from royalties, however – primarily from L'Oréal for fragrances and cosmetics – were barely on a par with 2012.

All of Yves Saint Laurent's main product categories registered sharp sales growth during the period. Revenue from Ready-to-Wear surged by more than 50% on a comparable basis and represented almost a quarter of the brand's total sales, proving that this category is regaining its essential place in the product offering. Leather Goods and Shoes delivered a robust sales showing, driven by both new styles and the brand's signature products which have been revisited by Hedi Slimane.

Yves Saint Laurent posted increases in sales across all regions in 2013.

Sales growth in emerging markets came in at 19.4%, with these markets accounting for 28.4% of the brand's revenue. Yves Saint Laurent's best-performing regions were the Middle East – where it now directly manages distribution in the United Arab Emirates as part of a joint venture – and Greater China which saw a revenue jump of 23.1%, demonstrating the brand's growing recognition and desirability in that region.

In Yves Saint Laurent's traditional markets, sales advanced by 22.5% on a comparable basis, reflecting the brand's renewed appeal with local customers. Business was particularly buoyant in Japan, where sales jumped 29.6% at constant exchange rates, fuelled by customers' very positive reaction to the brand's repositioning and rejuvenation. Sales in Western Europe and North America were also up sharply, with comparable-basis growth coming in at 25.9% and 14.5% respectively.

Yves Saint Laurent ended 2013 with recurring operating income of close to €77 million, representing a year-on-year increase of 17.8%, and recurring operating margin stood at 13.8%, up 10 basis points as reported. The positive impact of currency hedges was not significant in 2013. Although the costs incurred for expanding the business (extending the store network and putting in place a proactive brand communication strategy) were much higher than in 2012, the brand was able to maintain its operating profitability thanks primarily to its wider gross margin and capacity to tightly control other operating expenses.

Given the growing weight of depreciation and amortisation, EBITDA rose at a faster pace than recurring operating income, coming in at €93 million. The EBITDA margin was 16.7%, up 70 basis points on 2012.

As of December 31, 2013, the Yves Saint Laurent brand directly operated 115 stores, including 46 in emerging markets. In line with the brand's aim of stepping up the pace of business expansion in 2013 by investing in the distribution network, there were 20 net store additions during the year and the brand brought back under direct management another six points of sale in the United Arab Emirates.

As a result, gross operating investments increased three-fold in 2013 to €65 million, with nearly 80% of this amount related to opening new stores and adapting existing stores to the new store concept.

Other Luxury brands

(in € millions)	2013	2012	Change
Revenue	1,336.7	1,155.6	+15.7%
Recurring operating income	143.6	120.1	+19.6%
as a % of revenue	10.7%	10.4%	+0.3 pt
EBITDA	189.7	158.6	+19.6%
as a % of revenue	14.2%	13.7%	+0.5 pt
Gross operating investments	93.7	70.3	+33.3%
Average headcount	5,299	4,500	+17.8%

Other Luxury brands have included Christopher Kane and Qeelin since January 1, 2013 and the Pomellato and Dodo brands (the Pomellato group) since July 1, 2013.

Total revenue generated by Other Luxury brands amounted to €1,337 million in 2013, up 15.7% year on year as reported and 11.3% on a comparable Group structure and exchange rate basis. Other Luxury brands contributed nearly 21% of the Luxury Division's total revenue during the year.

Wholesale sales rose 10.2% on a comparable basis. Ready-to-Wear brands (Balenciaga and the three UK brands) saw their wholesale sales increase by around 20%, but overall performance for this distribution channel was adversely affected by the reorganisation of Girard-Perregaux's distribution structure in Asia (which is still in progress), and the streamlining measures put in place for Sergio Rossi's distributors' network.

Retail sales in directly-operated stores advanced 12.8% on a comparable basis, and accounted for 39.0% of total revenue generated by Other Luxury brands in 2013. Developing an exclusive distribution network remains an objective for all brands but has to be adapted in line with each brand's maturity and positioning in its traditional markets as well as the depth and scope of its product offering.

All product categories of the Group's Other Luxury brands posted revenue increases for 2013. Ready-to-Wear was the best-selling category, representing 34.2% of total revenue generated by these brands, and recorded a significant 17.3% sales rise on a comparable basis. Leather Goods (21.7% of revenue) and Shoes (12.3%) also reported buoyant sales growth. Although the Timepieces and Jewellery category was penalised in the short term by the reorganisation of Girard-Perregaux's distribution in Asia, it nevertheless recorded a very solid increase in sales, partly thanks to a particularly strong showing from Boucheron.

Sales growth for Other Luxury brands was fairly balanced between mature markets and emerging markets, with respective rises of 10.7% and 13.0% based on comparable data.

Mature markets, which are the traditional markets of the Group's Other Luxury brands, again made up 72.4% of these brands' total revenue. Growth in these markets was led by local clientele, especially in Japan and North America.

Overall, business in emerging markets was hampered in 2013 by weaker spending on luxury products in China as well as by a generally lacklustre market for timepieces in

the Asia-Pacific region at the beginning of the year. However, despite these unfavourable effects, the Group's Other Luxury brands reported sales growth of 8.8% in Greater China and well over 10% in their other emerging markets, notably the Middle East. These performances not only reflect the brands' capacity to attract new customers but also demonstrate the fact that emerging markets are still a major growth vector.

Recurring operating income from Other Luxury brands climbed 19.6% to almost €144 million. Recurring operating margin rose by 30 basis points to 10.7% on a reported basis and was also up year on year based on constant exchange rates. These increases reflect the Group's portfolio strategy which targets a profitable growth model, while taking into account the investments required to develop the business of all of its brands and integrate newly-acquired brands.

EBITDA came in at just under €190 million, up 19.6% on 2012 as reported.

The network of directly-operated stores owned by Other Luxury brands totalled 339 stores as of December 31, 2013, including 55 in Greater China and 25 in other emerging markets. A total of 259 stores are located in these brands' traditional markets, mainly concentrated in Western Europe and Japan (118 and 104 stores respectively). There were 95 net store additions during the year, reflecting the combined impacts of integrating Qeelin and Pomellato (60 store additions), transferring or purchasing points of sale that were previously operated by third parties (12 additions), opening new stores (41 additions), and closing 18 existing stores.

The Group's commitment to developing the business of its Other Luxury brands is evidenced by the 33.3% increase in their gross operating investments in 2013 to €94 million, the majority of which were related to store openings.

For Alexander McQueen and McQ, 2013 was another year of strong growth, with very solid sales rises across all regions, product categories and distribution channels. Alexander McQueen pursued the controlled expansion of its directly-operated store network, adding a net three new stores during the year. Against this backdrop of sustained growth in both revenue and gross margin, the brands' operating income posted a significant increase.

For Balenciaga, 2013 was a transition year following Alexander Wang's appointment as Creative Director in December 2012. The brand posted a robust increase in sales, with growth

picking up in the second half as the new collections gradually made their mark. One of the best-performing categories during the year was Women's Ready-to-Wear, which is at the heart of the brand's identity and history. Balenciaga's operating margin held firm, despite the investment expenditure required for the brand's expansion.

Boucheron successfully pursued the expansion of its Bijoux and Jewellery lines in 2013, especially its signature line, *Quatre*, but also its *Serpent Bohème* line. At the same time, following its successful return to the *Biennale des Antiquaires* event in Paris in late 2012, the brand posted strong growth in High Jewellery sales. Also during the year, Boucheron strengthened its presence in Asia, opening a new store in Hong Kong and delivering a particularly solid performance in Japan. It ended the year with a sharp increase in recurring operating income, thanks to both its revenue growth and tight control over operating expenses.

For Brioni, 2013 was the first year in which the brand began to reap the benefits of both its integration into the Group's Luxury Division and the vision of its Creative Director, Brendan Mullane. Brioni's new collections were warmly acclaimed, and synergies with the Group were reinforced when the brand joined the Luxury Division's logistics platform in the last quarter of the year. Against this backdrop, and in view of the expansion of the brand's directly-operated store network (10 net additions in 2013, including the buy-back of franchised stores in China), Brioni registered solid revenue growth for the year as well as an increase in operating income.

Business for the Christopher Kane brand (which was integrated in Kering's Luxury Division on January 1, 2013) developed considerably during the year. The brand is currently distributed in 30 countries through a network of 150 points of sale operated by third parties, and its first store is scheduled to open in 2014. Christopher Kane, the eponymous founder, was named Womenswear Designer of the Year at the 2013 British Fashion Awards in recognition of his innovative design talent. This award will contribute to reinforce the brand awareness.

Sowind – which operates the Girard-Perregaux and JEANRICHARD brands – delivered a mixed performance in 2013. Girard-Perregaux continued to streamline its offering and optimise its manufacturing capacity, and its

ground-breaking new high-end timepiece with a revolutionary "Constant Force" escapement was presented to great acclaim at the 2013 Baselworld Watch and Jewellery Show. JEANRICHARD began to market its new collections having overhauled its range and launched its new brand identity. Sales momentum was good for both brands but Girard-Perregaux was hampered by the reorganisation of its distribution channels in Asia which will continue into the first half of 2014. Despite this, Sowind made a positive contribution to the Group's operating income.

Pomellato and Dodo – which were integrated in Kering's Luxury Division since July 1, 2013 – felt the benefits of the Group's support from the second half of the year, in terms of commercial property, brand marketing and corporate functions. The two brands pursued their respective strategies in 2013, with Pomellato focusing on targeted regional expansion and the introduction of new lines and collections, and Dodo aiming to consolidate its market share.

Qeelin – which has been integrated since January 1, 2013 – stepped up the pace of its expansion during the year, opening new stores in Hong Kong and Mainland China and increasing its marketing investments. Consequently, the brand was able to deliver solid year-on-year growth despite less favourable conditions in the jewellery market in Asia.

Sergio Rossi posted revenue growth in 2013, particularly in its directly-operated stores network. The brand is indeed pursuing its efforts to streamline and improve the quality of its distributors network. At the same time, the sales in its directly-operated stores, which account for more than half of total sales, have posted a solid increase.

2013 was another year of growth and expansion for Stella McCartney. The brand recorded a surge in sales, buoyed by growing recognition and a well-balanced offering between ready-to-wear, leather goods and the children's line. The contribution of emerging markets is rising, and they accounted for over 20% of the brand's total sales for the first time. A total of five new directly-operated stores were opened during the year and one store was closed. Stella McCartney also reported robust growth in operating income.

Sport & Lifestyle Division

<i>(in € millions)</i>	2013	2012	Change
Revenue	3,247.0	3,531.9	-8.1%
Recurring operating income	200.4	304.8	-34.3%
<i>as a % of revenue</i>	<i>6.2%</i>	<i>8.6%</i>	<i>-2.4 pts</i>
EBITDA	258.3	370.8	-30.3%
<i>as a % of revenue</i>	<i>8.0%</i>	<i>10.5%</i>	<i>-2.5 pts</i>
Gross operating investments	74.8	91.1	-17.9%
Average headcount	11,521	11,720	-1.7%

2013 was a year of deep transformation for the Sport & Lifestyle Division, during which its brands:

- restructured their management teams;
- stepped up the streamlining of their organisational structures;
- pursued their strategy of repositioning and redefining their product offerings, which in PUMA's case is not expected to deliver its full benefits until the second half of 2014 at the earliest.

This transformation process was carried out against a backdrop of (i) a particularly difficult economic environment in Western Europe which weighed on consumer spending, (ii) lacklustre markets for Surfwear and Action Sports, and (iii) the saturation of certain other markets, notably in Asia, which resulted in excess inventory levels for some third-party distributors.

Reflecting these adverse factors, the Sport & Lifestyle Division reported revenue of €3,247 million in 2013, down 8.1% as reported and down 2.8% based on a comparable Group structure and exchange rates.

This unfavourable operating context, combined with the ongoing reorganisation of Volcom's distributors network in North America, led to a 4.9% comparable-basis erosion in wholesale sales, which accounted for 79.2% of the Division's total revenue.

Conversely, retail sales in directly-operated stores rose 6.3% on a comparable basis, with solid growth also recorded at constant store perimeter.

By product category, Footwear sales (which contributed 42.5% of the Division's total sales versus 45.3% in 2012) were down 8.2% on a comparable basis, reflecting strong competitive pressure. Apparel sales (38.6% of total revenue versus 39.1% in 2012) suffered from a difficult operating context – notably in the European market – and were down 1.5% on a comparable basis. Accessories sales rose significantly, up 8.7% on a comparable basis, driven by good performances for Cobra Puma Golf, Janed and Dobotex.

Revenue generated by the Sport & Lifestyle Division in emerging markets came down 3.8% on a comparable basis and accounted for 35.3% of the Division's total revenue for 2013.

In the Division's more mature markets, the year-on-year contraction was more contained, with comparable-basis sales down just 2.2% year-on-year. Sales levels declined during the year in Western Europe (which represented 29.4% of the Division's total revenue for the year) but remained solid in North America (25.4% of revenue), with sales up 3.0% based on comparable data.

The Sport & Lifestyle Division ended 2013 with recurring operating income of just over €200 million, down 34.3% as reported.

Recurring operating margin narrowed by 240 basis points to 6.2%, with decreases recorded both for PUMA and the Division's other brands. The cost savings achieved by all brands during the year were not sufficient to offset the impact of the contraction in gross margins resulting from inventory write-offs and weight of the discounts granted to distributors during the current transition phase for the Division.

EBITDA totalled just over €258 million, down 30.3%.

As of December 31, 2013, the Sport & Lifestyle Division's directly-operated stores network amounted to 608 points of sale. A total of 67 new points of sale were opened in 2013 – with 46 located in emerging markets – and 96 stores were closed, including 53 as part of the Transformation Programme announced by PUMA in July 2012.

In view of the transformation measures being undertaken within the Sport & Lifestyle Division and the contraction in its revenue, gross operating investments were reduced in 2013 to just under €75 million, representing a 17.9% decrease.

PUMA

(in € millions)	2013	2012	Change
Revenue	3,001.9	3,270.7	-8.2%
Recurring operating income	191.9	290.0	-33.8%
<i>as a % of revenue</i>	<i>6.4%</i>	<i>8.9%</i>	<i>-2.5 pts</i>
EBITDA	246.4	350.3	-29.7%
<i>as a % of revenue</i>	<i>8.2%</i>	<i>10.7%</i>	<i>-2.5 pts</i>
Gross operating investments	67.7	81.2	-16.6%
Average headcount	10,750	10,935	-1.7%

PUMA's revenue reached around €3,002 million in 2013, down 8.2% on a reported basis and 2.8% based on a comparable basis.

This revenue contraction is in line with PUMA's forecasts, as announced on May 14, 2013, which called for a revenue decrease in the full year. The decrease was partly attributable to external factors, namely an unfavourable consumer spending environment (particularly in Western Europe) and inventory saturation in certain emerging markets. It also reflected some issues specific to PUMA, such as the discontinuation of certain businesses, the closure of unprofitable stores, and the measures currently underway to streamline the brand's product offering, especially in Footwear.

In that context, wholesale sales decreased 5.0% year-on-year on a comparable basis, with around 40% of the decline attributable to Western Europe where distributors reduced their orders. PUMA also recorded lower wholesale sales in most of its emerging markets, due to the high inventory levels previously built up by distributors and the unsettled economic environment in certain South American countries. In North America, however, wholesale sales were up slightly year on year.

Revenue posted by PUMA's directly-operated stores rose 5.8% in 2013 on a comparable basis. Western Europe was the only underperforming region for this channel, but this is partly due to the fact that the number of stores in this region has been significantly reduced in 2013 (19% fewer stores compared to last year).

By product categories, Footwear once again accounted for the highest proportion of sales, representing 45.6% (versus 48.8% in 2012), although revenue for this category contracted 8.5% year on year on a comparable basis. Positive performances from several footwear lines – including the Mobium Elite – in the key segments of Running, Training & Fitness and Lifestyle were not sufficient to offset the downward trends experienced by the brand's Footwear distributors in almost all regions, particularly in Western Europe.

Apparel sales (35.4% of PUMA's total revenue versus 35.2% in 2012) posted a limited decline in sales, down just 1.1% on a comparable basis. The trends observed in the first six months of the year continued into the second half, with negative trends in European markets but growth in North America.

Conversely, Accessories sales and other revenue were up 10.0% on a comparable basis. Sales growth was particularly strong in mature markets (especially North America), led by robust performances by COBRA PUMA GOLF but also Dobotex and Janed.

PUMA generated 37.1% of its total 2013 sales in emerging markets, where the brand reported a 3.8% comparable-basis revenue contraction for the year.

In Western Europe, PUMA's revenue dropped 6.1%, with particularly negative trends in France and Italy. However, business was up sharply in the United Kingdom, which is one of the brand's three largest markets in the region.

In Japan, sales declined 3.2%, while they were up 3.9% in North America, fuelled by growth in the Apparel and Accessories categories.

PUMA's contribution to the Group's recurring operating income amounted to €192 million in 2013 (down 33.8% on 2012) and the brand's recurring operating margin retreated by 250 basis points to 6.4%. EBITDA totalled €246 million, down 29.7% year-on-year.

This decrease in operating profitability is in line with the guidance issued by PUMA in its quarterly releases concerning its profitability for the full year.

The main reason for PUMA's lower profitability levels was the 190 basis-point narrowing of its gross margin compared with 2012, which was primarily due to adverse currency effects, the impact of discounts granted to third-party distributors, and inventory clearance measures. At the same time, purchasing conditions did not significantly improve.

Operating expenses fell by 6.6% on a reported basis. This reduction in the brand's cost base is one of the initial effects of the Transformation Programme announced in July 2012 and implemented since then, which has enabled PUMA to limit the contraction in its recurring operating margin.

However, the full effects of the Programme – notably an upswing in sales – are not expected to be felt until the medium term, i.e. after 2014. In order to implement the measures related to product development, marketing and communications, some operating expense items may increase while others will be generally contained or reduced.

As of December 31, 2013 PUMA's directly-operated retail network included 561 stores, with 33 net closures compared with December 31, 2012. A total of 92 stores were closed during the year, including 53 as part of the Transformation Programme announced in the summer of 2012 (on top of the 20 closures in 2012). An aggregate 59 new stores were opened, including 43 in emerging markets.

Other Sport & Lifestyle brands

<i>(in € millions)</i>	2013	2012	Change
Revenue	245.1	261.2	-6.2%
Recurring operating income	8.5	14.8	-42.6%
<i>as a % of revenue</i>	<i>3.5%</i>	<i>5.7%</i>	<i>-2.2 pts</i>
EBITDA	11.9	20.5	-42.0%
<i>as a % of revenue</i>	<i>4.9%</i>	<i>7.8%</i>	<i>-2.9 pts</i>
Gross operating investments	7.1	9.9	-28.3%
Average headcount	771	785	-1.8%

Volcom and Electric recorded combined revenue of €245 million in 2013, down 6.2% year on year as reported and 2.3% on a comparable basis. The second half of the year saw the beginning of a recovery for these brands, however, with comparable-basis sales up 1.5% in the fourth quarter. As in 2012, sales for Volcom and Electric were adversely affected by a tough operating environment in the Surfwear and Action Sports markets in general, combined with a major reorganisation of the point of sales network at certain key distributors in the United States.

These negative market factors have weighed not only on Volcom and Electric but also on the vast majority of their competitors. They also led Volcom and Electric to redefine their offerings as early as in the second half of 2012, and to streamline their organisational structures and carry out an in-depth reorganisation of their management teams in 2013.

In 2013, Electric continued to reposition itself in the accessories market (which accounted for 82.6% of its sales) by drastically reducing its apparel offering. The benefits of the revamping of the brand's product offering around new ranges of sunglasses, snow goggles and watches started to bear fruit, in terms of improved revenue trend towards year-end.

Volcom followed on its 2013 objective of safeguarding its margins and protecting its brand image by limiting the number of markdowns and discounts during the year, carefully selecting its distributors and increasing the weight of its retail distribution channel. This enabled the brand to mitigate the decline of its sales to -1.4% (on a comparable basis) for the year as a whole, and even to record a rise in revenue in the second half.

In light of the financial discipline in the context of the Transformation Programme and strict management of operating cash flows, PUMA's gross operating investments were scaled back to €68 million in 2013, down 16.6% on 2012.

For the Apparel category – which remains Volcom's core business – the brand reported a relatively contained decline in sales despite the impact of both weak consumer spending and the impact from the reorganisation measures undertaken by some of its distributors. Volcom's other product categories (which now account for around 17% of the brand's total revenue) however saw an increase in sales in 2013, with particularly encouraging business trends for the Footwear category which has been developed in conjunction with PUMA's teams.

In North America, which is the main market for Volcom and Electric, – representing 62.6% of their aggregate sales – revenue decreased only slightly for the year as a whole, thanks to an improvement in the second half (on a comparable basis). However, the revenue decline was more pronounced in Western Europe (which accounted for 19.2% of the two brands' revenue). Meanwhile, in Japan and Central and South America – which are important markets for Volcom – business was well oriented during the year.

Volcom and Electric's combined recurring operating income for 2013 contracted by 42.6% year on year, coming in at slightly below €9 million, putting the recurring operating margin at 3.5% (versus 5.7% in 2012).

The year-on-year decrease in recurring operating income was mainly due to the erosion of the two brands' gross margin in absolute terms caused by the decline in revenue and, to a lesser extent, a contraction in gross margin percentage.

As of December 31, 2013, Volcom's directly-operated store network (Electric does not have any directly-operated stores) comprised 47 stores, including nine in emerging markets.

Volcom and Electric's gross operating investments amounted to some €7 million in 2013, with a very sharp decrease compared to 2012.

The Corporate segment

The Corporate segment comprises (i) Kering's corporate departments and headquarters teams, (ii) Shared Services, which provide services to the brands, and (iii) the Kering Sustainability Department which is responsible for the sustainability initiative launched by Kering in 2011.

Since January 1, 2013 this segment has also included Kering's new Sourcing Department based on Redcats Asia –

Redcats' sourcing business that the Group decided to retain.

Costs recorded by the Corporate segment for 2013 totalled close to €133 million, up 6.4% year on year.

This increase reflects the cross-business assignments and projects taken on by the Corporate segment on behalf of the Group's brands, as well as the launch of new shared-services centres, notably in the Asia-Pacific region.

1.5. *comments on the group's financial position*

<i>(in € millions)</i>	2013	2012	Change
Goodwill, brands and other intangible assets, net	14,472.9	14,360.9	+112.0
Other non-current assets (liabilities), net	(119.9)	(467.4)	+347.5
Current assets, net	836.2	756.7	+79.5
Provisions	(365.9)	(364.8)	-1.1
Capital employed	14,823.3	14,285.4	+537.9
Net assets held for sale	(184.5)	325.0	-509.5
Total equity	11,195.9	12,118.7	-922.8
Net debt	3,442.9	2,491.7	+951.2

Capital employed

As of December 31, 2013, capital employed was €538 million higher than at the previous year-end.

Goodwill, brands and other intangible assets, net

As of December 31, 2013, "Goodwill, brands and other intangible assets, net" represented 63% of total assets (versus 57% as of December 31, 2012) and mainly comprised:

- goodwill amounting to €3,770 million, of which €2,523 million related to the Luxury Division and €1,247 million to the Sport & Lifestyle Division. This

overall goodwill figure was lower than the end-2012 total due to the €280 million impairment loss recorded against PUMA's goodwill, although the impact of this writedown was partially offset by the effect of the acquisitions carried out during the year;

- brands valued at €10,470 million, of which €6,629 million for the Luxury Division and €3,841 million for the Sport & Lifestyle Division. The year-on-year increase in this figure was primarily due to the acquisition of Pomellato.

Net of deferred tax liabilities relating to brands (which are recorded under "Other non-current assets (liabilities), net", as shown below), this item came to €11,738 million as of December 31, 2013.

Other non-current assets, net

(in € millions)	2013	2012	Change
Property, plant and equipment, net	1,676.9	1,376.3	+300.6
Net deferred tax liabilities	(2,160.3)	(2,172.1)	+11.8
Investments in associates	17.3	25.8	-8.5
Non-current financial assets	316.1	273.7	+42.4
Other non-current assets	30.1	28.9	+1.2
Other non-current assets (liabilities), net	(119.9)	(467.4)	+347.5

"Property, plant and equipment, net" rose slightly in 2013, due to the impact of increases in the scope of consolidation,

recurring transactions (acquisitions/disposals and depreciation) and exchange rate fluctuations.

The Group's operating infrastructure breaks down as follows:

		Owned outright	Finance leases	Operating leases	2013	2012
Sales outlets	Luxury Division	21	4	994	1,019	958
	Sport & Lifestyle Division	4		604	608	637
Logistics units	Luxury Division	19	1	68	88	64
	Sport & Lifestyle Division	5		39	44	43
Production units & other	Luxury Division	3	1	18	22	55
	Sport & Lifestyle Division	3		4	7	7

Deferred taxes primarily correspond to deferred tax liabilities relating to brands recognised on business combinations (notably Gucci and PUMA).

As of December 31, 2013, investments in associates comprised Wilderness shares. The year-on-year increase in non-current financial assets in 2013 was chiefly due to the acquisition of shares in non-consolidated companies.

Current assets, net

As of December 31, 2013, net current assets totalled €836 million, versus €757 million as of December 31, 2012. This item breaks down as follows:

(in € millions)	2013	2012	Change
Inventories	1,805.5	1,736.5	+69.0
Trade receivables	949.9	985.3	-35.4
Trade payables	(766.1)	(684.5)	-81.6
Current tax receivables/payables	(191.0)	(242.7)	+51.7
Other current assets and liabilities	(962.1)	(1,037.9)	+75.8
Current assets, net	836.2	756.7	+79.5

As of December 31, 2013, Kering's net current asset figure was almost €80 million higher than at the previous year-end. After stripping out the impact of fluctuations in exchange rates and changes in Group structure, changes in working capital requirement led to a cash outflow of €75 million.

Changes in inventories resulted in a cash outflow of €93 million during 2013. This mainly reflects the expansion of the Luxury Division's store network (Gucci and Yves Saint Laurent), partially offset by the effect of inventory optimisation measures put in place during the year, particularly at Bottega Veneta.

Adjusted for the effect of fluctuations in exchange rates and changes in Group structure, the year-on-year increase in trade receivables led to a €7 million cash requirement in 2013. The increase in trade payables resulted in an overall cash inflow of €69 million, primarily attributable to the business growth reported by the Luxury Division.

The decrease in the net liability recorded under "Other current assets and liabilities" gave rise to a €44 million cash outflow in 2013, notably at PUMA due to the expenditure incurred in connection with the brand's Transformation Programme.

Provisions

As of December 31, 2013, the portion of provisions for pensions and other post-employment benefits that will not give rise to cash outflows in the coming 12 months (recorded under non-current liabilities) amounted to €93 million, slightly lower than the December 31, 2012 figure as a result of changes in the actuarial assumptions used.

Other provisions for contingencies and losses edged up in 2013, mainly due to the combined impacts of (i) the partial utilisation of the provisions set aside for the PUMA Transformation Programme and (ii) the reclassification of provisions for tax disputes in various countries and the recognition of provisions for new disputes with external parties.

(in € millions)	2013	2012	Change
Provisions for pensions and other post-employment benefits	100.0	104.8	-4.8
Other provisions for contingencies and losses	265.9	260.0	+5.9
Provisions	365.9	364.8	+1.1

Net assets held for sale

This item results from applying IFRS 5 to operations that were discontinued or sold during the period, or were in the process of being sold. As of December 31, 2013 these operations corresponded to the residual assets of Redcats.

Equity

(in € millions)	2013	2012	Change
Equity attributable to owners of the parent	10,586.6	11,413.8	-827.2
Equity attributable to non-controlling interests	609.3	704.9	-95.6
Total equity	11,195.9	12,118.7	-922.8

As of December 31, 2013, Kering's total equity was lower than at the previous year-end, with equity attributable to owners of the parent down €827 million, mainly due to the impact of:

- €50 million in net income attributable to owners of the parent;
- €471 million in dividends and interim dividends paid by Kering;
- a €314 million stock dividend paid by Kering in the form of Groupe Fnac shares;
- a €28 million negative effect from changes in treasury shares;
- a €91 million negative effect from currency translation adjustments.

During the year, Kering carried out the following treasury share transactions:

- purchases and sales of shares under the liquidity agreement (1,585,556 shares purchased and 1,585,556 shares sold);
- the purchase of 106,000 shares and the allotment of 102,491 shares to employees in connection with the 2009 and 2011 free share plans and 450 shares under the 2008 and 2009 free share plans;
- the purchase of 130,000 shares and the sale of 103,037 shares to employee beneficiaries under stock option plans, notably the 2006 and 2007 plans;

- the purchase of 720,000 shares and the remittance of 714,514 shares in connection with an external growth transaction and the allocation of the balance of shares acquired (5,486 shares) to be allotted to employees under stock option plans.

As of December 31, 2013, Kering's share capital was made up of 126,226,761 shares with a par value of €4 each. At that date Kering held no treasury shares in connection with the liquidity agreement. Excluding the liquidity agreement, Kering held 60,581 shares in treasury as of December 31, 2013, compared with 25,073 as of December 31, 2012.

As of December 31, 2013, equity attributable to non-controlling interests mainly related to PUMA, for a total of €533 million (versus €665 million the previous year), and the Luxury Division's brands, for €101 million (€40 million as of December 31, 2012).

The year-on-year change in the amount of equity attributable to non-controlling interests primarily includes the impact of (i) acquisitions of additional PUMA shares which raised Kering's interest in PUMA to almost 86% as of December 31, 2013 from 83% one year earlier; and (ii) the first-time consolidation of the Pomellato group and Christopher Kane in 2013.

Net debt

The Group's net debt totalled €3,443 million as of December 31, 2013, representing an increase of €951 million or 38.2% compared with the previous year-end. As of December 31, 2013, Kering's net debt broke down as follows:

<i>(in € millions)</i>	2013	2012	Change
Bonds	3,290.5	3,048.3	+242.2
Bank borrowings	454.2	566.4	-112.2
Commercial paper	358.0	449.0	-91.0
Other borrowings	767.1	520.3	+246.8
Gross borrowings⁽¹⁾	4,869.8	4,584.0	285.8
Fair value hedges (interest rate)	(7.7)	(11.3)	+3.6
Cash and cash equivalents	(1,419.2)	(2,081.0)	+661.8
Net debt	3,442.9	2,491.7	+951.2

(1) Excluding the financing of customer loans.

In the first half of 2013, Kering redeemed both the €600 million worth of bonds issued in 2005, including the additional bonds issued in 2006, and the second €200 million tranche of the bonds indexed to the Kering share price that were issued in May 2008. To extend the maturity of its debt, Kering carried out a first bond issue on July 13, 2013, involving €500 million of seven-year bonds with a fixed-rate coupon of 2.5%, and a second – which also represented €500 million – on October 8, 2013, involving five-year bonds with a 1.875% fixed-rate coupon.

As of December 31, 2013, the Group's gross borrowings included €324 million concerning put options granted to minority shareholders (€215 million as of December 31, 2012). The year-on-year increase notably stemmed from the recognition of the liability related to the non-controlling interests in the Pomellato group.

In accordance with the Group's interest rate management policy, fixed-rate borrowings accounted for 59.3% of the Group's total gross borrowings as of December 31, 2013 (including hedges), compared with 60.4% one year earlier.

As of December 31, 2013, the Group's gross borrowings mainly comprised euro-denominated borrowings. The proportion denominated in Japanese yen represented 6.8% of total gross borrowings (8.9% as of December 31, 2012) and the proportion denominated in other currencies stood at 7.2% (7.5% as of December 31, 2012).

Kering minimises its exposure to concentration risk by diversifying its sources of financing. Therefore, non-banking debt accounted for 74.9% of gross borrowings as of December 31, 2013, versus 76.3% as of December 31, 2012. Kering's credit facilities are taken out with a diversified pool of top-tier French and non-French banks. As of December 31, 2013, 78.8% of the confirmed credit facilities granted to Kering were provided by a total of ten banks. The Group's three leading banking partners represented 40% of the total and no single bank accounted for more than 20% of the aggregate amount of confirmed credit facilities available to the Group.

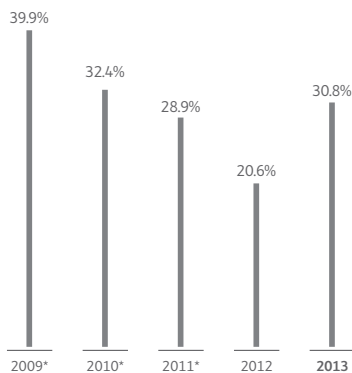
Kering only carries out borrowing and investment transactions with investment grade financial institutions and it spreads these transactions amongst the various institutions concerned.

Solvency

At December 31, 2013, Kering had a very sound financial structure:

- its gearing ratio (net debt to equity) came out at 30.8% as of December 31, 2013 versus 20.6% as of December 31, 2012.
- its solvency ratio (net debt to EBITDA) stood at 1.68 as of December 31, 2013 versus 1.21 as of December 31, 2012.

GEARING



* Reported data, not restated.

SOLVENCY



— Net debt⁽¹⁾ (ND)
(in € millions)

● Solvency ratio (ND/EBITDA)

* Reported data, not restated.

Kering's bank borrowing facilities are subject to just one financial covenant which provides that the solvency ratio (net debt to EBITDA, calculated annually on a proforma basis at the year-end) must not exceed 3.75.

In March 2012 Standard & Poor's upgraded Kering's long-term rating from BBB- to BBB with a stable outlook.

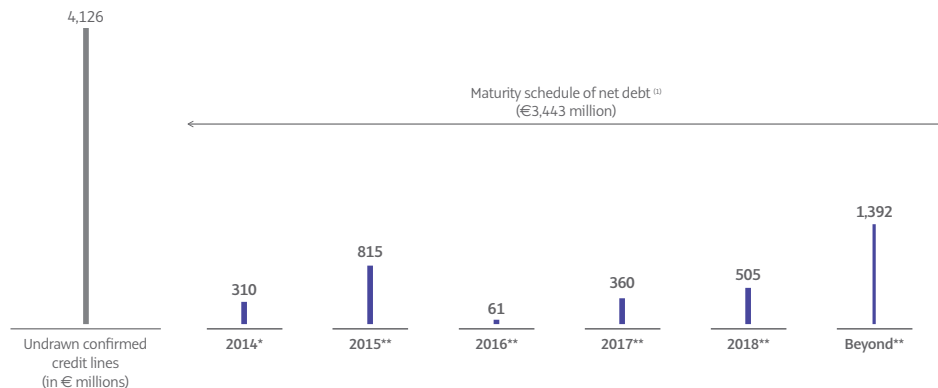
(1) Net debt defined page 156.

Liquidity

As of December 31, 2013, Kering had cash and cash equivalents totalling €1,419 million (€2,081 million as of December 31, 2012), as well as confirmed undrawn

medium-term credit facilities amounting to €4,126 million (€4,024 million as of December 31, 2012).

MATURITY SCHEDULE OF NET DEBT



* Gross borrowings after deduction of cash equivalents and financing of customer loans.

** Gross borrowings.

In view of the above, the Group is not exposed to liquidity risk. Short-term borrowings and borrowings maturing in five years or beyond accounted for 36.3% and 38.5% respectively of total gross borrowings as of December 31, 2013, compared with 38.4% and 23.4% respectively as of December 31, 2012.

Cash and cash equivalents exclusively comprise cash instruments and monetary UCITS that are not subject to any risk of changes in value. As of December 31, 2013, the Group had access to €4,148 million in confirmed credit facilities, versus €4,059 million as of December 31, 2012.

The Group's loan agreements feature standard *pari passu*, cross default and negative pledge clauses.

The bonds issued between 2009 and 2013 within the scope of the EMTN programme are all subject to change-of-control clauses entitling bondholders to request early redemption at par if Kering's rating is downgraded to non-investment grade following a change of control.

In addition, the bonds issued in 2009 and 2010 – including the bonds added in January 2012 to those issued in April 2010 – include a "step-up coupon" clause that applies in the event that Kering's rating is downgraded to non-investment grade.

All borrowings benefit from the rating awarded to the Kering group by Standard & Poor's (BBB with a stable outlook) and are not subject to any financial covenants.

The Group's debt contracts do not include any rating trigger clauses.

(1) Net debt defined page 156.

Changes in net debt

Changes in net debt during 2013 and 2012 can be analysed as follows:

(in € millions)	2013	2012
Net debt as of January 1	2,491.7	3,395.5
Free cash flow from operations	(857.5)	(930.2)
Net interest paid and dividends received	117.1	162.3
Dividends paid	497.2	473.3
Acquisition of Kering shares	39.0	14.9
Acquisition of PUMA shares	99.6	119.6
Other acquisitions and disposals	1,154.7	(652.6)
Other movements	(98.9)	(91.1)
Net debt as of December 31	3,442.9	2,491.7

Free cash flow from operations

The generation of free cash flow from operations is a key financial objective for all of the Group's brands. In 2013, the Group's free cash flow from operations came to just under €858 million.

(in € millions)	2013	2012	Change
Cash flow from operating activities before tax, dividends and interest	1,983.1	2,000.7	-0.9%
Change in working capital requirement (excluding tax)	(74.5)	(272.5)	-72.7%
Corporate income tax paid	(383.7)	(362.2)	+5.9%
Net cash from operating activities	1,524.9	1,366.0	+11.6%
Net operating investments	(667.4)	(435.8)	+53.1%
Free cash flow from operations	857.5	930.2	-7.8%

Cash flow from operating activities before tax, dividends and interest edged down slightly by €18 million (or 0.9%) compared with 2012, due to an erosion in PUMA's recurring operating income that was partially offset by the increase in profitability within the Luxury Division.

Changes in working capital requirement gave rise to a net cash outflow of €75 million in 2013 compared with a net cash outflow of €273 million in 2012.

This €198 million year-on-year decrease reflects the following factors:

- a favourable impact of around €10 million resulting from an improved inventories management within the Luxury Division;

- a positive €24 million impact from a decrease in trade receivables compared with the previous year, notably for PUMA;
- a positive impact of around €156 million due to the return to a normal level of trade payables, which had decreased sharply in 2012 mainly due to the significant scaling back of purchasing programmes at PUMA.

Corporate income tax paid was up slightly on 2012.

Net cash outflows relating to net operating investments rose by €232 million in 2013 compared with 2012. The 2013 figure includes €10 million in proceeds from disposals of property, plant and equipment and intangible assets (versus €6 million in 2012).

Gross operating investments amounted to €678 million, up 53% year on year and breaking down as follows:

(in € millions)	2013	2012	Change
Luxury Division	435.6	337.3	+29.1%
Sport & Lifestyle Division	74.8	91.1	-17.9%
Corporate	167.3	13.5	+1,139.3%
Gross operating investments	677.7	441.9	+53.4%

In 2013, 46% of the Group's gross operating investments concerned store opening programmes, and around 19% related to store conversions and/or renovations (versus 36% and 18% respectively in 2012).

The Luxury Division accounted for €98 million of the overall increase in gross operating investments, reflecting store openings and investments in the supply chain. Gross operating investments for the Corporate segment included Kering's acquisition of a building in the prestigious Omotesandō district of Tokyo, which will be used to showcase some of the Luxury Division brands.

Available cash flow

In 2013, net cash outflows relating to net finance costs included €70 million in interest and dividends received (versus €69 million in 2012). Out of this total, €62 million corresponded to the proceeds received following the redemption at 69.1% of par of the second tranche of the bonds indexed to Kering shares, which matured in May 2013.

Available cash flow for the year amounted to €740 million compared with €768 million in 2012.

Dividends paid

Dividends paid in 2013 were 5% higher than in 2012. The 2013 figure included €26 million paid to minority shareholders of consolidated subsidiaries (€33 million in 2012), of which almost €15 million related to PUMA and its subsidiaries (€23 million in 2012). The cash dividend paid by Kering to its own shareholders in 2013 amounted to €471 million (including the interim dividend paid on January 24, 2013), representing a slight increase compared to 2012.

Acquisitions and disposals

In 2013, Kering purchased almost €100 million worth of PUMA shares, increasing its interest in the company to 85.81% at year-end 2013, from 82.99% at year-end 2012.

"Acquisitions of Kering shares" for an overall amount of almost €39 million relate to the purchase of 236,000 shares in connection with the Group's stock option and free share plans.

The impact of other acquisitions and disposals of securities during 2013 mainly concerned (i) the acquisitions carried out during the period (including the Pomellato group, Richard Ginori, Christopher Kane and France Croco), (ii) €656 million in financial cash flows related to discontinued operations (primarily the recapitalisation of Groupe Fnac and collection of the sale price for assets disposed of in the period, net of the financing provided for Redcats' operations).

In 2012, acquisitions and disposals of securities chiefly concerned the acquisition of Brioni and the sale of Cfaio, as well as cash flows related to operations that were discontinued, sold or in the process of being sold during the year, notably corresponding to the proceeds from the sale of The Sportsman's Guide and The Golf Warehouse.

Other movements

This item mainly includes the impact of (i) fluctuations in exchange rates, and (ii) fair value remeasurements of financial instruments in accordance with IAS 32 and 39.

1.6. net income and dividend of the parent company

The parent company ended 2013 with net income of €833 million, compared with €506 million in 2012. The 2013 total includes €2,188 million in dividends received from subsidiaries (€876 million in 2012).

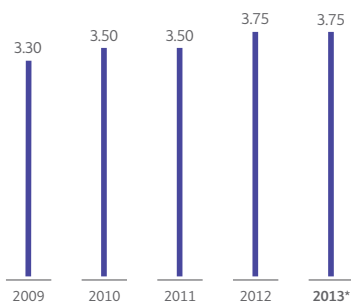
At its February 20, 2014 meeting, the Board decided that at the Annual General Meeting to be held to approve the financial statements for the year ended December 31, 2013 it will propose shareholders to approve a cash payment for the 2013 dividend, corresponding to €3.75 per share.

An interim dividend of €1.50 per share was paid on January 24, 2014 pursuant to a decision by the Board of Directors on December 20, 2013.

If the final dividend is approved, the total dividend cash payout in 2014 will amount to €473 million.

This recommended dividend reflects Kering's goal of maintaining well-balanced payout ratios bearing in mind, on the one hand, changes in net income from continuing operations (excluding non-recurring items) attributable to owners of the parent and, on the other hand, the amount of available cash flow. Kering's payout ratios for 2013 are as follows:

- 38.5% of net income from continuing operations (excluding non-recurring items) attributable to owners of the parent, versus 37.3% on a reported basis in 2012;
- 64% of available cash flow, compared with 61.6% on a reported basis in 2012.

**DIVIDEND PER SHARE
(IN €)**

* Subject to approval at the Annual General Meeting.

PAYOUT RATIOS

* Subject to approval at the Annual General Meeting.

** Reported data, not restated.

1.7. *transactions with related parties*

Transactions with related parties are described in Note 34 to the consolidated financial statements.

1.8. *subsequent events*

The exclusive negotiations concerning the sale of La Redoute and Relais Colis are still under way between Kering and the executives concerned, who presented

their business plan to the relevant employee representative bodies in January 2014 as part of the standard information and consultation procedure required under French law.

1.9. *outlook*

Having completed its transformation, Kering has extremely solid fundamentals which enable the Group to approach 2014 with confidence.

Drawing on its positioning in structurally high-growth markets and its portfolio of powerful brands with strong potential, Kering will continue to implement its strategy of rigorously managing and allocating its resources.

2014 will be marked by an ambitious relaunch plan for PUMA and by dedicated action plans for each of the Luxury Division's brands, focusing on achieving profitable organic growth.

In this context, Kering is forecasting growth for both its revenue and recurring operating income in 2014.

2. *investment policy*

In 2013, Kering pressed ahead with its strategy of reinforcing profitable high-growth activities. This strategy emphasises organic growth and international expansion, and is founded on renowned global brands. It is implemented in the Luxury and Sport & Lifestyle markets alike.

The objective is to ensure the success of each Group entity and leverage its organic growth potential. To bolster its positions, Kering may make tactical acquisitions so as to

round out its resources, brand and product portfolios.

This vision also provides scope for strategic acquisitions, which are an effective means of accelerating the Group's development and improving its growth and profitability profile.

2.1. *financial investments*

2013

Financial investments represented net cash outflows of €320.3 million for 2013, with acquisitions exceeding disposals of financial assets, taking into account recapitalisations and refinancing, asset disposals and discontinued operations.

The cash flow relating to businesses sold that were restated in accordance with IFRS 5 (Fnac and the Redcats group) is shown on the line "Net cash from discontinued operations".

Kering strengthens its portfolio of luxury brands

In early January 2013, Kering completed its acquisition of a majority stake in the Chinese fine jewellery brand Qeelin. Launched in 2004, Qeelin is the first Chinese luxury jeweller to have developed an international network of stores in the most prestigious shopping districts worldwide. At the time of acquisition, it operated 14 stores (seven in Mainland China, four in Hong Kong and three in Europe) and is sold in a number of multi-brand stores such as Colette in Paris and Restir in Tokyo.

On January 15, 2013, Kering acquired a majority stake in the luxury designer brand Christopher Kane with a view to developing the brand's business in close partnership with its eponymous creator, the Scottish designer Christopher Kane. Founded in 2006, Christopher Kane is a distinctive and exciting brand with a unique DNA.

On March 25, 2013, Kering announced that it had acquired a majority stake in France Croco/Tannerie de Périers. Founded in 1974, France Croco is a leading independent tannery located in Normandy and specialised in the sourcing, tanning and processing of crocodile skins.

On April 22, 2013 Gucci further demonstrated its commitment to the excellence of "Made in Italy" and to Tuscany by announcing that it had acquired the Italian

porcelain maker, Richard Ginori, as part of its plans to expand into the tableware market.

On April 24, 2013, Kering announced that it had signed an agreement with RA.MO SpA to acquire a majority stake in the Italian jewellery group Pomellato. The Pomellato group has two brands: Pomellato, which is positioned in the fine jewellery segment and Dodo, positioned in the accessible jewellery segment. Through this acquisition Kering has extended and strengthened its portfolio of luxury brands in the high-growth jewellery segment. The transaction was completed on July 5, 2013, following clearance by the competition authorities. In view of the date on which Kering took over control of the Group, Pomellato has been consolidated since July 1, 2013.

On September 6, 2013, Kering announced that it was acquiring a minority shareholding in the New York-based fashion brand, Altuzarra, founded by the Franco-American designer Joseph Altuzarra in 2008. This investment marks the beginning of a partnership which will enable Kering to accompany Altuzarra in the next stage of its growth.

On November 19, 2013, Kering and Tomas Maier announced that they had entered into a joint venture to develop the business of the Tomas Maier brand in partnership. Tomas Maier will continue to be Creative Director of Bottega Veneta, a position he has held since 2001.

Distribution of Groupe Fnac shares, Kering continues its divestment of the Redcats group and finalises the Group's transformation

In line with the principle announced on October 9, 2012, at its April 17, 2013 meeting Kering's Board of Directors unanimously approved the listing of Groupe Fnac shares through a distribution of Groupe Fnac shares to Kering shareholders. At the Annual General Meeting on June 18, 2013, Kering's shareholders authorised the payment of

an additional cash dividend and an additional dividend in the form of Groupe Fnac shares. On June 20, 2013 prior to the start of market trading, the rights to the balance of the cash dividend for 2012 were detached from the Kering shares and the dividend was paid. The rights to the allotment of Groupe Fnac shares were also detached from the Kering shares and the deliveries of Groupe Fnac shares began. Consequently, the Groupe Fnac share allotment rights began trading on Euronext Paris on the same day.

In 2013, Kering continued the divestment of the Redcats group and finalised the Group's transformation.

- on January 3, 2013, Kering announced that it had received a firm offer from Alpha Private Equity Fund 6 ('APEF 6') to acquire Redcats' Children and Family division – comprising the Cyrillus and Vertbaudet brands – for an enterprise value of €119 million. The transaction was completed on March 28, 2013;
- on February 5, 2013, Kering announced the closing of the sale of OneStopPlus to Charlesbank Capital Partners and Webster Capital in accordance with the terms of the definitive sale agreement announced on December 5, 2012. This transaction marked the final step in the sale of all of Redcats USA's operations;
- on February 25, 2013, Kering announced that Redcats had entered into an agreement to sell its Nordic activities, Ellos and Jotex to Nordic Capital Fund VII for an enterprise value of €275 million. The transaction was completed on June 3, 2013;
- during the second half of 2013, Kering continued the process for its planned sale of La Redoute and Relais Colis. On December 4, 2013, after examining the four takeover offers, Kering's Board of Directors decided to enter into exclusive negotiations with Nathalie Balla – the current chairman and CEO of La Redoute – and Eric Courteille – Chief Administrative Officer of Redcats. This process has continued during the first half of 2014.

Other changes

In 2013, Kering purchased a total of 422,500 PUMA shares on the market for an aggregate €99.6 million. This raised Kering's stake in PUMA to 85.81% as of December 31, 2013 from nearly 83% one year earlier.

2012

Financial investments represented net cash inflows of €697 million for 2012, with disposals well exceeding acquisitions of financial assets. The cash flow relating to businesses sold that were restated in accordance with IFRS 5 (Fnac and the Redcats group) is shown on the line "Net cash from discontinued operations".

Acquisition of Brioni

On November 8, 2011, Kering announced that it was to acquire 100% of Brioni's share capital.

The acquisition was finalised on January 11, 2012, on the approval of the competition authorities. Brioni is one of the world's most reputable men's fashion houses, owing to its exceptional sartorial expertise. It is a profitable and growing business with its own tailoring workshops, the largest of which is located in Penne in the Abruzzo region of Italy. As of December 31, 2012, the company had 1,800 employees and was distributed in 35 directly-owned stores, as well as through an extensive network of points-of-sale around the world. Brioni was consolidated in PPR's financial statements as from January 1, 2012.

Sale of PPR's remaining stake in Cfao

Following a share purchase agreement signed on July 26, 2012 between Kering and the Japanese group Toyota Tsusho Corporation ("TTC"), in early August 2012 TTC acquired from Kering 29.8% of the share capital of Cfao at a price of €37.50 per share, making it Cfao's main shareholder. Subsequently, in December 2012 Kering tendered its residual 12.2% stake in Cfao to the voluntary public offer launched by TTC in October 2012 for Cfao's remaining capital. The tender price was the same as that applied when TTC purchased its 29.8% interest, i.e., €37.50 per share.

Plan to demerge and float Fnac and disposal of Fnac Italy

In 2012, Kering continued its strategic refocusing and decided on a plan to demerge and float Fnac. The principle of this plan was unanimously approved by Kering's Board of Directors on October 9, 2012.

The sale of Fnac Italy initiated in the second half of 2011 was finalised in the second half of 2012. An agreement was entered into in November 2012 to sell Fnac Italy to the investment fund Orlando Italy. The transaction was completed in January 2013.

Continued divestment of the Redcats group

The process begun by Kering in second-half 2011 to sell the Redcats group was continued in 2012.

On November 8, 2012, Kering announced that an agreement had been signed between Redcats and Northern Tool + Equipment (NTE) to sell the Sports & Leisure activities of Redcats USA, including The Sportsman's Guide and The Golf Warehouse, for an enterprise value of USD 215 million. The sale was completed on December 17, 2012 and the sale price was collected in accordance with the terms agreed.

On December 5, 2012, Kering announced that Redcats had entered into an agreement to sell OneStopPlus, its plus-size business in the United States, to Charlesbank Capital Partners and Webster Capital for an enterprise value of USD 525 million. This transaction – which was contingent on the customary closing conditions and approval by the US antitrust authorities – was finalised on February 5, 2013.

2.2. *operating investments*

The Group conducts a targeted investment policy designed to reinforce both its image and the unique positioning of its brands, as well as to increase its return on capital employed.

The Group's investment policy is focused on the development of its store network, the conversion and renovation of its existing points of sale, the establishment and maintenance of manufacturing units in the Luxury sector, and the development of IT systems.

Gross operating investments amounted to €678 million, up 53% year-on-year, or up 22% when adjusted for the one-off investment of more than €140 million for the purchase of a building in Japan.

In 2013, 46% of the Group's gross operating investments concerned store opening programmes, and around 19% related to store conversions and/or renovations. Investments in France accounted for around 4% of the total in 2013. In 2012, 36% of the Group's gross operating investments concerned store opening programmes, and around 18% related to store conversions and/or renovations.

The Luxury Division accounted for most of the overall increase in gross operating investments, with 191 net store additions and renovations.

In 2013, net operating investments included €10 million in proceeds from disposals of property, plant and equipment and intangible assets (€6 million in 2012).

Luxury Division

The Luxury Division's gross operating investments amounted to €436 million in 2013, up 29.1% on 2012. This increase stemmed from store openings, expansions and refurbishments (accounting for around 60% of the total) as well as significant investments in infrastructures, systems and the supply chain. It also reflects the Group's objective of allocating the resources required for developing the brands' businesses in line with their strategic plans. 2013 was a key year for stepping up the pace of Yves Saint Laurent's growth and integrating Brioni, with around two-thirds of the year-on-year increase in operating investments related to these two brands.

Other changes

In 2012, Kering and PUMA purchased a total of 465,314 PUMA shares on the market for an aggregate €120 million. This raised Kering's stake in PUMA from 79.9% as of December 31, 2011, to 83% as of December 31, 2012.

As of December 31, 2013 the Luxury Division had a network of 1,149 directly-operated stores, including 750 in mature markets and 399 in emerging markets (201 in Greater China). Net store additions during the year totalled 191. However, when adjusted for transfers of existing points of sale previously operated by third-party distributors (Yves Saint Laurent in the United Arab Emirates, Gucci and Balenciaga in South Korea, Brioni in China and Gucci in Canada) and the Qeelin store network as of January 1, 2013 and the Pomellato/Dodo network as of July 1, 2013, the number of net store additions amounted to 94. Out of these additions, 50 stores are in mature markets and 44 in emerging markets.

Gucci

Gucci's gross operating investments amounted to €215 million in 2013, up 5.2% on 2012, when they rose by around 83%. 2013 therefore marked the first stage toward a stabilisation of the brand's investment spending. Store-related investments accounted for over half of the brand's total gross operating investments in 2013, with priority given to refurbishments in order to enhance both the network's productivity and customers' shopping experience and to a retail environment aligned with the brand's ongoing repositioning.

As of December 31, 2013, Gucci operated 474 stores directly, including 183 in emerging markets, of which 76 in Greater China. Excluding the incorporation into the directly-operated store network of 11 points of sale in South Korea and 8 boutiques in Holt Renfrew department stores in Canada, Gucci added a net 26 new stores in 2013 (compared with 53 net additions in 2012), of which 20 in mature markets.

Bottega Veneta

Bottega Veneta's gross operating investments rose by around 50% year on year to €62.0 million. Almost two-thirds of these investments related to the store network and the remainder included financing for a new atelier and offices at Montebello Vicentino.

Bottega Veneta's network of directly-operated stores totalled 221 as of December 31, 2013, including 90 in emerging markets. There were 25 net store additions during the year, versus 26 in 2012. In addition, the brand extended, relocated or refurbished a total of 16 stores.

Yves Saint Laurent

Gross operating investments increased three-fold in 2013 to €65 million, with nearly 80% of this amount related to opening new stores and adapting existing stores to the new store concept.

As of December 31, 2013, the Yves Saint Laurent brand directly operated 115 stores, including 46 in emerging markets. In line with the brand's aim of stepping up the pace of business expansion in 2013 by investing in the distribution network, there were 20 net store additions during the year and the brand brought back under direct management six points of sale in the United Arab Emirates.

Other Luxury brands

The network of directly-operated stores owned by Other Luxury brands totalled 339 stores as of December 31, 2013, including 55 in Greater China and 25 in other emerging markets. A total of 259 stores are located in these brands' traditional markets, mainly concentrated in Western Europe and Japan (118 and 104 stores respectively). There were 95 net store additions during the year, reflecting the combined impacts of integrating Qeelin and Pomellato (60 store additions), transferring or purchasing points of sale that were previously operated by third parties (12 additions), opening new stores (41 additions), and closing 18 existing stores.

The Group's commitment to developing the business of its Other Luxury brands is evidenced by the 33.3% increase in their gross operating investments in 2013 to €94 million, the majority of which related to store openings.

Sport & Lifestyle Division

In view of the transformation measures being undertaken within the Sport & Lifestyle Division and the contraction in its revenue, gross operating investments reduced in 2013 to just under €75 million, representing a 17.9% decrease.

As of December 31, 2013, the Sport & Lifestyle Division directly-operated store network amounted to 608 points of sale. A total of 67 new points of sale were opened in 2013 – with 46 located in emerging markets – and 96 stores were closed, including 53 as part of the Transformation Programme announced by PUMA in July 2012.

PUMA

In light of the financial discipline in the context of the Transformation Programme and strict management of operating cash flows, PUMA's gross operating investments were scaled back to €68 million in 2013, down 16.6% on 2012.

As of December 31, 2013 PUMA's directly-operated retail network included 561 stores, with 33 net closures compared with December 31, 2012. A total of 92 stores were closed during the year, including 53 as part of the Transformation Programme announced in the summer of 2012 (on top of the 20 closures in 2012). An aggregate 59 new stores were opened, including 43 in emerging markets.

Other Sport & Lifestyle brands

Volcom and Electric's gross operating investments amounted to some €7 million in 2013, with a very sharp decrease compared to 2012.

As of December 31, 2013, Volcom's directly-operated store network (Electric does not have any directly-operated stores) comprised 47 stores, including nine in emerging markets. There were four net store openings during the year.

3. *risk management*

3.1. *financial risks*

The Kering group has established a centralised structure for the management of liquidity, exchange rate and interest rate risks. The Group's Financing and Treasury Department, which reports to the Finance Department, is responsible for this organisation and has the necessary expertise, resources (particularly technical) and information systems to carry out its tasks. It executes transactions in various financial markets with optimum efficiency and security via Kering Finance SNC, which is dedicated to cash management and financing. The Financing and Treasury Department also coordinates cash management for the subsidiaries and sets out the Group's banking policy.

The financial risks identified by the Group are summarised below:

Counterparty risk

Kering minimises its exposure to counterparty risk by dealing only with investment grade companies and by spreading its exposure among its various counterparties, up to their respective exposure and maturity limits. Counterparties to derivative transactions are included in the Group's counterparty risk management procedures. Each of these transactions requires approval and is governed by limits and maturities that are reviewed on a regular basis. Counterparties are assessed using an internal classification system based on the rating they have received from rating agencies. Counterparties must be rated at least "BBB" by Standard & Poor's and the equivalent by Moody's.

Equity risk

In the normal course of its business, the Group enters into transactions involving shares in consolidated companies or shares issued by Kering. The Group trades in its own securities either directly or through derivatives as part of its share buy-back programme and in accordance with applicable regulations. Kering has also signed an agreement with a financial broker in order to improve the liquidity of the Group's shares and ensure share price stability. This agreement complies with the Professional Code of Conduct drawn up by the French association of financial and investment firms (*Association française des marchés financiers* - AMAFI) and approved by the French financial markets authority (*Autorité des marchés financiers* - AMF).

Shares held in connection with non-consolidated investments represent a low exposure risk for the Group and are not hedged.

When Kering sets up financial investments in the form of open-ended investment funds (Sicav), UCITS or equivalent funds, it systematically uses liquid monetary instruments with maturities of less than three months in order to mitigate risk. Consequently, the price risk borne by Kering is deemed not to be material.

In May 2008, Kering issued a €400 million bond indexed to the price of its own shares, in two equal tranches of €200 million, the first of which matured in November 2012 and the other in May 2013. The redemption price of these bonds was indexed to changes in the price of the Kering share within the limit of a specified maximum and minimum price.

Additional information on equity risk is provided in Note 29.3 to the annual consolidated financial statements.

Foreign exchange risk

The Group uses hedging instruments to reduce its exposure to currency risk based on the specific requirements of each Division.

These instruments are used either to hedge foreign currency trade receivables and payables, or to hedge highly probable forecast exposures and/or firm commitments. Each entity hedges the risk generated by using a currency other than its functional currency in its commercial dealings.

Companies in the Sport & Lifestyle Division primarily hedge the foreign exchange risk generated by firm purchase commitments in foreign currencies and highly probable purchase flows. Periods depend on the activity specific to each company. Hedging flows may be generated by inter-company flows through purchasing offices.

Foreign exchange risk hedging by the Luxury Division's entities mainly covers sales made to their retail subsidiaries, and to a lesser extent purchase flows. These are essentially inter-company flows.

Future foreign exchange exposures are determined using a regularly updated budget procedure.

Hedging periods are adapted to each brand's business cycle and only marginally exceed one year at each reporting date.

Foreign exchange policies and procedures are set out by each company's Executive Committee and are validated by Kering.

Each brand hedges its own foreign exchange risks in accordance with policies and procedures reflecting its specific requirements.

These procedures incorporate Group policies as defined by Kering:

- Kering Finance SNC is the sole counterparty in currency transactions, except where specific regulatory or operating constraints rule this out;
- the amounts and maturities of all currency hedging transactions are backed by an economic underlying to prevent any speculative dealing;
- all highly probable exposures are at least 85%-hedged where they concern forecast amounts, or fully-hedged in the case of firm commitments;
- Kering has strictly limited the type of financial instruments that may be used for hedging purposes;
- each brand implements its own internal control system and conducts audits on a regular basis.

Kering ensures that each brand's risk management policy is consistent with its underlying foreign exchange exposure, notably through a monthly currency reporting procedure. Kering also conducts periodic audits at Group level.

The Group also hedges foreign exchange risk on financial assets and liabilities issued in foreign currencies by using currency swaps for refinancing purposes or by investing cash in euros or local currency.

Note 29.2 to the annual consolidated financial statements sets out the nature of the hedging instruments held by the Group and its exposure to foreign exchange risk (see page 255, "Exposure to foreign exchange risk").

Kering Finance SNC processes, controls and provides administrative support for foreign exchange transactions on behalf of Group companies. Front-office, middle-office, back-office and accounting tasks are separated for security reasons, as well as to ensure that derivatives contracted internally are unwound on the market. Kering Finance SNC uses market-standard techniques and information systems to price currency instruments.

Interest rate risk

Interest rate risk policy falls within Kering's remit, and is managed on a consolidated basis by Kering Finance SNC. Kering has set a 70% – fixed/30% – floating target rate mix for Group consolidated net debt.

Interest rate risk is measured based on current and projected consolidated net debt, the schedule of hedging positions and fixed-rate/floating-rate debt issuances. This enables interest-rate hedging in accordance with

the Group's target fixed/floating rate mix. Appropriate hedging products are set up through Kering Finance SNC, in close liaison with Kering's Executive Management. Kering mainly uses interest rate swaps to convert all or a portion of its fixed-rate bonds and caps and collars to a floating rate in order to protect floating-rate financing against rises in interest rates.

Kering Finance SNC processes, controls and provides administrative support for interest rate transactions on behalf of Group companies. Front-office, middle-office, back-office and accounting tasks are separated for security reasons. Kering Finance SNC uses market-standard techniques and information systems to price interest rate instruments.

Note 29.1 to the annual consolidated financial statements sets out the nature of the hedging instruments held by the Group and its exposure to interest rate risk (see page 252, "Exposure to interest rate risk").

Liquidity risk

Liquidity risk management for the Group and each of its subsidiaries is closely monitored and periodically assessed by Kering, based on Group – and brand – level financial reporting procedures.

In order to manage liquidity risk that may arise when its financial liabilities fall due, the Group's financing policy is geared towards optimising its maturity schedule and avoiding the concentration of redemptions and repayments.

The Group's active risk management policy also seeks to diversify sources of funding and limit reliance on individual lenders.

The Group had undrawn confirmed lines of credit totalling €4,125.9 million as of December 31, 2013 compared to €4,023.6 million as of December 31, 2012.

Kering has a Euro Medium Term Notes (EMTN) programme in Luxembourg for its bond issuances, representing €5 billion. As of December 31, 2013, €3,300.1 million of this amount had been used. The EMTN programme was extended on December 3, 2013 for a further one-year period. Kering's short-term debt is rated "A2" by Standard & Poor's, while its long-term debt is rated "BBB" with a stable outlook.

The Group's bonds and bank lines of credit are governed by the standard commitment and default clauses customarily included in this type of agreement: *pari passu* ranking, a negative-pledge clause that limits the security that can be granted to other lenders, and a cross-default obligation. The bonds issued between 2009 and 2013 within the scope of the EMTN programme are all subject to change-of-control clauses entitling bondholders to request early redemption at par if Kering's rating is downgraded to non-investment grade following a change of control.

In addition, the bonds issued in 2009 and 2010 – including the bonds added in January 2012 to those issued in April 2010 – include a “step-up coupon” clause that applies in the event that Kering’s rating is downgraded to non-investment grade (see Notes 28.4 and 28.5 to the annual consolidated financial statements).

Kering and Kering Finance SNC confirmed lines of credit include a default clause (early repayment) in the event of failure to comply with the following financial covenant: consolidated net debt/EBITDA less than or equal to 3.75 (see Note 28.5.3 to the annual consolidated financial statements). This ratio is calculated based on pro forma data. As of December 31, 2013, Kering and Kering Finance SNC had not drawn down any of the confirmed lines of credit subject to this covenant.

Euro bond issues are not subject to any financial ratio covenants.

The Group was in compliance with all these covenants as of December 31, 2013 and there is no foreseeable risk of breach.

Information relating to liquidity risk is presented in Note 28 to the annual consolidated financial statements, including the breakdown of Group debt by maturity and currency, and in Note 29.6 to the annual consolidated financial statements, which describes liquidity risk in accordance with IFRS 7.39.

3.2. *strategic and operational risks*

In accordance with the AMF’s recommendations, this section deals only with risks identified by the Group as having a potentially significant impact.

Macroeconomic instability

The global economic slowdown continued through 2013, due, in particular, to the financial crisis in Europe and flatter growth in Asia.

The balanced geographical coverage of its Luxury and Sport & Lifestyle Divisions limits the Kering group’s exposure to the impact of local recessions and enables it to benefit from growth in emerging countries.

The diversity of the Group’s product offering reduces its dependence on a specific range. The distribution network also benefits from a balanced geographical footprint, with Luxury Division sales made through over 1,100 directly-operated stores in 39 countries.

Raw materials and strategic skills

To meet its customers’ expectations, the Luxury Division needs unhindered availability of raw materials that comply with its quality criteria, and sustained skill levels across its production teams. To these purposes, the Kering group has forged special partnerships with key suppliers, and pursues a policy of actively seeking new partners. In addition, it develops vertical integration throughout the production chain by means of a programme of acquisitions and strategic business combinations.

To uphold know-how in its Luxury Division businesses, Kering runs personnel training and skills preservation operations, and internalises a number of functions that were previously subcontracted.

Fluctuation in raw materials prices

The rising price of raw materials used by the Kering Luxury Division correlates with high demand for leather, skins and precious stones. Rising prices of the raw materials used by the Sport & Lifestyle Division stem from variations in the prices of rubber, cotton and polyester, partially dependent on the price of oil. In the bulk of cases, rises in raw material prices can be wholly or partially offset by corresponding rises in the sale prices of finished products.

Kering pays careful attention to the traceability of supplies, and insists that suppliers and subcontractors comply with legislation and the Group’s Code of ethics. The Luxury Division is especially attentive to ensuring that supplies comply with international standards on mining conditions for gold, diamonds and precious stones. These factors tend to restrict the scope of alternative sourcing options for certain materials. The Group is nevertheless organised to regularly seek new suppliers capable of meeting its requirements on these issues.

Commercial appeal and brand value

Kering’s base activities are underpinned by powerful global brands in the Group’s Luxury and Sport & Lifestyle Divisions. One of the Group’s main operational risks therefore concerns the loss of commercial appeal and brand value that could arise from poor consideration of consumer expectations, market changes, loss of key partnerships, problems with product quality, or failure to comply with the Group’s Corporate Social Responsibility principles. The accounting impacts of impairment losses are described in Note 18 to the consolidated financial statements for the year ended December 31, 2013 on page 236.

Consumer expectations

The brands' creative leadership, success and, as result, the commercial appeal of collections are managed by Creative Departments and their world-renowned designers, and by remaining true to the identity and fundamental values of the brand. Kering's Sport & Lifestyle brands also play a major role as trend setters for consumers, by investing in R&D and offering new products and services.

The inability to anticipate changes in consumer expectations represents a major risk to Kering's business development. To counter this risk, Kering endeavours to streamline the supply cycle, cutting lead times between product design and launch phases.

Kering also encourages its Divisions to stay ahead of consumer trends by keeping a constant watch over market shifts (attending trade fairs, working with trend forecasting agencies, running consumer surveys, etc.).

The Luxury Division brands are therefore broadening their offerings, increasing the number of collections and developing new partnerships with renowned designers.

Loss of key partnerships

Partnerships with celebrities, athletes, sports teams and other brands make a significant contribution to enhancing the Group's image. The risk of losing strategic partnerships is mitigated by renewing major contracts in advance, extending the partnership portfolio, and paying careful attention to the quality of relationships with figureheads and brand representatives.

Product quality, health and safety risks

Ensuring the quality of goods and compliance with stringent safety standards are among the Group's main priorities.

In order to bring high-quality products to market that are compliant with these standards, the Group implements quality control processes covering all of the stages in the product lifecycle, from design through to marketing. Products are classified using quality and safety standards, while suppliers are referenced on the basis of technical audits and adherence to the Group Suppliers' Charter in the Code of ethics. Product quality and safety controls are carried out at all stages of the production process by quality engineers and accredited laboratories.

Procedures relating to product control are explained in greater depth in Chapter 3 "Sustainability" of the Reference Document, pages 102 to 103.

All Kering Divisions have a "product" crisis management unit. In the event of known risk, they follow procedures ensuring that immediate and transparent information is provided to the public, and that defective products are recalled.

The Group has also taken out civil liability insurance to cover bodily harm or property damage to third parties caused by products considered defective (see "Main existing insurance programmes" page 193).

Image and reputation, respect for ethical rules and integrity

The Group carefully safeguards its image and reputational assets, and consequently seeks to ensure that no incident arises due to unethical behaviour on the part of entities or individuals under its control, or those with which it is involved in business relations.

All Kering Divisions have a crisis management policy and unit that liaises with Kering headquarters.

The Group also monitors adherence by personnel to the Kering group Charter and Code of ethics (the third edition of which was circulated to all of the Group's employees in 2013) and regularly examines ways to adapt these documents for new organisations, while ensuring they are distributed to all of the Group's employees. Supplier contracts are conditional on adherence to the Group Suppliers' Charter, which suppliers are also required to promote within their production units, failing which their contracts are terminated. Compliance with the Group Suppliers' Charter is monitored by means of social audits at production sites (see Chapter 3 "Sustainability" of the Reference Document, pages 98 to 101).

The Luxury Division is especially attentive to supplier and subcontractor observance of the SA 8000 social responsibility standard. It includes ethics clauses in its contracts with third parties, and audits of suppliers and subcontractors on compliance with SA 8000 requirements.

The Sport & Lifestyle Division also monitors supplier observance of its Social Accountability and Fundamental Environmental (SAFE) standards, which forbid child labour, unethical employment conditions, environmental damage and any business relationships with criminal organisations.

Counterfeiting and parallel distribution networks

Kering owns a large array of brands, models, copyrights, patents, designs and know-how, largely through its Luxury and Sport & Lifestyle Divisions. This portfolio constitutes intellectual property and a strategic asset for the Group.

The Group's legal departments manage the brand portfolio and other intellectual property rights, and implement active and diversified policies to counter breaches of these rights. Kering actively opposes parallel distribution networks and illicit networks that sell counterfeit or copied goods, in particular by working to increase the traceability of its goods.

Protection of the Group's intellectual property takes many forms, from upstream practices of our brand portfolios, to downstream practices, including anti-counterfeiting custom or police raids or legal action. The costs of monitoring markets and tackling counterfeiting, within the brands and at the Group's head office, are divided between legal and security functions, or measures put in place inside the stores. These costs are however relatively insignificant at the Group level.

Kering also participates in bodies that represent the leading Luxury industry players. The Group prevents sales of its products by parallel distribution networks by working to increase the traceability of its goods, prohibiting direct sales to these networks and implementing specific measures to tighten control over its distribution channels.

Dependence on patents, licences and supply contracts

The Group is not significantly dependent on any patents, licences or third-party supply sources.

The Group owns or has license rights to the trademarks, patents and intellectual property rights that it exploits, free of any restrictions as to right of priority or use (and of rights likely to restrict such exploitation) in all relevant markets. The same applies to the corporate names and domain names of the subsidiaries or entities, to the names of the Group's stores and points of sale and to the trademarks and signs of the goods and products manufactured and marketed by the various Group entities. This situation does not preclude any of the trademarks belonging to the Group being licensed to third parties for the sale of goods or services under its trademark enhancement policy, as has been the case in perfumes and cosmetics. In all cases, such licensing agreements have been entered into under fair commercial and financial terms and conditions, and have no impact on the ownership of the trademarks and signs belonging to the Group. Further information on contractual obligations and other commitments is provided in Notes 33.2.1 and 33.2.4 to the 2013 consolidated financial statements on pages 268 and 269.

Litigation

Group companies are involved or are likely to be involved in a number of lawsuits or disputes arising in the normal course of business, including litigation with tax, social security and customs authorities, as well as various governmental and competition authorities. Provisions have been set aside by the companies for the probable costs, as estimated by the entities and their experts. According to the Group entities' experts, no litigation currently in progress concerning Group companies presents a risk for the normal operations of the Group, or for its future

development. Provisions have been set aside in the Group's 2013 consolidated financial statements to cover all of the abovementioned legal risks, including the impact of commitments given on the disposal of controlling interests. None of these risks have been qualified as arising outside the scope of normal business for Group companies.

The Group considers that the effective procedures and processes for identifying and managing its industrial and environmental risks within each of the entities concerned, which rely chiefly on the advice of duly authorised external organisations and advisors, meet, in relevance and proportion, customary technical and professional standards under the prevailing regulatory framework. An active prevention and safety policy is an integral part of these procedures and processes.

Furthermore, the Group has granted various sellers' representations and warranties in connection with disposals of controlling interests in subsidiaries made over the last nine years (see Note 33.1. to the 2013 consolidated financial statements, on page 267).

As regards the laws and regulations applicable to the Group's activities, Kering's businesses are subject to the same constraints and obligations as those directly applicable to its competitors on its different markets. None of its businesses are subject to specific rules or exemptions in any of the relevant territories.

The Company is not aware of any foreseeable regulatory or legislative changes in contradiction with the foregoing.

To the Company's knowledge, during the last 12 months (at least), there have been no governmental, legal or arbitration proceedings (including any pending or threatened proceedings of which the issuer is aware) that have had in the recent past or are likely to have in the future, a significant impact on the financial position or earnings of the Company or the Group.

Talent management

The Group recognises that the talent and creativity of its employees are one of the keys to its success. Its capacity to identify, attract and retain staff and nurture their skills is critical for the Group.

Kering's human resources policy therefore seeks to promote a stimulating and rewarding working environment, and to foster attachment to the Group and its values. This is done by means of training programmes and profit-sharing. Kering also aims to boost its employees' employability, to encourage internal mobility and to open up prospects for professional and personal development (see section 3 "Sustainability" of the Reference Document, pages 63 to 66).

Special attention is given to Creative Directors and their teams, to develop powerful, lasting brand identities.

Information systems

Most of the Group's production and transaction processes rely on information systems. The maturity of the information systems in use across the Group, as regards suitability, security, rollout and functionality, is fairly heterogeneous. The Group runs an ongoing investment programme on the adaptation, improvement, security and durability of its information systems. Business continuity and recovery plans are regularly updated, and their efficacy closely monitored.

With the support of the Divisions' brand security departments, the Group is introducing data protection and business continuity plans.

Credit risk

Because of the nature of its businesses, a large proportion of Kering sales are not exposed to customer payment risks. This is true of direct customer sales by the Luxury Division and Kering retail businesses. For sales through wholesalers, there is no strong dependency whereby loss of particular customers might have a significant impact on business or income.

The Sport & Lifestyle Division is more exposed to payment default risks because a significant portion of its products is distributed through wholesalers. It manages these risks by constant monitoring of amounts outstanding.

As applicable, provisions are set aside against the value of the Division's assets. Credit risk is also minimised by appropriate insurance coverage.

Seasonality of sales

Following the disposals of retail businesses in 2012 and 2013, paving the way for the Group's repositioning in the Luxury and Sport & Lifestyle sectors, the seasonality of the Group's activities decreased and, as a result, is no longer considered a significant risk.

However, for the Group's Luxury brands, the fourth quarter is the most important in terms of revenue due to year-end holiday purchases in western countries, although fourth-quarter revenue does not significantly exceed revenue generated during the first three quarters of the year. In addition, the activity of the Luxury and Sport & Lifestyle Divisions generally revolves around the twice yearly nature of their collections and changes in delivery dates to wholesalers can lead to shift in sales from one given quarter to the next one.

Exceptional factors likely to have major consequences on the political or macroeconomic environment of one or more of the Group's main markets can impact the Group's activities and quarterly results and consequently change the usual seasonality pattern in a given fiscal year.

3.3. *compliance risks*

Kering's international presence exposes it to risks regarding non-compliance with legislation and national regulations, owing to the complexity and changing nature of regulations chiefly arising from corporate and tax law, customs duties and import restrictions applied by certain countries. To guard

against risks of non-compliance due to a lack of awareness of legislative change, Kering provides its Divisions and retail businesses with a regulatory watch service, through head office and support centres in the regions in which the Group operates.

3.4. *risk management*

The Kering risk management policy is based on the ongoing identification and evaluation of risks (see section "Internal control and risk management procedures" in the Chairman's report, page 143 of the Reference Document), risk prevention, protection of people and property, and safety and business continuity plans.

The risk management policy also includes the transfer of risks to insurance companies.

Insurance against risks

The Group's policy of transferring significant risks to insurance companies is determined based on:

- achieving the best economic balance between risk coverage, premiums and self-insurance; and,
- availability of insurance capacities, insurance market constraints and local regulations.

Coverage is based on the "All risks except" approach, determined by assessing the financial consequences for the company of a possible claim, especially in the areas of:

- civil liability: bodily harm or property damage to third parties caused by products, fittings and equipment;
- fire, explosions, water damage, etc.;
- operating losses following direct damage.

Insurance coverage is purchased based on an assessment by site and company of the level of coverage necessary to face reasonably estimated potential occurrences of diverse risks (liability, damage and retailer counterparty). This assessment takes account of the analyses of the insurers underwriting the Group's risks.

The insurance schemes now in force in the Group, which centralises most purchases of insurance policies such as property and casualty risks for subsidiaries, were taken out with the assistance of internationally recognised insurance brokers specialised in covering major risks, with reputable insurers in the industrial risk insurance sector.

Main existing insurance programmes:

- property damage from fire, explosion, floods, machine breakage, natural disasters to its own property; property, furnishings, equipment, merchandise, IT installations, and to property for which it is responsible, as well as any resulting operating losses, for any period deemed necessary for normal business activities to resume;
- damage and loss of equipment, merchandise and/or goods in transport;
- damage resulting from theft, fraud, embezzlement, or acts of malice to valuable assets, data and/or property;
- bodily harm or property damage following construction work carried out as project owner (new buildings, renovations, restorations, etc.);
- liability for bodily or property damage to third parties by motorised vehicles belonging to the different companies;
- responsibility under general and environmental civil liability for the "operating risk", "post-delivery risk" and "risk after services rendered"; due to damages caused to third parties in the course of the Group's business;
- non-payment of receivables by third-party distributors, particularly in the event of default or insolvency.

Other insurance contracts are taken out by Group companies to cover specific risks or to comply with local regulations.

Uninsured risks are exposures for which there is no insurance coverage offered on the insurance market, or for which the cost of available insurance is disproportionate compared to the potential benefits of the coverage.

The Kering group handles known and manageable risks given the current scientific and medical understanding, in a manner consistent with other French and international industrial groups with similar types of exposures. This is one of the reasons why the Group is able to place its risks with insurers ready to deal with the unforeseeable and uncertain consequences of accidents.

The levels of coverage in place for the main potential risks facing the Group as a whole as of January 1, 2013, were as follows:

- fire, explosions or water damage and the ensuing operating losses: €300 million;
- civil liability: €145 million;
- damage to or loss of goods in transport: €20 million;
- fraud and acts of malice to goods and valuables: €20 million.

In order to diversify the sources of its policies and secure lasting coverage for highly volatile risks such as the earthquake in Japan, the Group has taken out insurance with investors against natural disasters, which is both indemnity-based and parametric.

The total risk financing cost for Kering includes three main items (in addition to "physical" protection and prevention expenditure):

- cost of deductibles and non-insured losses retained or self-insured by the subsidiaries in 2013: €1.3 million;
- claims covered by the Group itself through its reinsurance companies, in 2013: €2.5 million.

At the end of 2012, the Group acquired an excess reinsurance company in order to strengthen its self-coverage. Taking out self-insurance through the Group's reinsurance subsidiaries reduces insurance costs and enhances performance because frequently occurring risks are pooled within the Group and insured for an amount that is capped annually.

Since July 1, 2013, the Group's reinsurance companies have covered damage and operating losses of up to €5 million per claim, capped at €6.5 million per annum (for the period from July 1 to June 30):

- insurance premiums and management fees including engineering visits and brokers fees, etc. (final 2013 expenses): €16.9 million.

Specific additional policies may also be taken out by certain subsidiaries or businesses or by virtue of local specificities in certain countries (occupational accidents, contributions to natural disaster funds, etc.). These are managed at the level of each company and/or country.

4. consolidated financial statements as of december 31, 2013

4.1. consolidated income statement for the years ended december 31, 2013 and 2012

(in € millions)	Notes	2013	2012
CONTINUING OPERATIONS			
Revenue	5	9,748.4	9,736.3
Cost of sales		(3,657.9)	(3,776.2)
Gross margin		6,090.5	5,960.1
Payroll expenses	6-7	(1,534.7)	(1,493.6)
Other recurring operating income and expenses		(2,805.7)	(2,675.0)
Recurring operating income	8	1,750.1	1,791.5
Other non-recurring operating income and expenses	9	(442.5)	(25.2)
Operating income		1,307.6	1,766.3
Finance costs, net	10	(212.3)	(147.7)
Income before tax		1,095.3	1,618.6
Corporate income tax	11	(235.4)	(297.6)
Share in earnings of associates		1.6	36.9
Net income from continuing operations		861.5	1,357.9
o/w attributable to owners of the parent		869.4	1,323.7
o/w attributable to non-controlling interests		(7.9)	34.2
DISCONTINUED OPERATIONS			
Net income (loss) from discontinued operations	12	(821.5)	(275.5)
o/w attributable to owners of the parent		(819.8)	(275.5)
o/w attributable to non-controlling interests		(1.7)	
Net income of consolidated companies		40.0	1,082.4
Net income attributable to owners of the parent		49.6	1,048.2
Net income attributable to non-controlling interests		(9.6)	34.2
Net income attributable to owners of the parent		49.6	1,048.2
Earnings per share (in €)	13.1	0.39	8.32
Fully diluted earnings per share (in €)	13.1	0.39	8.31
Net income from continuing operations attributable to owners of the parent		869.4	1,323.7
Earnings per share (in €)	13.1	6.91	10.51
Fully diluted earnings per share (in €)	13.1	6.90	10.50
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent		1,229.3	1,268.8
Earnings per share (in €)	13.2	9.76	10.07
Fully diluted earnings per share (in €)	13.2	9.75	10.06

4.2. consolidated statement of comprehensive income for the years ended december 31, 2013 and 2012

(in € millions)	Notes	2013	2012
Net income		40.0	1,082.4
Actuarial gains and losses ⁽¹⁾		1.8	(16.1)
Unrecognised surplus of pension plan assets		7.1	(4.0)
Total items not reclassified to income		8.9	(20.1)
Foreign exchange gains and losses		(111.4)	(19.5)
Cash flow hedges ⁽¹⁾		29.7	97.2
Available-for-sale financial assets ⁽¹⁾		3.1	(0.1)
Share in other comprehensive income (expense) of associates		0.0	8.7
Total items to be reclassified to income		(78.6)	86.3
Other comprehensive income (expense), net of tax	14	(69.7)	66.2
Total comprehensive income (expense)		(29.7)	1,148.6
o/w attributable to owners of the parent		(3.1)	1,125.5
o/w attributable to non-controlling interests		(26.6)	23.1

(1) Net of tax.

4.3. consolidated statement of financial position as of december 31, 2013 and 2012

Assets

(in € millions)	Notes	Dec. 31, 2013	Dec. 31, 2012
Goodwill	15	3,770.1	3,871.0
Brands and other intangible assets	16	10,702.8	10,489.9
Property, plant and equipment	17	1,676.9	1,376.3
Investments in associates	19	17.3	25.8
Non-current financial assets	20	316.8	273.7
Deferred tax assets	11.2	649.9	600.2
Other non-current assets		30.1	28.9
Non-current assets		17,163.9	16,665.8
Inventories	21	1,805.5	1,736.5
Trade receivables	22	949.9	985.3
Current tax receivables	11.2	119.1	75.7
Other current financial assets	23	107.7	87.0
Other current assets	23	523.4	494.7
Cash and cash equivalents	27	1,419.2	2,081.0
Current assets		4,924.8	5,460.2
Assets classified as held for sale or for distribution to owners	12	722.1	3,130.5
TOTAL ASSETS		22,810.8	25,256.5

Equity and liabilities

(in € millions)	Notes	Dec. 31, 2013	Dec. 31, 2012
Share capital	24	504.9	504.5
Capital reserves		2,424.3	2,416.1
Treasury shares		(10.4)	(3.3)
Translation adjustments		(115.3)	(24.2)
Remeasurement of financial instruments		69.8	41.4
Other reserves		7,713.3	8,479.3
Equity attributable to owners of the parent	24	10,586.6	11,413.8
Non-controlling interests		609.3	704.9
Total equity	24	11,195.9	12,118.7
Non-current borrowings	28	3,132.4	2,988.9
Other non-current financial assets	29	0.7	
Provisions for pensions and other post-employment benefits	25	92.8	98.2
Other provisions	26	113.2	92.3
Deferred tax liabilities	11.2	2,810.2	2,772.3
Non-current liabilities		6,149.3	5,951.7
Current borrowings	28	1,737.4	1,595.1
Other current financial liabilities	23-29	213.2	207.9
Trade payables	23	766.1	684.5
Provisions for pensions and other post-employment benefits	25	7.2	6.6
Other provisions	26	152.7	167.7
Current tax liabilities	11.2	310.1	318.4
Other current liabilities	23	1,372.3	1,400.4
Current liabilities		4,559.0	4,380.6
Liabilities associated with assets classified as held for sale or for distribution to owners	12	906.6	2,805.5
TOTAL EQUITY AND LIABILITIES		22,810.8	25,256.5

4.4. consolidated statement of cash flows for the years ended december 31, 2013 and 2012

(in € millions)	Notes	2013	2012
Net income from continuing operations		861.5	1,357.9
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets		295.8	275.1
Other non-cash income and expenses		389.9	(156.4)
Cash flow from operating activities	32.1	1,547.2	1,476.6
Interest paid/received		120.5	163.2
Dividends received		(0.3)	(0.1)
Net income tax payable	11.1	315.7	361.0
Cash flow from operating activities before tax, dividends and interest		1,983.1	2,000.7
Change in working capital requirement	23	(74.5)	(272.5)
Corporate income tax paid	11.2.1	(383.7)	(362.2)
Net cash from operating activities		1,524.9	1,366.0
Purchases of property, plant and equipment and intangible assets	32.2	(677.7)	(441.9)
Proceeds from disposals of property, plant and equipment and intangible assets		10.3	6.1
Purchases of subsidiaries, net of cash acquired	32.3	(345.0)	(219.3)
Proceeds from disposals of subsidiaries and associates, net of cash transferred	32.3	24.7	916.5
Purchases of other financial assets		(57.9)	(92.5)
Proceeds from sales of other financial assets		5.1	21.2
Interest and dividends received		70.0	68.9
Net cash from (used in) investing activities		(970.5)	259.0
Increase/decrease in share capital and other transactions with owners	32.4	(85.4)	(204.9)
Treasury share transactions	32.5	(39.0)	(14.9)
Dividends paid to owners of the parent company		(471.2)	(440.7)
Dividends paid to non-controlling interests		(26.0)	(32.6)
Bond issues	28-32.6	938.9	676.5
Bond redemptions	28-32.6	(740.0)	(138.7)
Increase/decrease in other borrowings	28-32.6	(309.9)	(565.9)
Interest paid and equivalent		(187.1)	(231.1)
Net cash used in financing activities		(919.7)	(952.3)
Net cash from (used in) discontinued operations	12	(437.5)	97.1
Impact of exchange rate variations		65.3	3.0
Net increase (decrease) in cash and cash equivalents		(737.5)	772.8
Cash and cash equivalents at beginning of year	32	1,975.1	1,202.3
Cash and cash equivalents at end of year	32	1,237.6	1,975.1

4.5. consolidated statement of changes in equity

(Before appropriation of net income)	Number of shares outstanding ⁽¹⁾	Share capital	Capital reserves	Treasury shares	Translation adjustments	Remeasurement of financial instruments	Other reserves and net income attributable to owners of the parent	Equity		
								Owners of the parent	Non-controlling interests	Total equity
<i>(in € millions)</i>										
As of January 1, 2012	125,939,537	508.0	2,511.3	(114.6)	(11.0)	(60.2)	8,091.5	10,925.0	824.5	11,749.5
Total comprehensive income					(13.2)	101.6	1,037.1	1,125.5	23.1	1,148.6
Increase/decrease in share capital	(884,187)	(3.5)	(95.2)					(98.7)		(98.7)
Treasury shares ⁽²⁾	1,036,279			111.3			(10.1)	101.2		101.2
Valuation of share-based payment							8.9	8.9	0.6	9.5
Dividends paid							(629.8)	(629.8)	(32.7)	(662.5)
Changes in Group structure							(18.3)	(18.3)	(110.6)	(128.9)
As of December 31, 2012	126,091,629	504.5	2,416.1	(3.3)	(24.2)	41.4	8,479.3	11,413.8	704.9	12,118.7
Total comprehensive income					(91.1)	28.4	59.6	(3.1)	(26.6)	(29.7)
Increase/decrease in share capital	110,059	0.4	8.2					8.6		8.6
Treasury shares ⁽²⁾	(35,508)			(7.1)			(20.9)	(28.0)		(28.0)
Valuation of share-based payment							8.2	8.2	(0.3)	7.9
Dividends paid and interim dividends							(785.3)	(785.3)	(26.0)	(811.3)
Changes in Group structure							(27.6)	(27.6)	(42.7)	(70.3)
As of December 31, 2013 ⁽³⁾	126,166,180	504.9	2,424.3	(10.4)	(115.3)	69.8	7,713.3	10,586.6	609.3	11,195.9

(1) Shares with a par value of €4 each.

(2) Net of tax.

(3) Number of shares outstanding as of December 31, 2013: 126,226,761.

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note 1 – introduction

Kering, the Group's parent company, is a *société anonyme* (French joint stock company) with a Board of Directors, incorporated under French law, whose registered office is located at 10 avenue Hoche, 75008 Paris, France. It is registered with the Paris Trade and Companies Registry under reference 552 075 020 RCS Paris, and is listed on the Paris Euronext stock exchange.

The consolidated financial statements for the year ended December 31, 2013 reflect the accounting position of Kering and its subsidiaries, together with its interests in associates and joint ventures.

The Board of Directors approved the consolidated financial statements for the year ended December 31, 2013 and authorised their publication on February 20, 2014. These consolidated financial statements will only be considered as final after their adoption by the Annual General Meeting.

note 2 – accounting policies and methods

2.1. General principles and statement of compliance

Pursuant to European Regulation No. 1606/2002 of July 19, 2002, the consolidated financial statements of the Kering group for the year ended December 31, 2013 were prepared in accordance with applicable international accounting standards published and adopted by the European Union and mandatorily applicable as of that date.

These international standards comprise International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The financial statements presented do not reflect the draft standards and interpretations that were at the exposure draft stage with the International Accounting Standards Board (IASB) and the IFRIC on the date these financial statements were prepared.

All accounting standards and guidance adopted by the European Union may be consulted on the European Commission's website: http://ec.europa.eu/internal_market/accounting/ias_en.htm.

2.2. IFRS basis adopted

2.2.1. Standards, amendments and interpretations effective as of January 1, 2013

The Group's consolidated financial statements comply with the following amendments to published standards and interpretations which came into effect on January 1, 2013 and have been adopted by the European Union:

- the amendments contained in the Annual Improvements to IFRSs published in May 2012;

- IFRS 13 – *Fair Value Measurement*;
- the amended version of IAS 19 – *Employee Benefits*;
- amendment to IFRS 7 – *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*;
- amendment to IAS 1 – *Presentation of Items of Other Comprehensive Income* which the Group elected to early adopt as of January 1, 2012.

IFRS 13 provides a single IFRS framework for the measurement of fair value and the related disclosures. It also defines fair value and sets out the disclosures required in terms of measurement methods, including the fair value hierarchy currently included in IFRS 7.

The prospective application of this standard did not have an impact on the Group's consolidated financial statements.

The impacts for the Group of the application of IAS 19 are limited: since the Group already recognises all actuarial gains and losses in other comprehensive income, the discontinuation of the "corridor method" provided for by the revised standard does not have any impact on the consolidated financial statements. The other impacts of the amended version of IAS 19 on plan assets and the treatment of past service costs, are not material for the Group.

The following standards and amendments are either not applicable to the Group or did not have a material impact on the consolidated financial statements:

- amendment to IFRS 1 – *First-time Adoption of International Financial Reporting Standards – Severe hyper-inflation and removal of fixed dates for first-time adopters*;
- amendment to IAS 12 – *Income Taxes – Deferred Tax – Recovery of Underlying Assets*;
- IFRIC 20 – *Stripping Costs in the Production Phase of a Surface Mine*.

2.2.2. Standards, amendments and interpretations not mandatorily applicable as of January 1, 2013

The Group has elected not to early adopt the standards and amendments whose application is not mandatory for financial periods beginning on or after January 1, 2013.

The Group expects the impact of the application of IFRS 10, IFRS 11, IFRS 12 as well as the amendments to the revised IAS 28, which are applicable to financial periods beginning on or after January 1, 2014 and were adopted by the European Union at the end of December 2012, to be limited.

The Group is currently assessing the impacts of IFRIC 21 on the levies imposed by governments. This interpretation, which specifies the date on which provisions must be set aside for taxes imposed by governments, has not been adopted by the European Union.

2.2.3. Summary of options used on the first-time adoption of IFRS

On its transition to International Financial Reporting Standards in 2005, the Group applied the IFRS adopted by the European Union and effective as of December 31, 2005 with retroactive effect from January 1, 2004 in accordance with IFRS 1, with the exception of the following exemptions provided by the standards:

- **business combinations:** in accordance with IFRS 3, the Group elected to restate business combinations retroactively to January 1, 1999;
- **employee benefits:** the Group adopted the IFRS 1 option of recognising all actuarial gains and losses at the transition date, offset against opening equity;
- **cumulative translation differences:** the Group decided to use the optional exemption allowing the elimination of cumulative translation differences at the transition date through an offsetting entry in consolidated reserves;
- **assets and liabilities of subsidiaries, associates and joint venture partners:** IFRS 1 states that if the parent company of a group adopts IFRS for the first time in its consolidated financial statements after a subsidiary, the parent company must, in its opening IFRS consolidated balance sheet, value the assets and liabilities at the same carrying amount as that appearing in the subsidiary's financial statements, taking into account any consolidation adjustments. Since Gucci was already preparing its financial statements in accordance with IFRS before the transition date, the Group complied with this treatment when preparing its opening balance sheet;
- **share-based payment:** in accordance with the option allowed by IFRS 2 for equity-settled plans, the Group decided to apply this standard solely to plans issued after November 7, 2002 which had not vested as of January 1, 2005.

In addition, subsequent to the choice offered by the regulator as to the date of adoption of IAS 32 and IAS 39 on financial instruments, the Group opted to apply these standards as from January 1, 2005. Accordingly:

- for the liability component of a **hybrid instrument** that is no longer outstanding at the date of transition to IAS 32 and IAS 39, the Group opted not to separate the equity portion relating to the cumulative interest accreted on the liability component from the initial equity component;
- **financial assets and liabilities recorded prior** to the transition date were designated at fair value through the income statement or as available for sale on the transition date (January 1, 2005).

2.3. Basis of preparation of the consolidated financial statements

2.3.1. Basis of measurement

The consolidated financial statements are prepared in accordance with the historical cost convention, with the exception of:

- certain financial assets and liabilities measured at fair value;
- interests retained in a subsidiary or associate, which are measured at fair value at the date control or significant influence is lost;
- non-current assets held for sale, which are measured and recognised at the lower of net carrying amount and fair value less costs to sell as soon as their sale is considered highly probable. These assets are no longer depreciated from the time they qualify as assets (or disposal groups) held for sale.

2.3.2. Use of estimates and judgement

The preparation of consolidated financial statements requires Group management to make estimates and assumptions that can affect the carrying amounts of certain assets and liabilities, income and expenses, and the disclosures in the accompanying notes. Group management reviews these estimates and assumptions on a regular basis to ensure their pertinence with respect to past experience and the current economic situation. Items in future financial statements may differ from current estimates as a result of changes in these assumptions. The impact of changes in accounting estimates is recognised during the period in which the change occurs and all affected future periods.

The main estimates made by management in the preparation of the financial statements concern the valuations and useful lives of operating assets, property, plant and equipment, intangible assets and goodwill, the amount of contingency provisions and other provisions relating to operations, and assumptions underlying the calculation of obligations relating to employee benefits, share-based payment, deferred tax

balances and derivatives. The Group notably uses discount rate assumptions based on market data to estimate the value of long-term assets and liabilities.

The main assumptions made by the Group are detailed in specific sections of the notes to the consolidated financial statements, and in particular:

- Note 7 – Share-based payment;
- Note 11 – Income taxes;
- Note 18 – Impairment tests on non-financial assets;
- Note 25 – Employee benefits;
- Note 26 – Provisions;
- Note 29 – Exposure to interest rate, foreign exchange and equity risk;
- Note 30 – Accounting classification and market value of financial instruments.

In addition to the use of estimates, Group management uses judgement to determine the appropriate accounting treatment for certain transactions, pending the clarification of certain IFRS or where prevailing standards do not cover the issue at hand. This is notably the case for put options granted to non-controlling interests.

Put options granted to non-controlling interests

The Group has undertaken to repurchase the non-controlling interests of shareholders of certain subsidiaries. The strike price of these put options may be set or determined according to a predefined calculation formula, and the options may be exercised at any time or on a specific date.

The revised IAS 27 – applied by the Group in its consolidated financial statements as of January 1, 2009 – prescribes the appropriate accounting treatment for acquisitions of additional shares in a subsidiary after control is obtained. As permitted by the French financial markets authority (*Autorité des marchés financiers* – AMF), the Group has decided to apply two different accounting methods to these put options, depending on whether they were granted before or after the date the revised standard first came into effect.

Put options granted before January 1, 2009: existing goodwill method retained

The Group records a financial liability in respect of the put options granted to holders of non-controlling interests in the entities concerned. The corresponding non-controlling interests are reclassified and included in this financial liability. The difference between the debt representing the commitment to repurchase the non-controlling interests and the carrying amount of reclassified non-controlling interests is recorded as goodwill.

This liability is initially recognised at its present value. Subsequent changes in the value of the commitment are recorded by an adjustment to goodwill.

Put options granted after January 1, 2009

The revised IAS 27 states that all equity transactions with non-controlling interests that do not result in a loss of control are to be recognised within equity. The Group records a financial liability at its present value in respect of the put options granted to holders of non-controlling interests in the entities concerned. Subsequent changes in the value of the commitment are recorded by an adjustment to equity.

The offsetting entry for this financial liability will differ depending on whether the non-controlling interests have maintained access at present to the economic benefits of the entity.

In the first case (access at present to the economic benefits), non-controlling interests are maintained in the statement of financial position and the liability is recognised against equity attributable to owners of the parent. In the second case, the corresponding non-controlling interests are derecognised. The difference between the debt representing the commitment to repurchase the non-controlling interests and the carrying amount of reclassified non-controlling interests is recorded as a deduction from equity attributable to owners of the parent.

2.3.3. Statement of cash flows

The Group's statement of cash flows is prepared in accordance with IAS 7 – *Statement of Cash Flows*. The Group prepares its statement of cash flows using the indirect method.

2.4. Consolidation principles

The consolidated financial statements include the financial statements of companies acquired as from the acquisition date and companies sold up until the date of disposal.

2.4.1. Subsidiaries

Subsidiaries are all entities (including special-purpose entities) over which the Group exercises control. Control is defined as the ability to govern, directly or indirectly, the financial and operating policies of an entity so as to obtain economic benefit from its activities. This situation generally implies directly or indirectly holding more than 50% of the voting rights. The existence and effect of potential voting rights that are exercisable or convertible are taken into account in the assessment of control.

Subsidiaries are consolidated from the effective date of control.

Inter-company assets and liabilities and transactions between fully consolidated companies are eliminated. Gains and losses on internal transactions with controlled companies are fully eliminated.

Accounting policies and methods are modified where necessary to ensure consistency of accounting treatment at Group level.

2.4.2. Associates

Associates are all entities in which the Group exercises a significant influence over the entity's management and financial policy, without exercising control, and generally implies holding 20% to 50% of the voting rights.

Associates are recognised using the equity method and initially measured at cost, except when the associates were previously controlled by the Group, in which case they are measured at fair value through the income statement as of the date control is lost.

Subsequently, the share in profits or losses of the associate attributable to owners of the parent is recognised in "Share in earnings of associates", and the share in other comprehensive income of associates is carried on a separate line of the statement of comprehensive income. If the Group's share in the losses of an associate equals or exceeds its investment in that associate, the Group no longer recognises its share of losses, unless it has legal or constructive obligations to make payments on behalf of the associate.

Goodwill related to an associate is included in the carrying amount of the investment, presented separately within "Investments in associates" in the statement of financial position.

Gains or losses on internal transactions with equity-accounted associates are eliminated in the amount of the Group's investment in these companies.

The accounting policies and methods of associates are modified where necessary to ensure consistency of accounting treatment at Group level.

2.4.3. Joint ventures

In the event of joint control, which exists pursuant to the contractually agreed sharing of control over an economic activity, and when the strategic, financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control, the Group's stake in the joint venture is recognised using the equity method.

2.4.4. Business combinations

Business combinations, where the Group acquires control of one or more other activities, are recognised using the acquisition method.

Business combinations carried out after January 1, 2009 are recognised and measured in accordance with the provisions of the revised IFRS 3. Accordingly, the consideration transferred (acquisition cost) is measured at the fair value of the assets transferred, equity interests issued and liabilities incurred by the acquirer at the date of exchange. Identifiable assets and liabilities are measured at their fair value on the acquisition date. Costs directly attributable to the business combination are recognised in expenses.

The excess of the consideration transferred over the Group's interest in the net fair value of the identifiable assets and liabilities of the acquired entity is recognised as goodwill. The Group may choose to measure any non-controlling interests resulting from a business combination at fair value. In this case, goodwill is recognised on all of the identifiable assets and liabilities (full goodwill method).

Goodwill is determined at the date control over the acquired entity is obtained and may not be adjusted after the measurement period. No additional goodwill is recognised on any subsequent acquisition of non-controlling interests. Acquisitions and disposals of non-controlling interests are recognised directly in consolidated equity.

If the consideration transferred is less than the Group's interest in the net assets of the subsidiary acquired measured at fair value, the difference is recognised directly in net income for the period.

The accounting for a business combination must be completed within 12 months of the acquisition date. This applies to the measurement of identifiable assets and liabilities, consideration transferred and non-controlling interests.

2.5. Foreign currency translation

2.5.1. Functional and presentation currency

Items included in the financial statements of each Group entity are valued using the currency of the primary economic environment in which the entity operates (functional currency). The Group's consolidated financial statements are presented in euros, which serves as the presentation currency.

2.5.2. Foreign currency transactions

Transactions denominated in foreign currencies are recognised in the entity's functional currency at the exchange rate prevailing on the transaction date.

Monetary items in foreign currencies are translated at the end of each reporting period using the closing rate. Translation adjustments arising from the settlement of these items are recognised in income or expenses for the period.

Non-monetary items in foreign currencies valued at historical cost are translated at the rate prevailing on the transaction date, and non-monetary items in foreign currencies measured at fair value are translated at the rate prevailing on the date the fair value is determined. When a gain or loss on a non-monetary item is recognised directly in other comprehensive income, the foreign exchange component is also recognised in other comprehensive income. Otherwise, the component is recognised in income or expenses for the period.

The treatment of foreign exchange rate hedges in the form of derivatives is described in the section on derivative instruments in Note 2.11 – Financial assets and liabilities.

2.5.3. Translation of the financial statements of foreign subsidiaries

The results and financial statements of Group entities with a functional currency that differs from the presentation currency are translated into euros as follows:

- items recorded in the statement of financial position other than equity are translated at the exchange rate at the end of the reporting period;
- income and cash flow statement items are translated at the average rate for the period, corresponding to an approximate value for the rate at the transaction date in the absence of significant fluctuations;
- foreign exchange differences are recognised as translation adjustments in the statement of comprehensive income under other comprehensive income. These include gains and losses on foreign currency borrowings used to hedge foreign currency investments and on permanent advances to foreign subsidiaries.

Goodwill and fair value adjustments arising from a business combination with a foreign activity are recognised in the functional currency of the entity acquired. They are subsequently translated at the closing exchange rate into the Group's presentation currency, and any resulting differences transferred to other comprehensive income within the statement of comprehensive income.

2.5.4. Net investment in a foreign subsidiary

Foreign exchange gains or losses arising on the translation of a net investment in a foreign subsidiary are recognised in the consolidated financial statements as a separate component within the statement of comprehensive income, and in income on disposal of the net investment.

Foreign exchange gains or losses in respect of foreign currency borrowings hedging foreign currency investments or permanent advances to foreign subsidiaries are also recognised in other comprehensive income (to the extent that the hedge is effective), within the statement of comprehensive income, and in income on disposal of the net investment.

2.6. Goodwill

Goodwill is determined as indicated in Note 2.4.4.

Goodwill represents the excess of the consideration transferred in a business combination over the acquirer's interest in the net fair value of the identifiable assets and liabilities on the acquisition date. If the Group chooses to measure non-controlling interests in a given business combination at fair value, goodwill is calculated on all identifiable assets and liabilities.

Goodwill is allocated as of the acquisition date to cash-generating units (CGUs) or groups of CGUs defined by the Group based on the characteristics of the core business, market or geographical segment of each brand. The CGUs or groups of CGUs to which goodwill has been allocated

are tested for impairment during the second half of each fiscal year or whenever events or circumstances indicate that an impairment loss is likely.

Any impairment losses are recorded in "Other non-recurring operating income and expenses" in the consolidated income statement as part of operating income.

2.7. Brands and other intangible assets

Intangible assets acquired as part of a business combination, which are controlled by the Group and are separable or arise from contractual or other legal rights, are recognised separately from goodwill. These assets, in the same way as intangible assets acquired separately, are amortised over their useful life where this is finite and written down if their recoverable amount is less than their net carrying amount. Intangible assets with indefinite useful lives are not amortised but are tested for impairment at least annually or more frequently when there is an indication that an impairment loss is likely.

Any impairment losses recognised at the time of impairment tests are recorded in the consolidated income statement under "Other non-recurring operating income and expenses" as part of operating income.

Brands representing a predominant category of the Group's intangible assets are recognised separately from goodwill when they meet the criteria set out in IAS 38. Recognition and durability criteria are then taken into account to assess the useful life of the brand.

A brand representing an intangible asset with an indefinite useful life is not amortised but is tested for impairment at least annually or more frequently when there is an indication that an impairment loss is likely. In addition to the projected future cash flows method, the Group applies the royalties method, which consists of determining the value of a brand based on future royalty revenue receivable where it is assumed that the brand will be operated under licence by a third party.

Software acquired as part of recurring operations is usually amortised over a period not exceeding 12 months.

Software developed in-house by the Group and meeting all the criteria set out in IAS 38 is capitalised and amortised on a straight-line basis over its useful life, which is generally between three and ten years.

2.8. Property, plant and equipment

Property, plant and equipment are recognised at cost less accumulated depreciation and impairment losses with the exception of land, which is presented at cost less impairment losses. The various components of property, plant and equipment are recognised separately when their estimated useful life and therefore their depreciation periods are significantly different. The cost of an asset includes the expenses that are directly attributable to its acquisition.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate component, where necessary, if it is probable that future economic benefits will flow to the Group and the cost of the asset can be reliably measured. All other routine repair and maintenance costs are expensed in the year they are incurred.

Depreciation is calculated using the straight-line method, based on the purchase or production cost, less any residual value which is reviewed annually if considered material, over a period corresponding to the useful life of each asset category, i.e., 10 to 40 years for buildings and improvements to land and buildings, and 3 to 10 years for equipment.

Property, plant and equipment are tested for impairment when an indication of impairment loss exists, such as a scheduled closure, a redundancy plan or a downward revision of market forecasts. When the asset's recoverable amount is less than its net carrying amount, an impairment loss is recognised. Where the recoverable amount of an individual asset cannot be determined precisely, the Group determines the recoverable amount of the CGU or group of CGUs to which the asset belongs.

Lease contracts

Agreements whose fulfilment depends on the use of one or more specific assets and which transfer the right to use the asset are classified as lease contracts.

Lease contracts which transfer to the Group substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases.

Assets acquired under finance leases are recognised in property, plant and equipment against the corresponding debt recognised in borrowings for the same amount, at the lower of the fair value of the asset and the present value of minimum lease payments. The corresponding assets are depreciated over a useful life identical to that of property, plant and equipment acquired outright, or over the term of the lease, whichever is shorter.

Lease contracts that do not transfer substantially all the risks and rewards incidental to ownership are classified as operating leases. Payments made under operating leases are recognised in recurring operating expenses on a straight-line basis over the term of the lease.

Capital gains on the sale and leaseback of assets are recognised in full in income at the time of disposal when the lease qualifies as an operating lease and the transaction is performed at fair value.

The same accounting treatment is applied to agreements that, while not presenting the legal form of a lease contract, confer on the Group the right to use a specific asset in exchange for a payment or series of payments.

2.9. Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated sale

price in the normal course of operations, net of costs to be incurred to complete the sale.

The same method for determining costs is adopted for inventories of a similar nature and use within the same entity. Inventories are valued using the retail, first-in-first-out (FIFO) or weighted average cost method, depending on the Group activity.

Interest expenses are excluded from inventories and expensed as finance costs in the year they are incurred.

The Group may recognise an inventory allowance based on expected turnover, if inventory items are damaged, have become wholly or partially obsolete, the selling price has declined, or if the estimated costs to completion or to be incurred to make the sale have increased.

2.10. Asset impairment

Goodwill and intangible assets with an indefinite life, such as certain brands, and CGUs or groups of CGUs containing these items, are tested for impairment at least annually during the second half of each reporting period.

An impairment test is also performed when events or circumstances indicate that goodwill, other intangible assets, property, plant and equipment, and CGUs or groups of CGUs may be impaired. Such events or circumstances concern material unfavourable changes of a permanent nature affecting either the economic environment or the assumptions or objectives used on the acquisition date.

Impairment tests seek to determine whether the recoverable amount of an asset, a CGU or a group of CGUs is less than its net carrying amount.

The recoverable amount of an asset, a CGU or a group of CGUs is the higher of its fair value less costs to sell and its value in use.

The value in use is determined with respect to future cash flow projections, taking into account the time value of money and the specific risks attributable to the asset or CGU or group of CGUs.

Future cash flow projections are based on medium-term budgets and plans. These plans are drawn up for a period of four years with the exception of certain CGUs or groups of CGUs undergoing strategic repositioning, for which a longer period may be applied. To calculate value in use, a terminal value equal to the perpetual capitalisation of a normative annual cash flow is added to the estimated future cash flows.

Fair value less costs to sell is the amount obtainable from the sale of an asset or group of assets in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. These values are determined based on market data (comparison with similar listed companies, values adopted in recent transactions and stock market prices).

When the recoverable amount of an asset, CGU or group of CGUs is less than its net carrying amount, an impairment loss is recognised in respect of the asset or group of assets.

For a CGU or group of CGUs, impairment is charged first to goodwill where appropriate, and recognised under "Other non-recurring operating income and expenses" in the income statement.

Impairment losses recognised in respect of property, plant and equipment and other intangible assets may be reversed at a later date up to the amount of the losses initially recognised, when the recoverable amount once again exceeds the net carrying amount. Impairment losses in respect of goodwill may not be reversed.

Goodwill relating to the partial disposal of a CGU is measured on a proportionate basis, except where an alternative method is more appropriate.

2.11. Financial assets and liabilities

Derivative instruments are recognised in the statement of financial position at fair value, in assets (positive fair value) or liabilities (negative fair value).

2.11.1. Financial assets

Pursuant to IAS 39, financial assets are classified within one of the following four categories:

- financial assets at fair value through the income statement;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

The classification determines the accounting treatment for the instrument. It is defined by the Group on the initial recognition date, based on the objective behind the asset's purchase. Purchases and sales of financial assets are recognised on the trade date, which is the date the Group is committed to the purchase or sale of the asset. A financial asset is derecognised if the contractual rights to the cash flows from the financial asset expire or the asset is transferred.

1. *Financial assets at fair value through the income statement*

These are financial assets held by the Group for short-term profit, or assets voluntarily classified in this category.

These assets are measured at fair value, with changes in fair value recognised in income.

The instruments primarily comprise eligible mutual or similar funds, and are classified as current assets under cash equivalents.

2. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market and are not held for trading purposes or classified as available for sale.

These assets are initially recognised at fair value and subsequently at amortised cost using the effective interest method. Short-term receivables without a stated interest rate are valued at the amount of the original invoice unless the effective interest rate has a material impact.

These assets are subject to impairment tests when there is an indication of impairment loss. An impairment loss is recognised if the carrying amount exceeds the estimated recoverable amount.

Loans and receivables due from non-consolidated investments, other loans and receivables and trade receivables are included in this category and are presented in non-current financial assets, trade receivables and other non-current financial assets.

3. *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets, other than loans or receivables, with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. These assets are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

These assets are subject to impairment tests when there is an indication of impairment loss. An impairment loss is recognised if the carrying amount exceeds the estimated recoverable amount.

Held-to-maturity investments are presented in non-current financial assets.

4. *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are not included in the aforementioned categories. They are recognised at fair value. Unrealised capital gains or losses are recognised in other comprehensive income until the disposal of the assets. However, where there is an objective indication of loss in value of an available-for-sale financial asset, the accumulated loss is recognised in income. Impairment losses recognised in respect of variable-income securities cannot be reversed through the income statement at the end of a subsequent reporting period.

For listed securities, fair value corresponds to a market price. For unlisted securities, fair value is determined by reference to recent transactions or using valuation techniques based on reliable and objective indicators. However, when the fair value of a security cannot be reasonably estimated, it is recorded at historical cost. These assets are subject to impairment tests in order to assess whether they are recoverable.

This category mainly comprises non-consolidated investments and marketable securities that do not meet other financial asset definitions. They are presented in non-current financial assets.

2.11.2. Financial liabilities

The measurement of financial liabilities depends on their IAS 39 classification. Excluding put options granted to non-controlling interests, derivative liabilities and financial liabilities accounted for under the fair value option, the Group recognises all financial liabilities and particularly borrowings, trade payables and other liabilities initially at fair value less transaction costs and subsequently at amortised cost, using the effective interest method.

The effective interest rate is determined for each transaction and corresponds to the rate that would provide the net carrying amount of the financial liability by discounting its estimated future cash flows until maturity or the nearest date the price is reset to the market rate. The calculation includes transaction costs and any premiums and/or discounts. Transaction costs correspond to the costs directly attributable to the acquisition or issue of a financial liability.

The net carrying amount of financial liabilities that qualify as hedged items as part of a fair value hedging relationship and are valued at amortised cost, is adjusted with respect to the hedged risk.

Hedging relationships are described in the section on derivative instruments.

Financial liabilities accounted for under the fair value option, other than derivative liabilities, are carried at fair value. Changes in fair value are taken to the income statement. Transaction costs incurred in setting up these financial liabilities are recognised immediately in expenses.

2.11.3. Hybrid instruments

Certain financial instruments have both a standard debt component and an equity component.

For the Group, this concerns in particular OCEANE bonds (bonds convertible or exchangeable into new or existing shares).

Under IAS 32, convertible bonds are considered hybrid instruments insofar as the conversion option provides for the repayment of the instrument against a fixed number of equity instruments. There are several components:

- a financial liability (corresponding to the contractual commitment to pay cash), representing the bond component;
- the option converting the bonds into a fixed number of ordinary shares, offered to the subscriber, similar to a call option written by the issuer, representing an equity instrument;
- potentially one or more embedded derivatives.

The accounting policies applicable to each of these components, at the issue date and at the end of each subsequent reporting period, are as follows:

- debt component: the amount initially recognised as debt corresponds to the present value of the future

cash flows arising from interest and principal payments at the market rate for a similar bond with no conversion option. If the convertible bond contains embedded derivatives closely related to the borrowing within the meaning of IAS 39, the value of these components is allocated to the debt in order to determine the value of the equity component. The debt component is subsequently recognised at amortised cost;

- embedded derivatives not closely related to the debt are recognised at fair value with changes in fair value recognised in income;
- equity component: the value of the conversion option is determined by deducting the value of any embedded derivatives from the amount of the issue less the carrying amount of the debt component. The conversion option continues to be recorded in equity at its initial value. Changes in value are not recognised;
- transaction costs are allocated pro rata to each component.

2.11.4. Derivative instruments

The Group uses various financial instruments to reduce its exposure to foreign exchange, interest rate and equity risk. These instruments are listed on organised markets or traded over the counter with leading counterparties.

All derivatives are recognised in the statement of financial position under other current or non-current assets and liabilities depending on their maturity and accounting classification, and are valued at fair value as of the trade date. Changes in the fair value of derivatives are always recorded in income except in the case of cash flow and net investment hedges.

Derivatives designated as hedging instruments are classified by category of hedge based on the nature of the risks being hedged:

- a cash flow hedge is used to hedge the risk of changes in cash flow from recognised assets or liabilities or a highly probable transaction that would impact consolidated net income;
- a fair value hedge is used to hedge the risk of changes in the fair value of recognised assets or liabilities or a firm commitment not yet recognised that would impact consolidated net income;
- a net investment hedge is used to hedge the foreign exchange risk arising on foreign activities.

Hedge accounting can only be applied if all the following conditions are met:

- there is a clearly identified, formalised and documented hedging relationship as of the date of inception;
- the effectiveness of the hedging relationship can be demonstrated on a prospective and retrospective basis. The results obtained must attain a confidence level of between 80% and 125%.

The accounting treatment of financial instruments qualified as hedging instruments, and their impact on the income statement and the statement of financial position, depends on the type of hedging relationship:

- cash flow and net investment hedges:
 - the effective portion of fair value gains and losses on the hedging instrument is recognised directly in other comprehensive income. These amounts are released to the income statement to match the recognition of the hedged items, mainly in gross profit for trading transaction hedges and in net finance costs for financial transaction hedges,
 - the ineffective portion of the hedge is recognised in the income statement,
- for fair value hedges, the hedged component of these items is measured on the statement of financial position at fair value. Fair value gains and losses are recorded in the income statement and offset, to the extent effective, by matching fair value gains and losses on the hedging instrument.

2.11.5. Cash and cash equivalents

The "Cash and cash equivalents" line item recorded on the assets side of the consolidated statement of financial position comprises cash, mutual or similar funds, short-term investments and other highly liquid instruments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value, and have a maximum maturity of three months as of the purchase date.

Investments with a maturity exceeding three months, and blocked or pledged bank accounts, are excluded from cash. Bank overdrafts are presented in borrowings on the liabilities side of the statement of financial position.

In the statement of cash flows, cash and cash equivalents include accrued interest receivable on assets presented in cash and cash equivalents and bank overdrafts. A schedule reconciling cash per the statement of cash flows and per the statement of financial position is provided in Note 32.

2.11.6. Definition of Group consolidated net debt

The concept of net debt used by Group companies comprises gross debt including accrued interest receivable less net cash as defined by French national accounting board (*Conseil National de la Comptabilité* – CNC) recommendation No. 2009-R.03. Net debt includes fair value hedging instruments recorded in the statement of financial position relating to bank borrowings and bonds whose interest rate risk is fully or partly hedged as part of a fair value hedging relationship.

The financing of customer loans by fully-consolidated consumer credit businesses is presented in borrowings. Group net debt excludes the financing of customer loans by consumer credit businesses.

2.12. Treasury shares

Treasury shares, whether specifically allocated for grant to employees or allocated to the liquidity agreement or in any other case, as well as directly related transaction costs, are deducted from consolidated equity. On disposal, the consideration received for these shares, net of transaction costs and the related tax impacts, is recognised in equity.

2.13. Treasury share options

Treasury share options are treated according to their characteristics as derivative instruments, equity instruments or financial liabilities.

Options classified as derivatives are recorded at fair value through the income statement. Options classified as equity instruments are recorded in equity for their initial amount. Changes in value are not recognised. The accounting treatment of financial liabilities is described in Note 2.11.

2.14. Share-based payment

Free share plans, stock purchase plans and stock subscription plans are awarded by the Group and settled in shares. In accordance with IFRS 2 – *Share-based Payment*, the fair value of these plans, determined by reference to the fair value of services rendered by the beneficiaries, is assessed at the grant date. The mathematical models used in these calculations are described in Note 7.

During the rights vesting period, the fair value of options and free shares calculated as described above is amortised in proportion to the vesting of rights. This expense is recorded in payroll expenses with an offsetting increase in equity.

Share appreciation rights (SARs) granted by the Group also result in the recognition of payroll expenses spread over the rights vesting period and a matching liability which is measured at fair value through income at the end of each reporting period.

2.15. Income taxes

The income tax charge for the period comprises the current and deferred tax charge.

Deferred tax is calculated using the liability method on all temporary differences between the carrying amount recorded in the consolidated statement of financial position and the tax value of assets and liabilities, except for goodwill that is not deductible for tax purposes. The valuation of deferred tax balances depends on the way in which the Group intends to recover or settle the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities are not discounted and are classified in the statement of financial position within non-current assets and liabilities.

A deferred tax asset is recognised on deductible temporary differences and for tax loss carry-forwards and tax credits to the extent that their future offset is probable.

A deferred tax liability is recognised on taxable temporary differences relating to investments in subsidiaries, associates and joint ventures unless the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16. Provisions

Provisions for litigation and disputes, and miscellaneous contingencies and losses are recognised as soon as a present obligation arises from past events, which is likely to result in an outflow of resources embodying economic benefits, and the amount of which can be reliably estimated.

Provisions maturing in more than one year are valued at the discounted amount representing the best estimate of the expense necessary to extinguish the current obligation at the end of the reporting period. The discount rate used reflects current assessments of the time value of money and specific risks related to the liability.

A restructuring provision is recognised when there is a formal and detailed restructuring plan and the plan has begun to be implemented or its main features have been announced before the end of the reporting period. Restructuring costs for which a provision is made essentially represent employee costs (severance pay, early retirement plans, payment in lieu of notice, etc.), work stoppages and compensation for breaches of contract with third parties.

2.17. Post-employment benefits and other long-term employee benefits

Based on the laws and practices of each country, the Group recognises various types of employee benefits.

Under defined contribution plans, the Group is not obliged to make additional payments over and above contributions already made to a fund, if the fund does not have sufficient assets to cover the benefits corresponding to services rendered by personnel during the current period and prior periods. Contributions paid into these plans are expensed as incurred.

Under defined benefit plans, obligations are valued using the projected unit credit method based on agreements in effect in each company. Under this method, each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation. The obligation is then discounted. The actuarial assumptions used to determine the obligations vary according to the economic conditions of the country where the plan is established. These plans are valued by

independent actuaries on an annual basis for the most significant plans and at regular intervals for the other plans. The valuations take into account the level of future compensation, the probable active life of employees, life expectancy and staff turnover.

Actuarial gains and losses are primarily due to changes in assumptions and the difference between estimated results based on actuarial assumptions and actual results. All actuarial differences in respect of defined benefit plans are recognised in other comprehensive income.

The past service cost designating the increase in an obligation following the introduction of a new plan or changes to an existing plan, is expensed immediately whether the benefit entitlement has already vested or is still vesting.

Expenses relating to this type of plan are recognised in recurring operating income (service cost) and net finance costs (interest cost and net interest on the net defined benefit liability or asset). Curtailments, settlements and past service costs are recognised in recurring operating income. The provision recognised in the statement of financial position corresponds to the present value of the obligations calculated as described above, less the fair value of plan assets.

2.18. Non-current assets (and disposal groups) held for sale to owners

The Group applies IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. This requires the separate recognition and presentation of non-current assets (or disposal groups) held for sale and discontinued operations.

Non-current assets, or groups of assets and liabilities directly associated with those assets, are considered as held for sale if it is highly probable that their carrying amount will be recovered principally through a sale rather than through continuing use. Non-current assets (or disposal groups) held for sale are measured and recognised at the lower of their net carrying amount and their fair value less the costs of disposal. These assets are no longer depreciated from the time they qualify as assets (or disposal groups) held for sale. They are presented on separate lines in the consolidated statement of financial position, without restatement for previous periods.

A discontinued operation is defined as a component of an entity that generates cash flows that can be clearly distinguished from the rest of the entity and represents a separate major line of business or geographical area of operations. For all periods presented, the net income (loss) from these activities is shown on a separate line of the income statement ("Discontinued operations"), and is restated in the statement of cash flows.

2.19. Revenue recognition

Revenue mainly comprises sales of goods for resale, consumer goods and Luxury Goods, together with income from sales-related services, royalties and operating licences.

Revenue is valued at the fair value of the consideration received for goods and services sold, royalties and licences, excluding taxes, net of rebates and discounts and after elimination of inter-company sales.

In the event of deferred payment beyond the usual credit terms that is not assumed by a financing institution, the revenue from the sale is equal to the discounted price, with the difference between the discounted price and the cash payment recognised in financial income over the life of the deferred payment if the transaction is material.

Sales of goods are recognised when a Group entity has transferred the risks and rewards incidental to ownership to the buyer (generally on delivery), when revenue can be reliably measured and when recovery is reasonably assured.

Following the sale of goods, and depending on the contractual clauses attached to these sales, provisions may be deducted from revenue to cover potential returns likely to occur after the end of the reporting period.

Services such as warranty extensions or services directly related to the sale of goods are recognised over the period in which such services are rendered or, if the Group company acts as an intermediary in the sale of these services, as of the date the contractual agreement is signed by the customer.

2.20. Operating income

Operating income includes all revenue and expenses directly related to Group activities, whether these revenue and expenses are recurring or arise from non-recurring decisions or transactions.

Recurring operating income is an analytical balance intended to facilitate the understanding of the entity's operating performance.

Other non-recurring operating income and expenses excluded from recurring operating income as defined by CNC recommendation No. 2009-R.03, include:

- non-recurring items corresponding to revenue and expenses that are unusual due to their frequency, nature or amount;
- impairment of goodwill and other intangible assets;
- gains or losses on disposals of property, plant and equipment and intangible assets, operating assets or investments;
- restructuring costs and costs relating to employee retraining measures.

2.21. Earnings per share

Earnings per share is calculated by dividing net income attributable to owners of the parent by the weighted average number of outstanding shares during the year, after deduction of the weighted average number of treasury shares held by consolidated companies.

Fully diluted earnings per share is calculated by adjusting net income attributable to owners of the parent and the number of outstanding shares for all instruments granting deferred access to the share capital of the Company, whether issued by Kering or one of its subsidiaries. Dilution is determined separately for each instrument based on the following conditions:

- when the proceeds corresponding to potential future share issues are received at the time dilutive securities are issued (e.g., convertible bonds), the numerator is equal to net income before dilution plus the interest expense that would be saved in the event of conversion, net of tax;
- when the proceeds are received at the time the rights are exercised (e.g., stock subscription options), the dilution attached to the options is determined using the treasury shares method (theoretical number of shares purchased at market price [average over the period] based on the proceeds received at the time the rights are exercised).

In the case of material non-recurring items, earnings per share excluding non-recurring items is calculated by adjusting net income attributable to owners of the parent for non-recurring items net of taxes and non-controlling interests. Non-recurring items taken into account for this calculation correspond to all the items included under "Other non-recurring operating income and expenses" in the income statement.

2.22. Operating segments

In accordance with IFRS 8 – *Operating Segments*, segment information is reported on the same basis as used internally by the Chairman and Chief Executive Officer and Deputy CEO – the Group's chief operating decision makers – in order to allocate resources to segments and assess their performance.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker, and for which discrete financial information is available.

Each operating segment is monitored separately for internal reporting purposes, according to performance indicators common to all of the Group's segments.

The segments presented are operating segments or groups of similar operating segments.

note 3 – highlights

The Kering group consolidated financial statements for the year ended December 31, 2013 include the financial statements of the companies listed in Note 36.

3.1. PPR becomes Kering

Having completed its transformation into a global leader in apparel and accessories operating in the Luxury and Sport & Lifestyle markets, on March 22, 2013 the Group announced its decision to change its name to "Kering" to better reflect its new identity. This name change was approved at the Annual General Meeting held on June 18, 2013.

3.2. Changes in Group structure

3.2.1. Distribution of Groupe Fnac shares to Kering shareholders and listing of Groupe Fnac shares on NYSE Euronext Paris

In line with the principle announced on October 9, 2012, at its April 17, 2013 meeting Kering's Board of Directors unanimously approved the listing of Groupe Fnac shares through a distribution of Groupe Fnac shares to Kering shareholders. This listing had previously been approved by the employee representative bodies of both Groupe Fnac and Kering SA.

At the Annual General Meeting of June 18, 2013, Kering's shareholders authorised the payment of an additional cash dividend of €2.25 per share (following an interim cash dividend of €1.50 paid on January 24, 2013), and an additional dividend in the form of Groupe Fnac shares at a ratio of one Groupe Fnac share for every eight Kering shares held.

On June 20, 2013 prior to the start of market trading:

- the rights to the balance of the cash dividend for 2012 were detached from the Kering shares and the dividend was paid;
- the rights to the allotment of Groupe Fnac shares were detached from the Kering shares and the deliveries of Groupe Fnac shares began.

Consequently, the Groupe Fnac share allotment rights began trading on Euronext Paris on June 20, 2013.

Kering distributed a total of 15,672,034 shares representing just under 95% of Groupe Fnac's capital as of the ex-dividend date, in view of the fact that a 5% stake in the company had already been sold in the first half of 2013 to Kernic Met BV (a company indirectly held by Kering), which in turn had transferred title to the 830,907 shares concerned as part of a financial forward contract.

In accordance with IFRIC 17, as of June 20, 2013 – the date on which the Groupe Fnac shares were delivered to their

shareholders and first listed – the Groupe Fnac shares were derecognised by Kering based on a fair value of €314 million for 95% of the shares (15,672,034 shares x €20.03).

The derecognition led to a €256 million post-tax disposal loss in 2013, taking into account the costs of the distribution and Groupe Fnac's net income in the first half of the year.

This disposal loss was recorded in "Net income (loss) from discontinued operations".

3.2.2. Kering continues its divestment of Redcats and finalises the Group's transformation

On January 3, 2013, Kering announced that it had received a firm offer from Alpha Private Equity Fund 6 ("APEF 6") to acquire Redcats' Children and Family division – comprising the Cyrillus and Vertbaudet brands – for an enterprise value of €119 million. The transaction was completed on March 28, 2013.

On February 5, 2013, Kering announced the closing of the sale of OneStopPlus to Charlesbank Capital Partners and Webster Capital in accordance with the terms of the definitive sale agreement announced on December 5, 2012. This transaction marked the final step in the sale of all of Redcats USA's operations.

On February 25, 2013, Kering announced that Redcats had entered into an agreement to sell its Nordic activities, Ellos and Jotex to Nordic Capital Fund VII for an enterprise value of €275 million. The transaction was completed on June 3, 2013.

During the second half of 2013, Kering continued the process for its planned sale of La Redoute and Relais Colis. On December 4, 2013, after examining the four takeover offers, Kering's Board of Directors decided to enter into exclusive negotiations with Nathalie Balla – the current chairman and CEO of La Redoute – and Eric Courteille – Chief Administrative Officer of Redcats – who presented a takeover plan for La Redoute and Relais Colis, supported by a team of managers from the two companies. In line with the undertakings it gave in relation to the takeover, Kering will recapitalise La Redoute and Relais Colis at the same time as the sale is carried out. This recapitalisation will ensure that both companies enjoy a healthy financial position backed by a significant cash surplus and that the new owners will be able to fund their transformation and modernisation measures.

Nathalie Balla and Eric Courteille presented the details of their business plan to the relevant employee representative bodies in January 2014 in accordance with the standard information and consultation procedure required under French law, and they are currently pursuing negotiations with La Redoute's trade unions.

The results of Redcats' businesses during the year amounted to €562 million and were recorded under "Net income (loss) from discontinued operations". This amount includes Kering's €315 million recapitalisation undertaking in relation to La Redoute, the impairment losses recorded against Redcats' residual assets and the disposal gains and losses on activities sold during the period. It does not include the cost of financing the social guarantees to be granted to the employees concerned by the modernisation measures at La Redoute and Relais Colis. The total cost of this financing, which cannot as yet be reliably estimated, will lead Kering to set up a trust guaranteeing the application of the employee measures approved in a majority collective agreement with trade unions. The associated costs will be recognised in 2014.

3.2.3. Kering strengthens its portfolio of luxury brands

In early January 2013, Kering completed its acquisition of a majority stake in the Chinese fine jewellery brand Qeelin. Launched in 2004, Qeelin is the first Chinese luxury jeweller to have developed an international network of stores in the most prestigious shopping districts worldwide. At the time of acquisition, it operated 14 stores (seven in Mainland China, four in Hong Kong and three in Europe) and is sold in a number of multi-brand stores such as Colette in Paris and Restir in Tokyo.

On January 15, 2013, Kering acquired a majority stake in the luxury designer brand Christopher Kane with a view to developing the brand's business in close partnership with its eponymous creator, the Scottish designer Christopher Kane. Founded in 2006, Christopher Kane is a distinctive and exciting brand with a unique DNA.

Qeelin and Christopher Kane have been fully consolidated in Kering's financial statements since January 1, 2013. As of December 31, 2013, Kering valued the Qeelin brand at €20 million on a provisional basis following the initial purchase price allocation process, which will be completed during 2014.

On March 25, 2013, Kering announced that it had acquired a majority stake in France Croco and Tannerie de Périers. Founded in 1974, France Croco is a leading independent tannery located in Normandy and specialised in the sourcing, tanning and processing of crocodile skins.

This acquisition will allow Kering's brands to further secure a sustainable supply of high quality crocodile skins and their activities are highly complementary to those of Caravel, another tannery owned by Kering which specialises in sourcing and tanning precious skins. France Croco and Tannerie de Périers have been consolidated in Kering's financial statements since the second quarter of 2013. The purchase price allocation process for this acquisition was still in progress at end-December 2013.

On April 22, 2013 Gucci further demonstrated its commitment to the excellence of "Made in Italy" and to Tuscany by

announcing that it had acquired the Italian porcelain maker, Richard Ginori, as part of its plans to expand into the tableware market. Richard Ginori was not consolidated by the Group at end-December 2013.

On April 24, 2013, Kering announced that it had signed an agreement with RA.MO SpA to acquire a majority stake in the Italian jewellery group Pomellato. The Pomellato group has two brands: Pomellato, which is positioned in the fine jewellery segment and Dodo, positioned in the accessible jewellery segment. Through this acquisition Kering has extended and strengthened its portfolio of luxury brands in the high-growth jewellery segment. The transaction was completed on July 5, 2013, following clearance by the competition authorities. In view of the date on which Kering took over control of the Group, Pomellato has been consolidated since July 1, 2013. As of December 31, 2013, Kering valued the Pomellato and Dodo brands at €210 million on a provisional basis following the initial purchase price allocation process, which will be completed during 2014.

On September 6, 2013, Kering announced that it was acquiring a minority shareholding in the New York based fashion brand, Altuzarra, founded by the Franco-American designer Joseph Altuzarra in 2008. This investment marks the beginning of a partnership which will enable Kering to accompany Altuzarra in the next stage of its growth. Altuzarra was not consolidated in Kering's financial statements at December 31, 2013.

On November 19, 2013, Kering and Tomas Maier announced that they had entered into a joint venture to develop the business of the Tomas Maier brand in partnership. Tomas Maier will continue to be Creative Director of Bottega Veneta, a position he has held since 2001. The joint venture was not consolidated in Kering's financial statements at December 31, 2013.

3.3. Other highlights

On April 18, 2013, PUMA SE announced that it had appointed Björn Gulden as Chief Executive Officer effective July 1, 2013. Mr Gulden – who is a member of Kering's Executive Committee – brings to PUMA solid international experience of nearly 20 years in the Sporting Goods and footwear industry where he has held a variety of management positions, notably with Adidas, Helly Hansen and Deichman.

In the first half of 2013, Kering redeemed both the €600 million worth of bonds issued in 2005, including the additional bonds issued in 2006, and the second €200 million tranche of the bonds indexed to the Kering share price that were issued in May 2008. To extend the maturity of its debt, Kering carried out a first bond issue on July 15, 2013 involving €500 million worth of seven-year bonds with a fixed-rate coupon of 2.5%, and a second – which also represented €500 million – on October 8, involving five-year bonds with a 1.875% fixed-rate coupon.

note 4 – operating segments

The policies applied to determine the operating segments presented are set out in Note 2.22.

Information provided on operating segments is prepared in accordance with the same accounting rules as in the consolidated financial statements and set out in the notes thereto.

The performance of each operating segment is measured based on recurring operating income, which is the method used by the Group's chief operating decision maker.

Net recurring charges to depreciation, amortisation and provisions on non-current operating assets reflect net charges to depreciation, amortisation and provisions on intangible assets and property, plant and equipment recognised in recurring operating income.

Purchases of property, plant and equipment and intangible assets correspond to gross non-current asset purchases, including cash timing differences but excluding purchases of assets under finance leases.

4.1. Information by segment

(in € millions)

	Gucci	Bottega Veneta
December 31, 2013		
Revenue	3,560.8	1,015.8
– Non-Group	3,560.8	1,015.8
– Group		
Recurring operating income (loss)	1,131.8	330.6
Recurring charges to depreciation, amortisation and provisions on non-current operating assets	144.0	24.2
Other non-cash recurring operating income and expenses	(116.5)	(39.6)
Purchases of property, plant and equipment and intangible assets, gross	214.6	62.0
Segment assets	8,239.2	706.2
Segment liabilities	1,884.1	174.8
December 31, 2012		
Revenue	3,638.8	945.1
– Non-Group	3,638.8	945.1
– Group		
Recurring operating income (loss)	1,126.4	300.1
Recurring charges to depreciation, amortisation and provisions on non-current operating assets	133.9	20.5
Other non-cash recurring operating income and expenses	(10.9)	(2.1)
Purchases of property, plant and equipment and intangible assets, gross	203.9	41.3
Segment assets	8,178.5	711.8
Segment liabilities	1,887.3	160.3

Non-current segment assets comprise goodwill, brands and other intangible assets, property, plant and equipment and other non-current assets.

Segment assets comprise non-current segment assets, inventories, trade receivables and other current assets.

Segment liabilities comprise deferred tax liabilities on brands, trade payables and other current liabilities.

Yves Saint Laurent	Other brands	Luxury Division	PUMA	Other brands	Sport & Lifestyle Division	Corporate	Total
556.9	1,336.7	6,470.2	3,001.9	245.1	3,247.0	31.2	9,748.4
556.9	1,336.7	6,470.2	3,001.9	245.1	3,247.0	31.2	9,748.4
76.6	143.6	1,682.6	191.9	8.5	200.4	(132.9)	1,750.1
16.4	46.1	230.7	54.5	3.4	57.9	7.2	295.8
(16.0)	(27.7)	(199.8)	(5.6)	(2.7)	(8.3)	105.4	(102.7)
65.3	93.7	435.6	67.7	7.1	74.8	167.3	677.7
1,246.3	2,522.8	12,714.5	5,960.8	546.5	6,507.3	236.9	19,458.7
241.6	587.6	2,888.1	1,625.8	128.8	1,754.6	230.3	4,873.0
472.8	1,155.6	6,212.3	3,270.7	261.2	3,531.9	(7.9)	9,736.3
472.8	1,155.1	6,211.8	3,263.3	261.2	3,524.5		9,736.3
	0.5	0.5	7.4		7.4	(7.9)	
65.0	120.1	1,611.6	290.0	14.8	304.8	(124.9)	1,791.5
10.8	38.5	203.7	60.3	5.7	66.0	5.4	275.1
(0.6)	(0.5)	(14.1)	(4.2)	0.2	(4.0)	1.6	(16.5)
21.8	70.3	337.3	81.2	9.9	91.1	13.5	441.9
1,132.9	1,844.9	11,868.1	6,436.1	556.0	6,992.1	122.4	18,982.6
228.2	472.2	2,748.0	1,675.3	126.1	1,801.4	168.1	4,717.5

4.2. Information by geographic area

The presentation of revenue by geographic area is based on the geographic location of customers. Non-current segment assets are not broken down by geographic area

since a significant portion of these assets consists of goodwill and brands, which are to be analysed based on the revenue they generate in each region, and not based on their geographic location.

<i>(in € millions)</i>	2013	2012
Western Europe	3,057.9	2,937.5
North America	2,038.3	1,978.9
Japan	982.8	1,158.3
Sub-total – mature markets	6,079.0	6,074.7
Eastern Europe, Middle East and Africa	723.6	685.2
South America	476.0	536.7
Asia-Pacific (excluding Japan)	2,469.8	2,439.7
Sub-total – emerging markets	3,669.4	3,661.6
Total revenue	9,748.4	9,736.3

4.3. Reconciliation of segment assets and liabilities

The reconciliation of total segment assets and non-current segment assets with total Group assets is as follows:

<i>(in € millions)</i>	2013	2012
Goodwill	3,770.1	3,871.0
Brands and other intangible assets	10,702.8	10,489.9
Property, plant and equipment	1,676.9	1,376.3
Other non-current assets	30.1	28.9
Non-current segment assets	16,179.9	15,766.1
Inventories	1,805.5	1,736.5
Trade receivables	949.9	985.3
Other current assets	523.4	494.7
Segment assets	19,458.7	18,982.6
Investments in associates	17.3	25.8
Non-current financial assets	316.8	273.7
Deferred tax assets	649.9	600.2
Current tax receivables	119.1	75.7
Other current financial assets	107.7	87.0
Cash and cash equivalents	1,419.2	2,081.0
Assets classified as held for sale or for distribution to owners	722.1	3,130.5
Total assets	22,810.8	25,256.5

The reconciliation of total segment liabilities with total Group equity and liabilities is as follows:

<i>(in € millions)</i>	2013	2012
Deferred tax liabilities on brands	2,734.6	2,632.6
Trade payables	766.1	684.5
Other current liabilities	1,372.3	1,400.4
Segment liabilities	4,873.0	4,717.5
Total equity	11,195.9	12,118.7
Non-current borrowings	3,132.4	2,988.9
Other non-current financial assets	0.7	
Non-current provisions for pensions and other post-employment benefits	92.8	98.2
Other non-current provisions	113.2	92.3
Other deferred tax liabilities	75.6	139.7
Current borrowings	1,737.4	1,595.1
Other current financial liabilities	213.2	207.9
Current provisions for pensions and other post-employment benefits	7.2	6.6
Other current provisions	152.7	167.7
Current tax liabilities	310.1	318.4
Liabilities associated with assets classified as held for sale or for distribution to owners	906.6	2,805.5
Total equity and liabilities	22,810.8	25,256.5

note 5 – revenue

<i>(in € millions)</i>	2013	2012
Net sales of goods	9,571.7	9,583.4
Net sales of services	2.4	7.2
Revenue from concessions and licences	168.4	145.2
Other revenue	5.9	0.5
Total	9,748.4	9,736.3

note 6 – payroll expenses

Payroll expenses primarily include fixed and variable remuneration, social security charges, charges relating to employee profit-sharing and other incentives, training

costs, share-based payment expenses (see Note 7) and expenses relating to employee benefits recognised in recurring operating income (see Note 25).

<i>(in € millions)</i>	2013	2012
Luxury Division	(985.5)	(943.0)
Sport & Lifestyle Division	(452.4)	(483.1)
Corporate	(96.8)	(67.5)
Total	(1,534.7)	(1,493.6)

In 2013, payroll expenses recorded under "Corporate" include a €3.1 million charge (€4.0 million in 2012) relating to the application of IFRS 2 to all transactions based on Kering shares (see Note 7.1).

The average headcount of continuing operations, on a full-time equivalent basis, breaks down as follows:

	2013	2012
Luxury Division	19,050	17,384
Sport & Lifestyle Division	11,521	11,720
Corporate	844	274
Total	31,415	29,378

The total headcount of continuing operations is as follows:

	2013	2012
Luxury Division	20,959	18,905
Sport & Lifestyle Division	13,921	14,235
Corporate	906	299
Total	35,786	33,439

note 7 – share-based payment

In consideration for services rendered, the Group grants certain employees share-based plans settled in shares or cash.

The Group recognises its obligation as services are rendered by beneficiaries, over the period from the grant date to the vesting date.

- For transactions based on Kering shares, the grant date is the date at which plans were individually approved by the Executive Board, in the case of plans prior to May 19, 2005, or by the Board of Directors of Kering for plans after this date.
- For transactions based on Kering Holland NV and PUMA shares, the grant date is the date at which plans were individually approved by the Boards of Kering Holland NV and PUMA AG, respectively.

- The vesting date is the date at which all vesting conditions are satisfied.

Vested rights may only be exercised by beneficiaries at the end of a lock-in period, the length of which varies depending on the type of plan.

7.1. Share-based payment transactions settled in Kering equity instruments

In accordance with the transitional provisions of IFRS 2 on equity-settled plans, only those plans issued after November 7, 2002 and not having vested as of January 1, 2005 were measured. At December 31, 2013, there were no longer any plans falling outside the scope of IFRS 2 (i.e., plans issued prior to November 7, 2002).

The nature and key characteristics of eligible plans are presented below:

Stock option and free share plans	2003/1 Plan	2004/1 Plan	2005/1 Plan	2005/2 Plan	2005/3 Plan	2005/4 Plan	2006/1 Plan	2007/1 Plan
	Sub- scription options	Sub- scription options	Sub- scription options	Sub- scription options	Sub- scription options	Sub- scription options	Purchase options	Purchase options
Grant date	7/9/2003	5/25/2004	1/3/2005	5/19/2005	5/19/2005	7/6/2005	5/23/2006	5/14/2007
Expiry date	7/8/2013	5/24/2014	1/2/2015	5/18/2015	5/18/2015	7/5/2015	5/22/2014	5/13/2015
Vesting of rights	(a)	(a)	(a)	(b)	(b)	(b)	(b)	(b)
Number of beneficiaries	721	846	13	458	22	15	450	248
Number initially granted	528,690	540,970	25,530	333,750	39,960	20,520	403,417	355,500
Number outstanding as of Jan. 1, 2013	21,890	67,820	750	94,260	1,520	1,920	157,030	244,130
Number forfeited in 2013		2,820		336		1,520	708	43,290
Number exercised in 2013	19,260	30,735		59,344	720		44,867	55,670
Number of shares issued								
Number expired in 2013	2,630							
Number outstanding as of Dec. 31, 2013		34,265	750	34,580	800	400	111,455	145,170
Number exercisable as of Dec. 31, 2013		34,265	750	34,580	800	400	111,455	145,170
Strike price (in €)	66.00	85.57	75.29	78.01	78.97	85.05	101.83	127.58
Fair value at measurement date (in €)	15.37	15.75	11.61	11.19	10.98	12.38	13.62	20.99
Weighted average price of options exercised/ shares issued (in €)	131.61	128.03	129.00	128.24	131.97	130.63	130.15	138.62

Stock option and free share plans	2007/2 Plan	2009/2 Plan	2010/2 Plan	2011/1 Plan	2011/2 Plan	2012/1 Plan	2012/2 Plan
	Purchase options	Free shares	Free shares	Free shares	Free shares	Free shares	Free shares
Grant date	9/17/2007	5/7/2009	5/19/2010	5/19/2011	5/19/2011	4/27/2012	4/27/2012
Expiry date	9/16/2015	N/A	N/A	N/A	N/A	N/A	N/A
Vesting of rights	(b)	(d)	(d)	(c)	(d)	(c)	(d)
Number of beneficiaries	14	161	108	184	76	198	88
Number initially granted	51,300	46,505	25,035	67,379	9,455	69,399	39,640
Number outstanding as of Jan. 1, 2013	41,400	40,225	23,625	65,524	8,870	67,564	38,675
Number forfeited in 2013		220	325	3,038	585	2,467	370
Number exercised in 2013	2,500						
Number of shares issued		40,005		62,486			
Number expired in 2013							
Number outstanding as of Dec. 31, 2013	38,900		23,300		8,285	65,097	38,305
Number exercisable as of Dec. 31, 2013	38,900						
Strike price (in €)	127.58	N/A	N/A	N/A	N/A	N/A	N/A
Fair value at measurement date (in €)	24.74	32.21	60.62	83.53	69.91	88.73	74.62
Weighted average price of options exercised/shares issued (in €)	131.58						

No new shares are issued on the exercise of stock purchase options or free share grants.

Under all these plans, shares are subject to a four-year lock-in period, commencing on the grant date.

- (a) Options vest at a rate of 25% per full year of presence within the Group, except in the event of retirement (when rights vest in full). If a beneficiary is dismissed for gross negligence or misconduct, all rights are lost, including after the lock-in period.
- (b) Options vest at a rate of 25% per full year of presence within the Group, except in the event of retirement (when rights vest in full) or resignation (when all rights are lost). If a beneficiary is dismissed for gross negligence or misconduct, all rights are lost, including after the lock-in period.
- (c) Shares vest two years after being granted, except in the event of resignation or dismissal for gross negligence or misconduct (when all rights are lost). The total number of shares granted is subject to stock market performance conditions. The vesting period is followed by a two-year non-transferability period.
- (d) Shares vest four years after being granted, except in the event of resignation or dismissal for gross negligence or misconduct (when all rights are lost). The total number of shares granted is subject to stock market performance conditions. These shares are not subject to a non-transferability period.

The value of services rendered by beneficiaries is determined on the grant date of the plans:

- for stock purchase and stock subscription plans, by using a Black & Scholes model with a trinomial algorithm and exercise thresholds, which takes into account the number of potentially exercisable options at the end of the vesting period;
- for free share plans, by using a Black & Scholes model with a Monte Carlo algorithm and two underlyings.

The exercise thresholds and probability assumptions used for the stock subscription and stock purchase option plans are as follows:

Threshold as a % of the strike price	Probability of exercise
125%	15%
150%	20%
175%	20%
200%	20%

Based on these assumptions, 25% of beneficiaries do not elect to exercise their options prior to the expiry date.

The main valuation assumptions for the various plans are summarised below:

Stock option and free share plans	2003/1 Plan	2004/1 Plan	2005/1 Plan	2005/2 Plan	2005/3 Plan
	Subscription options	Subscription options	Subscription options	Subscription options	Subscription options
Volatility	33.25%	25.65%	23.75%	21.00%	21.00%
Risk-free interest rate	4.08%	4.45%	3.83%	3.49%	3.49%

Stock option and free share plans	2005/4 Plan	2006/1 Plan	2007/1 Plan	2007/2 Plan	2009/2 Plan
	Subscription options	Purchase options	Purchase options	Purchase options	Free shares
Volatility	20.50%	23.00%	23.00%	24.50%	40.00%
Risk-free interest rate	3.38%	4.08%	4.49%	4.47%	4.06%

Stock option and free share plans	2010/2 Plan	2011/1 Plan	2011/2 Plan	2012/1 Plan	2012/2 Plan
	Free shares	Free shares	Free shares	Free shares	Free shares
Volatility	35.00%	28.00%	28.00%	29.00%	29.00%
Risk-free interest rate	1.85%	2.32%	2.32%	0.97%	0.97%

The above volatilities represent the expected volatilities of each plan based on the maturities and strike prices available at the grant date. The dividends used for valuation purposes are those expected by the market at the grant date.

The risk-free interest rates correspond to the one-to-ten year interest rate curve for interbank swaps at the grant date.

The total charge recognised in 2013 in respect of stock option and free share plans was €3.1 million (€8.9 million, including €4.9 million shown within "Discontinued operations" in 2012).

7.2. Share-based payment transactions settled in equity instruments of subsidiaries

PUMA set up stock subscription option plans based on its own shares for certain employees. The characteristics of the plans still in effect as of December 31, 2013 and their movements during the year are as follows:

	2008/I Plan	2008/II Plan	2008/III Plan	2008/IV Plan	2008/V Plan
	Subscription options	Subscription options	Subscription options	Subscription options	Subscription options
Grant date	7/21/2008	4/14/2009	4/22/2010	4/15/2011	4/30/2012
Expiry date	7/20/2013	4/13/2014	4/21/2015	4/21/2016	4/21/2017
Number initially granted	113,000	139,002	126,184	151,290	145,375
Number outstanding as of Jan. 1, 2013	1,500	2,500	98,693	103,463	114,969
Number exercised in 2013	1,000	1,000			
Number forfeited/(reinstated) in 2013	500				1,500
Number outstanding as of Dec. 31, 2013		1,500	98,693	103,463	113,469
Number exercisable as of Dec. 31, 2013		1,500	98,693	103,463	
Weighted average price of options exercised (in €)	220.83	214.57			

Rights vest after a two-year period.

The number of shares attributed to beneficiaries is determined based on the share price at the exercise date and the number of options exercised. The exercise of options is subject to a PUMA share performance condition.

The value of services rendered by beneficiaries at the grant date is primarily determined on the basis of the following assumptions:

	2008/I Plan	2008/II Plan	2008/III Plan	2008/IV Plan	2008/V Plan
Volatility	29.10%	47.70%	34.50%	29.20%	26.80%
Risk-free interest rate	4.60%	1.97%	1.60%	2.40%	0.30%

In 2013, PUMA recognised an expense of €1.1 million (€2.8 million in 2012).

7.3. Cash-settled share-based payment transactions

The Group (Kering Holland NV and Kering SA) also grants certain employees Share Appreciation Rights (SARs) and, since 2013, Kering Monetary Units (KMUs) that constitute cash-settled share-based plans.

7.3.1. Characteristics of SARs granted by Kering Holland NV

SAR plans have a term of six to ten years from their grant date.

SARs vest at a rate of 20% per full year of presence in the Group, except in the event of dismissal (excluding dismissal for gross negligence or misconduct) when all rights vest immediately. If an employee is dismissed for gross negligence or misconduct, all rights are lost.

The SAR strike price is determined by applying financial ratios for a basket of comparable companies to the results of the Luxury Division.

The value of services rendered by beneficiaries is recalculated at the end of each reporting period by an independent expert using an option pricing model corresponding to the intrinsic value, to which a time value is added.

In 2013, Kering Holland NV recognised a €0.9 million expense in respect of SARs within recurring operating income (€1.6 million in 2012).

The strike price of SARs outstanding as of December 31, 2013 is between €40.18 and €94.85 and the weighted average remaining contractual term is 1.3 years (2.3 years as of end-2012).

The carrying amount of the liability relating to these SARs was €3.1 million as of December 31, 2013, with an intrinsic value of €2.3 million (€2.3 million and €1.8 million, respectively, as of December 31, 2012).

Plan movements	2013	2012
SARs outstanding as of January 1	17,204	44,204
Weighted average strike price (in €)	79.94	84.59
SARs granted during the year		
Weighted average strike price (in €)		
SARs exercised during the year	200	27,000
Weighted average strike price (in €)	82.26	87.55
SARs forfeited during the year		
Weighted average strike price (in €)		
SARs outstanding as of December 31	17,004	17,204
Weighted average strike price (in €)	79.91	79.94
SARs exercisable as of December 31	12,000	2,200
Weighted average strike price (in €)	79.84	45.32

7.3.2. Characteristics of KMUs granted by Kering SA

Since 2013, the Group has granted Kering Monetary Units (KMUs) instead of free shares.

The unit value of the KMUs awarded (and any changes in that value) is determined based on the intrinsic value of the Kering share price in comparison with the average increase in a basket of stocks from the Luxury and Sports industries. On July 21, 2013, 124,126 KMUs were granted, with a unit value of €152.

Subject to the beneficiaries' continued presence within the Group, the KMUs granted will be settled in cash at the end of the three-year vesting period. The vesting period will be followed by a two-year period (January to December) during which beneficiaries may opt, in April or October, to cash out some or all of their KMUs, at their discretion, based on the most recently determined value.

The value of services rendered by beneficiaries is recalculated by an independent expert at the end of each reporting period.

In 2013, the Group recognised a €5.1 million expense in respect of KMUs within recurring operating income.

note 8 – recurring operating income

Recurring operating income is the primary indicator of the Group's operating performance, and breaks down as follows:

<i>(in € millions)</i>	2013	2012
Luxury Division	1,682.6	1,611.6
Sport & Lifestyle Division	200.4	304.8
Corporate	(132.9)	(124.9)
Total	1,750.1	1,791.5

Charges to depreciation, amortisation and provisions on non-current operating assets included in recurring operating income amounted to €295.8 million in 2013

(€275.1 million in 2012). Other net non-cash operating income amounted to €102.7 million in 2013 (€16.5 million in 2012).

note 9 – other non-recurring operating income and expenses

<i>(in € millions)</i>	2013	2012
Non-recurring operating expenses	444.0	(261.3)
Restructuring costs	(29.7)	(158.5)
Asset impairment	(361.2)	(53.6)
Capital losses on disposals	(2.7)	(0.5)
Other	(50.4)	(48.7)
Non-recurring operating income	1.5	236.1
Capital gains on disposals	1.5	233.4
Other		2.7
Total	(442.5)	(25.2)

The Group's other non-recurring operating income and expenses consist of unusual items that could distort the assessment of each brand's economic performance. The net balance of this caption was an expense of €442.5 million in 2013 and included the following items:

- restructuring costs of €29.7 million, mainly concerning the Luxury Division;
- asset impairment totalling €361.2 million, including €280.1 million charged against PUMA goodwill;
- net capital losses of €1.2 million on asset disposals;
- other income and expenses relating primarily to new brand acquisition fees, the impacts of the restructuring measures put in place at PUMA as part of the new management's strategy, and litigation and disputes with third parties (Note 26).

The net balance of this caption was an expense of €25.2 million in 2012 and included the following items:

- restructuring costs of €158.5 million (chiefly relating to PUMA's restructuring programme);
- asset impairment totalling €53.6 million, including €50.0 million for the Sergio Rossi brand;
- net capital gains of €232.9 million on asset disposals, chiefly relating to the capital gains from the sale of the residual interest in Cfao;
- other income and expenses primarily relating to claims and litigation in relation to third parties.

note 10 – finance costs (net)

This caption breaks down as follows:

<i>(in € millions)</i>	2013	2012
Cost of net debt	(175.8)	(211.4)
Income from cash and cash equivalents	9.3	6.7
Finance costs at amortised cost	(183.3)	(196.2)
Finance costs on financial liabilities at fair value through income	(4.8)	(24.3)
Gains and losses on borrowings hedged by fair value hedges	2.8	0.3
Gains and losses on fair value hedging derivatives	0.2	2.1
Other financial income and expenses	(36.5)	63.7
Net losses on available-for-sale financial assets	(7.6)	(1.0)
Gains and losses on financial liabilities at fair value through income	11.5	104.7
Foreign exchange gains and losses	(17.5)	(3.2)
Ineffective portion of cash flow hedges	(11.3)	(26.0)
Gains and losses on derivative instruments not qualifying for hedge accounting (foreign exchange and interest rate hedges)	0.5	(2.0)
Impact of discounting assets and liabilities	(9.0)	(6.3)
Other finance costs	(3.1)	(2.5)
Total	(212.3)	(147.7)

note 11 – income taxes

11.1. Analysis of the income tax expense in respect of continuing operations

11.1.1. Income tax expense

<i>(in € millions)</i>	2013	2012
Income before tax	1,095.3	1,618.6
Taxes paid out of operating income	(315.7)	(361.0)
Other taxes payable not impacting operating cash flow	(9.0)	(5.2)
Income tax payable	(324.7)	(366.2)
Deferred tax income/(expense)	89.3	68.6
Total tax charge	(235.4)	(297.6)
Effective tax rate	21.49%	18.39%

Income tax expense on dividends was recognised in an amount of €23.6 million in 2013 (€5.7 million in 2012).

11.1.2. Reconciliation of the tax rate

(as a % of pre-tax income)

	2013	2012
Tax rate applicable in France	38.00%	36.10%
Impact of taxation of foreign subsidiaries	-14.23%	-7.12%
Theoretical tax rate	23.77%	28.98%
Effect of items taxed at reduced rates	-1.10%	2.12%
Effect of permanent differences	-1.79%	-3.12%
Effect of unrecognised temporary differences	0.07%	1.02%
Effect of unrecognised tax losses carried forward	-3.39%	-3.43%
Effect of changes in tax rates	-0.10%	0.16%
Effect of disposal of Cfao		-3.34%
Other	4.03%	-4.00%
Effective tax rate	21.49%	18.39%

In 2013, the income tax rate applicable in France was the standard rate of 33.33%, plus the social surtax of 3.3% and a 10.7% one-off levy for French companies with revenue over €250 million, bringing the total to 38%.

As of end-December 2013, permanent differences mainly comprised impairment losses taken against PUMA goodwill (see Note 9).

The main changes relate to the "Other" line, which includes the tax on dividends, the levy on value added paid by French companies, and the impact of tax reassessments.

11.1.3. Recurring tax rate

Excluding non-recurring items, the Group income tax rate is as follows:

(in € millions)

	2013	2012
Income before tax	1,095.3	1,618.6
Non-recurring items	(442.5)	(25.2)
Recurring income before tax	1,537.8	1,643.8
Total tax charge	(235.4)	(297.6)
Tax on non-recurring items	32.0	62.3
Recurring tax charge	(267.4)	(359.9)
Recurring tax rate	17.39%	21.89%

11.2. Movement in statement of financial position headings

11.2.1. Net current tax liabilities

<i>(in € millions)</i>	2012	Net income	Cash outflows relating to operating activities	Cash outflows relating to investing activities	Other changes in Group structure	Other items recognised in equity	2013
Current tax receivables	75.7						119.1
Current tax liabilities	(318.4)						(310.1)
Net current tax liabilities	(242.7)	(315.7)	383.7	-	(11.9)	(4.4)	(191.0)

11.2.2. Deferred tax

<i>(in € millions)</i>	2012	Net income	Other changes in Group structure	Other items recognised in equity	2013
Deferred tax assets	600.2				649.9
Deferred tax liabilities	(2,772.3)				(2,810.2)
Deferred tax	(2,172.1)	89.3	(74.2)	(3.3)	(2,160.3)

<i>(in € millions)</i>	2012	Net income	Other changes in Group structure	Other items recognised in equity	2013
Intangible assets	(2,593.8)	7.0	(52.4)		(2,639.2)
Property, plant and equipment	15.3	(3.2)	(3.1)		9.0
Other non-current assets	(5.7)	(3.6)	(3.7)	(0.3)	(13.3)
Other current assets	276.4	44.7	(15.0)		306.1
Total equity	10.2	0.7			10.9
Borrowings	(20.2)	(0.5)			(20.7)
Provisions for pensions and other post-employment benefits	45.1	6.4	1.2	(1.0)	51.7
Other provisions	25.1	(7.7)	(0.8)		16.6
Other current liabilities	65.5	27.0	7.7	(2.0)	98.2
Recognised tax losses and tax credits	10.0	18.5	(8.1)		20.4
Net deferred tax assets (liabilities)	(2,172.1)	89.3	(74.2)	(3.3)	(2,160.3)
Deferred tax assets	600.2				649.9
Deferred tax liabilities	(2,772.3)				(2,810.2)
Deferred tax	(2,172.1)	89.3	(74.2)	(3.3)	(2,160.3)

11.3. Unrecognised deferred tax

Tax losses and tax credits not recognised as deferred tax assets amounted to €2,234.1 million as of December 31, 2013 (€2,260.3 million as of December 31, 2012).

Changes in unused tax losses and tax credits and the associated expiry schedule are set out below:

(in € millions)

As of January 1, 2012	2,337.2
Losses generated during the year	18.6
Losses utilised and time barred during the year	(83.8)
Effect of changes in Group structure and exchange rate adjustments	(11.7)
As of December 31, 2012	2,260.3
Losses generated during the year	170.0
Losses utilised and time barred during the year	(68.4)
Effect of changes in Group structure and exchange rate adjustments	(127.8)
As of December 31, 2013	2,234.1
Ordinary tax loss carry-forwards	373.9
Expiring in less than five years	206.3
Expiring in more than five years	167.6
Indefinite tax loss carry-forwards	1,860.2
Total	2,234.1

There were no unrecognised deferred taxes in respect of temporary differences relating to investments in subsidiaries, associates and joint ventures as of December 31, 2013.

note 12 – non-current assets held for sale or for distribution and discontinued operations

Kering continued to realign its strategy in 2013. In the first half of the year, it finalised the sale of the Children and Family, OneStopPlus and Nordic Divisions of Redcats. At the Annual General Meeting of June 18, 2013, Kering's shareholders authorised the payment of an additional cash dividend of €2.25 per share (following an interim cash dividend of €1.50 paid on January 24, 2013), and an additional dividend in the form of Groupe Fnac shares at a ratio of one Groupe Fnac share for every eight Kering shares held.

The Group made a strategic decision not to sell Redcats Asia, which is now Kering's new Sourcing division (renamed KGS and presented within the "Corporate" segment). Accordingly, as of January 1, 2013, the results, assets and liabilities of Redcats Asia are no longer presented on separate lines in the Group's consolidated financial statements.

For all periods presented, assets held for sale or for distribution and discontinued operations mainly comprise Redcats, Groupe Fnac, Fnac Italy and YSL Beauty.

In accordance with IFRS 5, the Group measured these disposal groups and the related assets at the lower of their carrying amount and recoverable amount. Recoverable amount is defined as value in use or fair value less costs to sell.

For all periods presented, the net income or loss from these activities is shown separately on the face of the income statement within "Discontinued operations", and is restated in the statement of cash flows.

Assets and liabilities relating to assets held for sale are presented on separate lines in the Group's statement of financial position, without restatement for previous periods.

Assets and liabilities relating to discontinued operations are not presented on separate lines in the Group's statement of financial position.

Impact on the financial statements

The income statement and statement of cash flows for non-current assets held for sale or for distribution and discontinued operations are as follows:

<i>(in € millions)</i>	2013	2012
Revenue	3,083.3	7,077.3
Cost of sales	(1,782.5)	(4,168.5)
Gross margin	1,300.8	2,908.8
Payroll expenses	(520.0)	(1,066.6)
Other recurring operating income and expenses	(842.9)	(1,655.2)
Recurring operating income	(62.1)	187.0
Other non-recurring operating income and expenses	(708.4)	(437.0)
Operating income	(770.5)	(250.0)
Finance costs, net	(13.6)	(35.9)
Income before tax	(784.1)	(285.9)
Corporate income tax	(31.1)	(33.0)
Share in earnings of associates	0.9	1.5
Net income (loss) on disposal of discontinued operations	(7.2)	41.9
Net income	(821.5)	(275.5)
o/w attributable to owners of the parent	(819.8)	(275.5)
o/w attributable to non-controlling interests	(1.7)	

In 2013, the Fnac and Redcats groups were the main contributors to the net loss arising on "Non-current assets held for sale or for distribution and discontinued operations".

In 2013, this item mainly corresponds to the net capital loss of €256 million after the tax effect, share distribution costs and net loss for the first half of the year recognised following the distribution of Groupe Fnac shares, as well as a €562 million net expense in respect of Redcats. This amount includes Kering's €315 million recapitalisation undertaking in relation to La Redoute, as well as the

impairment losses recorded against Redcats' residual assets and the disposal gains and losses on activities sold during the period. It does not include the cost of financing the social guarantees to be granted to the employees concerned by the modernisation measures at La Redoute and Relais Colis. The total cost of this financing, which cannot as yet be reliably estimated, will lead Kering to set up a trust guaranteeing the application of the employee measures approved in a majority collective agreement with trade unions. The associated costs will be recognised in 2014.

<i>(in € millions)</i>	2013	2012
Net cash from operating activities	(154.5)	135.9
Net cash from investing activities	517.0	18.6
Net cash from financing activities	(690.0)	54.1
Impact of exchange rate variations	11.5	(1.4)
Net change in cash and cash equivalents	(316.0)	207.2
Opening cash and changes in intra-Group cash flows	(121.5)	(110.1)
Net cash from discontinued operations⁽¹⁾	(437.5)	97.1

(1) Line item in the consolidated statement of cash flows.

Cash flows related to discontinued operations result from the recapitalisation of Groupe Fnac and the collection of the sale

price for assets disposed of in the period, net of the financing provided for Redcats' operations.

The impact of assets held for sale and discontinued operations on the Group's consolidated statement of financial position was as follows:

<i>(in € millions)</i>	2013	2012
Assets classified as held for sale	722.1	3,130.5
Liabilities associated with assets classified as held for sale	906.6	2,805.5

note 13 – earnings per share

Basic earnings per share are calculated on the basis of the weighted average number of shares outstanding, after deduction of the weighted average number of shares held by consolidated companies.

Fully diluted earnings per share are based on the weighted average number of shares as defined above for the calculation of basic earnings per share, plus the weighted

average number of potentially dilutive ordinary shares. Potentially dilutive shares correspond to shares granted to employees as part of equity-settled share-based payment plans (see Note 7).

Earnings are adjusted for the theoretical interest charge, net of tax, on convertible and exchangeable instruments.

13.1. Earnings per share

Earnings per share as of December 31, 2013

(in € millions)

	Consolidated Group	Continuing operations	Discontinued operations
Net income attributable to ordinary shareholders	49.6	869.4	(819.8)
Weighted average number of ordinary shares outstanding	126,245,102	126,245,102	126,245,102
Weighted average number of treasury shares	(332,896)	(332,896)	(332,896)
Weighted average number of ordinary shares	125,912,206	125,912,206	125,912,206
Basic earnings per share (in €)	0.39	6.91	(6.52)

Net income attributable to ordinary shareholders	49.6	869.4	(819.8)
Convertible and exchangeable instruments			
Diluted net income attributable to owners of the parent	49.6	869.4	(819.8)
Weighted average number of ordinary shares	125,912,206	125,912,206	125,912,206
Potentially dilutive ordinary shares	114,760	114,760	114,760
Weighted average number of diluted ordinary shares	126,026,966	126,026,966	126,026,966
Fully diluted earnings per share (in €)	0.39	6.90	(6.51)

Earnings per share as of December 31, 2012

(in € millions)

	Consolidated Group	Continuing operations	Discontinued operations
Net income attributable to ordinary shareholders	1,048.2	1,323.7	(275.5)
Weighted average number of ordinary shares outstanding	126,174,343	126,174,343	126,174,343
Weighted average number of treasury shares	(188,871)	(188,871)	(188,871)
Weighted average number of ordinary shares	125,985,472	125,985,472	125,985,472
Basic earnings per share (in €)	8.32	10.51	(2.19)

Net income attributable to ordinary shareholders	1,048.2	1,323.7	(275.5)
Convertible and exchangeable instruments			
Diluted net income attributable to owners of the parent	1,048.2	1,323.7	(275.5)
Weighted average number of ordinary shares	125,985,472	125,985,472	125,985,472
Potentially dilutive ordinary shares	97,738	97,738	97,738
Weighted average number of diluted ordinary shares	126,083,210	126,083,210	126,083,210
Fully diluted earnings per share (in €)	8.31	10.50	(2.19)

13.2. Earnings per share from continuing operations excluding non-recurring items

Non-recurring items consist of the income statement line "Other non-recurring operating income and expenses" reported net of tax and non-controlling interests.

<i>(in € millions)</i>	2013	2012
Net income attributable to ordinary shareholders	869.4	1,323.7
Other non-recurring operating income and expenses	(442.5)	(25.2)
Income tax on other non-recurring operating income and expenses	32.0	62.3
Non-controlling interests in other non-recurring operating income and expenses	50.6	17.8
Net income excluding non-recurring items	1,229.3	1,268.8
Weighted average number of ordinary shares outstanding	126,245,102	126,174,343
Weighted average number of treasury shares	(332,896)	(188,871)
Weighted average number of ordinary shares	125,912,206	125,985,472
Basic earnings per share excluding non-recurring items (in €)	9.76	10.07
Net income excluding non-recurring items	1,229.3	1,268.8
Convertible and exchangeable instruments		
Diluted net income attributable to owners of the parent	1,229.3	1,268.8
Weighted average number of ordinary shares	125,912,206	125,985,472
Potentially dilutive ordinary shares	114,760	97,738
Weighted average number of diluted ordinary shares	126,026,966	126,083,210
Fully diluted earnings per share (in €)	9.75	10.06

note 14 – other comprehensive income

The components of other comprehensive income include:

- gains and losses arising from translating the financial statements of foreign operations;
- the effective portion of gains and losses on cash flow hedging instruments;
- gains and losses on remeasuring available-for-sale financial assets and other financial instruments;
- components relating to the measurement of employee benefit obligations: unrecognised surplus of pension plan assets and actuarial gains and losses on defined benefit plans.

The amounts of these components before and after the related tax effects, together with reclassification adjustments taken to income, are shown in the table below:

<i>(in € millions)</i>	Gross	Income tax	Net
Foreign exchange gains and losses	(19.5)		(19.5)
Cash flow hedges	84.7	12.5	97.2
– change in fair value	44.7		
– gains and losses reclassified to income	40.0		
Available-for-sale assets	(0.1)		(0.1)
– change in fair value	(0.1)		
– gains and losses reclassified to income			
Unrecognised surplus of pension plan assets	(4.0)		(4.0)
Actuarial gains and losses	(20.4)	4.3	(16.1)
Share in other comprehensive income (expense) of associates	8.7		8.7
Other comprehensive income as of December 31, 2012	49.4	16.8	66.2

<i>(in € millions)</i>	Gross	Income tax	Net
Foreign exchange gains and losses	(111.4)		(111.4)
Cash flow hedges	34.0	(4.3)	29.7
– change in fair value	129.2		
– gains and losses reclassified to income	(95.2)		
Available-for-sale assets	4.7	(1.6)	3.1
– change in fair value	4.7		
– gains and losses reclassified to income			
Unrecognised surplus of pension plan assets	7.1		7.1
Actuarial gains and losses	2.7	(0.9)	1.8
Share in other comprehensive income (expense) of associates			
Other comprehensive income as of December 31, 2013	(62.9)	(6.8)	(69.7)

A negative amount on the "Gains and losses reclassified to income" line item corresponds to a gain recognised in the income statement.

Gains and losses on cash flow hedging instruments reclassified to income are recognised under gross margin.

Gains and losses on available-for-sale financial assets reclassified to income are recognised under net finance costs.

note 15 – goodwill

<i>(in € millions)</i>	Gross	Impairment losses	Net
Goodwill as of January 1, 2012	4,302.9	(88.0)	4,214.9
Acquisitions	117.6		117.6
Non-current assets held for sale or for distribution and discontinued operations	(433.2)	29.5	(403.7)
Impairment losses			
Put options granted to non-controlling shareholders	(47.0)		(47.0)
Translation adjustments	(10.8)		(10.8)
Other movements	(0.3)	0.3	
Goodwill as of December 31, 2012	3,929.2	(58.2)	3,871.0
Acquisitions	172.2		172.2
Non-current assets held for sale or for distribution and discontinued operations			
Impairment losses (see Note 18)		(280.1)	(280.1)
Put options granted to non-controlling shareholders	38.4		38.4
Translation adjustments	(30.9)	1.0	(29.9)
Other movements	(1.5)		(1.5)
Goodwill as of December 31, 2013	4,107.4	(337.3)	3,770.1

All goodwill recognised in 2013 was allocated to CGUs at year-end.

The breakdown of the net amount of goodwill by activity and brand is as follows:

<i>(in € millions)</i>	2013	2012
Luxury Division	2,523.4	2,319.5
Sport & Lifestyle Division	1,246.7	1,551.5
Total	3,770.1	3,871.0

note 16 – brands and other intangible assets

(in € millions)

	Brands	Other intangible assets	Total
Gross amount as of December 31, 2012	10,341.3	611.3	10,952.6
Changes in Group structure	230.0	9.6	239.6
Acquisitions	0.4	82.6	83.0
Other disposals		(11.0)	(11.0)
Translation adjustments	(16.6)	(6.4)	(23.0)
Other movements	0.9	(26.4)	(25.5)
Gross amount as of December 31, 2013	10,556.0	659.7	11,215.7
Accumulated amortisation and impairment as of December 31, 2012	(85.3)	(377.4)	(462.7)
Changes in Group structure		(6.3)	(6.3)
Other disposals		9.7	9.7
Amortisation		(83.2)	(83.2)
Impairment losses (see Note 18)			
Translation adjustments		2.6	2.6
Other movements	(0.7)	27.7	27.0
Accumulated amortisation and impairment as of December 31, 2013	(86.0)	(426.9)	(512.9)
Carrying amount as of December 31, 2012	10,256.0	233.9	10,489.9
Changes in Group structure	230.0	3.3	233.3
Acquisitions	0.4	82.6	83.0
Other disposals		(1.3)	(1.3)
Amortisation		(83.2)	(83.2)
Impairment losses (see Note 18)			
Translation adjustments	(16.6)	(3.8)	(20.4)
Other movements	0.2	1.3	1.5
Carrying amount as of December 31, 2013	10,470.0	232.8	10,702.8

(in € millions)

	Brands	Other intangible assets	Total
Gross amount as of December 31, 2011	10,083.0	836.0	10,919.0
Changes in Group structure	264.8	30.3	295.1
Acquisitions		67.5	67.5
Assets classified as held for sale or for distribution to owners and discontinued operations		(311.3)	(311.3)
Other disposals		(17.8)	(17.8)
Translation adjustments	(6.5)	(0.6)	(7.1)
Other movements		7.2	7.2
Gross amount as of December 31, 2012	10,341.3	611.3	10,952.6
Accumulated amortisation and impairment as of December 31, 2011	(35.3)	(552.6)	(587.9)
Changes in Group structure		(24.0)	(24.0)
Assets classified as held for sale or for distribution to owners and discontinued operations		237.2	237.2
Other disposals		15.9	15.9
Amortisation		(49.5)	(49.5)
Impairment losses	(50.0)		(50.0)
Translation adjustments			
Other movements		(4.4)	(4.4)
Accumulated amortisation and impairment as of December 31, 2012	(85.3)	(377.4)	(462.7)
Carrying amount as of December 31, 2011	10,047.7	283.4	10,331.1
Changes in Group structure	264.8	6.3	271.1
Acquisitions		67.5	67.5
Assets classified as held for sale or for distribution to owners and discontinued operations		(74.1)	(74.1)
Other disposals		(1.9)	(1.9)
Amortisation		(49.5)	(49.5)
Impairment losses	(50.0)		(50.0)
Translation adjustments	(6.5)	(0.6)	(7.1)
Other movements		2.8	2.8
Carrying amount as of December 31, 2012	10,256.0	233.9	10,489.9

The breakdown of net brand value by activity is as follows:

<i>(in € millions)</i>	2013	2012
Luxury Division	6,629.0	6,399.6
Sport & Lifestyle Division	3,841.0	3,856.4
Total	10,470.0	10,256.0

note 17 – property, plant and equipment

(in € millions)

	Land and buildings	Plant and equipment	Other PP&E	Total
Gross amount as of December 31, 2012	752.8	1,700.7	275.3	2,728.8
Changes in Group structure	17.1	41.0	(0.2)	57.9
Acquisitions	207.7	325.8	50.9	584.4
Assets classified as held for sale to owners and discontinued operations		0.7	8.3	9.0
Disposals		(97.3)	(19.7)	(117.0)
Translation adjustments	(27.0)	(79.2)	(14.3)	(120.5)
Other movements	16.6	51.4	(52.0)	16.0
Gross amount as of December 31, 2013	967.2	1,943.1	248.3	3,158.6
Accumulated depreciation and impairment as of December 31, 2012	(188.1)	(1,027.6)	(136.8)	(1,352.5)
Changes in Group structure	(7.2)	(22.8)		(30.0)
Assets classified as held for sale to owners and discontinued operations		0.2		0.2
Disposals		89.5	19.9	109.4
Depreciation	(26.1)	(208.5)	(21.1)	(255.7)
Impairment losses (see Note 18)				
Translation adjustments	4.2	46.5	7.2	57.9
Other movements	(0.3)	(14.1)	3.4	(11.0)
Accumulated depreciation and impairment as of December 31, 2013	(217.5)	(1,136.8)	(127.4)	(1,481.7)
Carrying amount as of December 31, 2012	564.7	673.1	138.5	1,376.3
Changes in Group structure	9.9	18.2	(0.2)	27.9
Acquisitions	207.7	325.8	50.9	584.4
Assets classified as held for sale to owners and discontinued operations		0.9	8.3	9.2
Disposals		(7.8)	0.2	(7.6)
Depreciation	(26.1)	(208.5)	(21.1)	(255.7)
Impairment losses (see Note 18)				
Translation adjustments	(22.8)	(32.7)	(7.1)	(62.6)
Other movements	16.3	37.3	(48.6)	5.0
Carrying amount as of December 31, 2013	749.7	806.3	120.9	1,676.9
o/w assets owned outright	691.1	806.3	120.2	1,617.6
o/w assets held under finance leases	58.6		0.7	59.3

<i>(in € millions)</i>	Land and buildings	Plant and equipment	Other PP&E	Total
Gross amount as of December 31, 2011	680.4	2,193.8	283.6	3,157.8
Changes in Group structure	59.8	47.1	0.2	107.1
Acquisitions	5.6	269.9	110.8	386.3
Assets classified as held for sale or for distribution to owners and discontinued operations		(755.9)	(52.0)	(807.9)
Disposals	2.5	(78.0)	(26.2)	(101.7)
Translation adjustments	(1.5)	(26.6)	(2.4)	(30.5)
Other movements	6.0	50.4	(38.7)	17.7
Gross amount as of December 31, 2012	752.8	1,700.7	275.3	2,728.8
Accumulated depreciation and impairment as of December 31, 2011	(160.5)	(1,473.7)	(151.6)	(1,785.8)
Changes in Group structure	(5.4)	(36.3)		(41.7)
Assets classified as held for sale or for distribution to owners and discontinued operations		594.8	16.5	611.3
Disposals	0.2	63.7	24.5	88.4
Depreciation	(21.7)	(183.0)	(28.7)	(233.4)
Impairment losses (see Note 18)				
Translation adjustments	0.7	16.0	1.5	18.2
Other movements	(1.4)	(9.1)	1.0	(9.5)
Accumulated depreciation and impairment as of December 31, 2012	(188.1)	(1,027.6)	(136.8)	(1,352.5)
Carrying amount as of December 31, 2011	519.9	720.1	132.0	1,372.0
Changes in Group structure	54.4	10.8	0.2	65.4
Acquisitions	5.6	269.9	110.8	386.3
Assets classified as held for sale or for distribution to owners and discontinued operations		(161.1)	(35.5)	(196.6)
Disposals	2.7	(14.3)	(1.7)	(13.3)
Depreciation	(21.7)	(183.0)	(28.7)	(233.4)
Impairment losses (see Note 18)				
Translation adjustments	(0.8)	(10.6)	(0.9)	(12.3)
Other movements	4.6	41.3	(37.7)	8.2
Carrying amount as of December 31, 2012	564.7	673.1	138.5	1,376.3
o/w assets owned outright	514.4	673.1	136.4	1,323.9
o/w assets held under finance leases	50.3		2.1	52.4

Charges to depreciation are recognised under "Cost of sales" and "Other recurring operating income and expenses" in the income statement.

note 18 – impairment tests on non-financial assets

The principles governing the impairment of non-financial assets are set out in Note 2.10.

The main items of goodwill, brands and other intangible assets are broken down by activity in Notes 15 and 16.

18.1. Assumptions underlying impairment tests

The pre-tax discount and perpetual growth rates applied to expected cash flows in connection with the economic assumptions and forecast operating conditions retained by the Group are as follows:

	Discount rate		Perpetual growth rate	
	2013	2012	2013	2012
Luxury Division	8.9%-10.4%	9.5%-12.5%	3.5%	3.5%
Sport & Lifestyle Division	10.1%-12.2%	10.9%-13.2%	2.5%	2.5%

The growth rates are appropriate in view of the country mix (the Group now operates in regions whose markets are enjoying faster-paced growth than in Europe), the rise in the cost of raw materials and inflation.

As discussed in Note 2.10, the business plans for certain CGUs are drawn up over longer periods of 10 years. These CGUs currently being repositioned are Boucheron, Sergio Rossi, Volcom, Brioni and Sowind.

18.2. Impairment tests on major items

In the case of the Gucci CGU, which accounts for a significant portion of the goodwill in the Luxury Division, the CGU's recoverable amount was determined on the basis of its value in use. Value in use is determined with respect to projected future cash flows, taking into account the time value and specific risks associated with the CGU. Future cash flow projections were prepared during the second half of the year on the basis of budgets and medium-term plans with a four-year timescale. To calculate value in use, a terminal value equal to the perpetual capitalisation of a normative annual cash flow is added to the estimated future cash flows.

The growth rate used to extrapolate projected cash flows to perpetuity is 3.5%.

The pre-tax discount rate applied to projected cash flows is 8.9%.

In the case of the Gucci brand, which is the highest-valued brand in the Luxury Division, the value based on future royalty revenue receivable on the assumption that the brand will be operated under licence by a third party was calculated using a royalty rate of 15.0%, a 3.5% perpetual growth rate and a 9.2% pre-tax discount rate.

In the case of the PUMA CGU, which accounts for a significant portion of the goodwill in the Sport & Lifestyle Division, the CGU's recoverable amount was determined on the basis of its value in use. Value in use is determined with respect to projected future cash flows, taking into account the time value and specific risks associated with the CGU. Future cash flow projections were prepared

during the second half of the year on the basis of budgets and medium-term plans with a four-year timescale. To calculate value in use, a terminal value equal to the perpetual capitalisation of a normative annual cash flow is added to the estimated future cash flows.

The growth rate used to extrapolate projected cash flows to perpetuity is 2.5%.

The pre-tax discount rate applied to projected cash flows is 10.2%.

For information purposes, PUMA's market capitalisation was €3.5 billion as of December 31, 2013. This valuation does not represent a relevant indication of impairment given the limited free float and resulting lack of liquidity of the PUMA share. As of December 31, 2013, Kering holds an 85.81% controlling interest in PUMA.

In the case of the PUMA brand, which is the highest-valued brand in the Sport & Lifestyle Division, the value based on future royalty revenue receivable on the assumption that the brand will be operated under licence by a third party was calculated using a royalty rate of 8.0%, a 2.5% perpetual growth rate and a 10.1% pre-tax discount rate.

The impairment tests carried out by the Group in 2013 gave rise to the recognition of an impairment loss against PUMA goodwill amounting to €280.1 million (see Note 18.3). Besides the PUMA goodwill impairment loss, the Group considers that, based on events that are foreseeable within reason, any changes impacting the key assumptions described below would not give rise to the recognition of impairment against other CGUs.

The sensitivity to changes in key assumptions is shown below:

(in € millions)

	Value of intangible net assets concerned at Dec. 31, 2013	10 basis point increase in post-tax discount rate	Impairment loss due to:	
			10 basis point decrease in perpetual growth rate	10 basis point decrease in normative cash flows
Luxury CGU	9,354	-	-	-
Sport & Lifestyle CGU	5,102	87	71	40
Gucci brand	4,800	-	-	-
PUMA brand	3,500	-	-	-

Sensitivity to a rise of 10 basis points in the post-tax discount rate and a decrease of 10 basis points in the perpetual growth rate and in the normative cash flows concerns the PUMA CGU only.

18.3. Impairment losses recognised during the period

The impairment tests carried out by the Group in 2013 led to the recognition of an impairment loss against PUMA goodwill totalling €280.1 million.

This loss reflects the difference between the carrying amount of the PUMA CGU and its recoverable amount and is recognised in the income statement under "Other non-recurring operating income and expenses" (see Note 9).

The impairment tests carried out by the Group in 2012 led to the recognition of an impairment loss on the brand Sergio Rossi totalling €50.0 million. Historic goodwill was written down in full in 2010.

note 19 – investments in associates

(in € millions)

	2013	2012
Investments in associates	17.3	25.8

As of December 31, 2013, investments in associates mainly comprised the investments in Wilderness further to the sale during second-half 2012 of the entire residual interest in Cfaio (i.e., 42%).

The market value of the Group's interest in Wilderness amounts to €17.3 million. Wilderness' consolidated financial statements are available on its website, at <http://www.wilderness-holdings.com>.

note 20 – non-current financial assets

Non-current financial assets break down as follows:

(in € millions)

	2013	2012
Non-consolidated investments	74.7	53.9
Derivative financial instruments (see Note 29)	0.4	12.4
Available-for-sale financial assets	74.7	10.3
Loans and receivables due from non-consolidated investments	21.6	34.5
Deposits and guarantees	116.1	110.5
Other	29.3	52.1
Total	316.8	273.7

note 21 – inventories

<i>(in € millions)</i>	2013	2012
Commercial inventories	1,996.5	1,940.6
Industrial inventories	377.7	348.2
Gross amount	2,374.2	2,288.8
Allowances	(568.7)	(552.3)
Carrying amount	1,805.5	1,736.5

Movements in allowances	2013
As of January 1	(552.3)
Additions	(39.3)
Reversals	7.3
Changes in Group structure	(2.4)
Assets classified as held for sale to owners and discontinued operations	
Translation adjustments	18.0
As of December 31	(568.7)

The carrying amount of inventories pledged to secure liabilities was €0.7 million as of December 31, 2013 (€103.0 million as of December 31, 2012). The amount of inventories recognised during the period under "Cost of sales" is €127.8 million.

note 22 – trade receivables

<i>(in € millions)</i>	2013	2012
Trade receivables	1,036.4	1,083.2
Allowances	(86.5)	(97.9)
Carrying amount	949.9	985.3

Movements in allowances	2013
As of January 1	(97.9)
Net reversals	10.3
Changes in Group structure	
Assets classified as held for sale to owners and discontinued operations	(0.5)
Translation adjustments	1.6
As of December 31	(86.5)

Provisions are calculated on the basis of the probability of recovering the receivables concerned. Trade receivables break down by age as follows:

<i>(in € millions)</i>	2013	2012
Not past due	787.9	801.4
Less than one month past due	124.4	132.0
One to six months past due	54.6	65.8
More than six months past due	69.5	84.0
Allowance for doubtful receivables	(86.5)	(97.9)
Carrying amount	949.9	985.3

No trade receivables were pledged to secure liabilities as of December 31, 2013 (€54.1 million pledged as of December 31, 2012).

note 23 – other current assets and liabilities

(in € millions)	2012	Working capital cash flows	Other cash flows	Changes in Group structure	Translation adjustments and other	2013
Inventories	1,736.5	92.9		85.4	(109.3)	1,805.5
Trade receivables	985.3	6.8		24.3	(66.5)	949.9
Other current financial assets and liabilities	(120.9)		(9.1)		24.5	(105.5)
Current tax receivables/payables	(242.7)		68.0	(11.9)	(4.4)	(191.0)
Trade payables	(684.5)	(69.3)		(20.6)	8.3	(766.1)
Other	(905.7)	44.1	4.9	(7.2)	15.0	(848.9)
Other current assets and liabilities	768.0	74.5	63.8	70.0	(132.4)	843.9

Other current financial assets and liabilities primarily comprise derivative financial instruments (see Note 29).

Given the nature of its activities, the Group's exposure to customer default would not have a material impact on its business, financial position or net assets.

note 24 – equity

As of December 31, 2013, the share capital amounted to €504,907,044, comprising 126,226,761 fully paid-up shares with a par value of €4 each (126,116,702 shares with a par value of €4 each as of December 31, 2012).

24.1. Kering treasury shares and options on Kering shares

In 2013, treasury shares increased by 35,508 as a result of the following transactions:

- the acquisition of 1,585,556 shares under the liquidity agreement;
- the disposal of 1,585,556 shares under the liquidity agreement;
- the acquisition of 106,000 Kering shares to be allotted to employees under 2009 and 2011 free share plans;
- the allotment of 102,491 shares to employees under the May 2009 and May 2011 free share plans maturing in May 2013 and 450 shares under the 2008 and 2009 free share plans;
- the acquisition of 130,000 Kering shares to be allotted to employees under the 2006 and 2007 stock purchase option plans;
- the disposal of 103,037 shares to employees under the 2006 and 2007 stock purchase option plans;
- the acquisition of 720,000 shares as part of an external growth transaction;

- the tender of 714,514 shares as part of an external growth transaction and the allocation of the remaining 5,486 shares acquired to be allotted under stock purchase option plans.

As a result of the various stock subscription options exercised in 2013, the share capital increased by 110,059 shares.

As of December 31, 2013, Kering's share capital therefore comprises 126,226,761 shares with a par value of €4 each.

On May 26, 2004, Kering signed an agreement with a financial broker in order to improve the liquidity of the Group's shares and ensure share price stability. This agreement complies with the Professional Code of Conduct drawn up by the French Association of Financial and Investment Firms (*Association française des marchés financiers* – AMAFI) and approved by the French financial markets authority (*Autorité des Marchés Financiers* – AMF). The agreement was initially endowed with €40 million, half of which was provided in cash and half in Kering shares. An additional €20 million in cash was allocated to the agreement on September 3, 2004, and a further €30 million on December 18, 2007.

As of December 31, 2013, Kering did not hold any treasury shares in connection with the liquidity agreement (no treasury shares were held under the agreement as of December 31, 2012). Outside the scope of the liquidity agreement, Kering held 60,581 treasury shares (25,073 treasury shares held as of December 31, 2012).

24.2. Appropriation of 2013 net income

At its February 20, 2014 meeting, the Board decided that at the Annual General Meeting to be held to approve the financial statements for the year ended December 31, 2013 it will ask shareholders to approve a cash payment for the 2013 dividend, corresponding to €3.75 per share.

An interim dividend in the amount of €1.50 per share was paid on January 24, 2014 pursuant to a decision by the Board of Directors on December 20, 2013.

If this dividend is approved, the total dividend cash payout – to be made in 2014 – would amount to €473.4 million.

The cash dividend paid in respect of 2012 was €3.75 per share and the dividend paid in kind was in the form of Groupe Fnac shares at a ratio of one Groupe Fnac share for every eight Kering shares held (€313.9 million including Kering treasury shares).

note 25 – employee benefits

In accordance with the laws and practices in each country, Group employees receive long-term or post-employment benefits in addition to their short-term remuneration. These additional benefits take the form of defined contribution or defined benefit plans.

Under defined contribution plans, the Group is not obliged to make any additional payments beyond contributions already made. Contributions to these plans are expensed as incurred.

An actuarial valuation of defined benefit plans is carried out by independent experts. These benefits primarily concern retirement termination payments and long-service bonuses in France, final salary type supplementary pension plans in the United Kingdom, statutory dismissal compensation in Italy (TFR), and mandatory supplementary pension plans (LPP) in Switzerland.

- **retirement termination payments and long-service bonuses – France**

In France, retirement termination payments are fixed and paid by the company to the employee on retirement. The amount paid depends on the years of service on retirement and is defined in the relevant collective bargaining agreements.

Payments under retirement plans do not confer any vested entitlement to employees until they reach retirement age (unvested rights).

Termination payments are not related to other statutory retirement benefits such as pensions paid by social security bodies or top-up pension funds such as ARRCO and AGIRC in France.

Long-service bonuses are not compulsory in France (there is no legal option to pay such awards to employees), but hold a symbolic value. Nevertheless, Kering's French entities choose to pay long-service bonuses after 20, 30, 35 and 40 years of service.

- **final salary type supplementary pension plans – UK**

In the UK, the Group operates two pension plans: a standard plan and a special plan for managerial-grade employees (*cadres*).

These plans are subject to the minimum funding requirement introduced in the UK by the Pensions Act 2004. The value of the plans is assessed at least once every three years to determine if the minimum funding requirement is satisfied.

The plans are managed by a Board of Trustees appointed by plan participants. The Board is responsible for obtaining plan valuations, fixing the desired funding threshold and the contributions payable by the Company, managing benefit payments, investing plan assets, and determining the plan's investment strategy after consulting with the Company.

- **statutory dismissal compensation (TFR) – Italy**

The TFR (*Trattamento di Fine Rapporto*) plans in Italy were created by Act no. 297 adopted on May 29, 1982.

They offer a deferred benefit and are applicable to all workers in the private sector.

Payments are due under these plans on termination of employment. The benefits paid are the same regardless of the reason for departure (resignation, termination at the employer's initiative, death, incapacity, retirement).

Since 2007, companies with at least 50 employees (i.e., most Kering group entities in Italy) are required to transfer their TFR funding to an external fund manager.

- **mandatory supplementary pension plans (LPP) – Switzerland**

In Switzerland, pension plans are defined contribution plans which guarantee a minimum yield and provide for a fixed salary conversion rate on retirement.

The pension plan operated by each entity in Switzerland offers benefits over and above those stipulated in the LPP/BVG pension law, which contains a minimum requirement for Swiss companies to sponsor pension plans.

Most of the Group's pension plans in Switzerland are operated as separate legal entities. The Board of Trustees of the foundation, comprising an equal number of employer and employee representatives, is responsible for administering the plan. The foundation bears any investment and longevity risks.

Other plans operated by the Group's Swiss entities are affiliated to two different plans, or collective foundations. The pensions committee is responsible for supervising

the plan, and comprises an equal number of employer and employee representatives. The foundation bears any investment and longevity risks and insures some of its risk with an insurance company.

The large majority of plans operated by Kering group companies in Switzerland are currently over-funded compared to local practices and no additional funding is therefore required.

25.1. Changes during the year

Changes in the present value of the defined benefit obligation and fair value of plan assets in the year are shown below:

(in € millions)

	2013					
	Present value of obligation	Fair value of plan assets	Financial position	Change	Provision	Other comprehensive income
						Expense recognised
As of January 1	439.6	223.7	215.9	15.6	231.5	
Current service cost	9.3		9.3		9.3	(9.3)
Curtailments and settlements	(1.0)	(1.0)				1.0
Interest cost	5.4		5.4		5.4	(5.4)
Interest income on plan assets		2.3	(2.3)		(2.3)	2.3
Past service cost	(0.7)		(0.7)	0.7		
Actuarial gains and losses						
<i>Impact of changes in demographic assumptions</i>	3.8		3.8		3.8	(3.8)
<i>Impact of changes in financial assumptions</i>	(3.3)		(3.3)		(3.3)	3.3
<i>Impact of experience adjustments</i>	(4.8)		(4.8)		(4.8)	4.8
<i>Return on plan assets (excluding interest income)</i>		2.9	(2.9)		(2.9)	2.9
<i>Effect of asset ceiling</i>				(7.1)	(7.1)	7.1
Benefits paid	(9.8)	(4.3)	(5.5)		(5.5)	
Contributions paid by beneficiaries	3.4	3.4				
Contributions paid by employer		5.3	(5.3)		(5.3)	
Changes in Group structure	(115.6)	(15.6)	(100.0)	0.1	(99.9)	
Non-current assets held for sale or for distribution and discontinued operations	6.0	0.4	5.6		5.6	(4.5)
Insurance premium for risks benefits	(0.8)	(0.8)				0.8
Administrative expense		(0.3)	0.3		0.3	(0.3)
Exchange differences	(2.6)	(1.3)	(1.3)		(1.3)	
As of December 31	328.9	214.7	114.2	9.3	123.5	9.8
<i>o/w continuing operations</i>					100	(10.9)
<i>o/w discontinued operations</i>					23.5	(3.0)

(in € millions)

2012

	Present value of obligation	Fair value of plan assets	Financial position	Change	Provision	Other comprehensive income	Expense recognised
As of January 1	385.7	202.7	183.0	12.0	195.0		
Current service cost	14.5		14.5		14.5		(14.5)
Curtailments and settlements	(23.2)	(15.4)	(7.8)		(7.8)		6.9
Interest cost	16.2		16.2		16.2		(16.3)
Interest income on plan assets		8.9	(8.9)		(8.9)		8.9
Past service cost				(0.7)	(0.7)		0.9
Actuarial gains and losses							
<i>Impact of changes in demographic assumptions</i>	0.7		0.7		0.7	(0.6)	(0.1)
<i>Impact of changes in financial assumptions</i>	17.6		17.6		17.6	(17.5)	(0.1)
<i>Impact of experience adjustments</i>	12.3		12.3		12.3	(12.1)	(0.2)
<i>Return on plan assets (excluding interest income)</i>		9.8	(9.8)		(9.8)	9.8	
<i>Effect of asset ceiling</i>				4.0	4.0	(4.0)	
Benefits paid	(22.2)	(17.4)	(4.8)		(4.8)		
Contributions paid by beneficiaries	4.3	4.3					
Contributions paid by employer		12.5	(12.5)		(12.5)		
Changes in Group structure	30.2	15.2	15.0	(0.1)	14.9		
Non-current assets held for sale or for distribution and discontinued operations	(1.1)	(0.8)	(0.3)	0.1	(0.2)		
Reclassifications	(0.4)		(0.4)	0.3	(0.1)		
Exchange differences	5.0	3.9	1.1		1.1		
As of December 31	439.6	223.7	215.9	15.6	231.5	(24.4)	(14.5)
<i>o/w continuing operations</i>					104.8		(10.5)
<i>o/w discontinued operations</i>					126.8		(4.0)

As of December 31, 2013, the present value of the obligation amounted to €328.9 million, breaking down as:

- €76.5 million in respect of wholly unfunded plans (€115.2 million as of end-2012);

- €252.4 million in respect of fully or partially funded plans (€324.4 million as of end-2012).

The breakdown in the present value of the obligation by type of plan and country as of December 31, 2013 was as follows:

<i>(in € millions)</i>	2013	2012
Retirement gratuities – France	43.1	96.1
Long-service awards – France	0.3	2.5
Statutory termination indemnities (TFR) – Italy	31.3	29.9
Supplementary plans – United Kingdom	141.9	132.7
Supplementary plans (LPP) – Switzerland	77.6	91.7
Other	34.7	86.7
Present value of obligation as of December 31	328.9	439.6

The Group expects to pay an estimated €8.5 million in contributions in 2014.

<i>(in € millions)</i>	Total 2013	France	Switzerland	Italy	UK	Other
Employer contributions in respect of 2014	8.5	0.5	3.7	1.6	0.7	2.0
Benefits						
2014	11.8	0.5	3.3	1.6	4.9	1.5
2015	11.8	0.9	2.9	1.5	5.3	1.2
2016	12.4	1.8	2.8	1.4	5.2	1.2
2017	13.4	2.2	3	1.5	5.4	1.3
2018	14.8	2.7	3	1.5	6.2	1.4
2019/2023	81.6	19.7	12.4	9.4	33.1	7.0

Funded defined benefit plan assets break down as follows :

- debt instruments account for 51.2%, or €109.8 million (57.8%, or €129.4 million at end-2012);
- equity instruments account for 26.0%, or €55.9 million (22.7%, or €50.9 million at end-2012);
- insurance policies account for 6.1%, or €13.0 million, and investment funds 7.3%, or €15.5 million (15% of the total fair value of plan assets, or €33.5 million, at end-2012);
- real estate accounts for 4.8%, or €10.4 million;
- other assets account for 4.6%, or €10.3 million (4.5%, or €9.9 million at end-2012).

In accordance with the option provided under IAS 19 as revised in December 2004 and the obligation set out in IAS 19R effective as of January 1, 2013, the Group recognises actuarial gains and losses on defined benefit plans in other comprehensive income for the period.

In 2013, actuarial losses were recognised for a total of €2.7 million (see Note 14).

Cumulative actuarial gains and losses recognised in other comprehensive income since January 1, 2004 amounted to €102.9 million as of December 31, 2013.

25.2. Actuarial assumptions

The main actuarial assumptions used to estimate the Group's obligations are as follows:

	France		Switzerland		Italy		UK	
	2013	2012	2013	2012	2013	2012	2013	2012
Average maturity of plans	11.1	11.1	18.3	18.3	14.6	14.6	15.3	15.3
Discount rate	3.25%	3.50%	2.30%	2.00%	3.25%	3.50%	4.08%	4.35%
Expected rate of increase in salaries	2.90%	2.95%	1.90%	1.85%	3.00%	2.00%	4.30% ⁽¹⁾	4.00% ⁽¹⁾
Inflation rate	2.00%	2.00%	0.60%	0.60%	2.00%	2.00%	3.20%	3.00%

⁽¹⁾ Only applicable to current employees.

Based on the actuarial assumptions in the table above, the sensitivity tests carried out show that the impact of a 50 basis-point increase or decrease in the discount rate would not be material and would represent less than 0.2% of consolidated equity.

The Group's discount rate is determined by reference to the yield on corporate bonds rated AA with a maturity similar to the plans in question.

note 26 – provisions

(in € millions)	2012	Charge	Reversal (utilised provision)	Reversal (surplus provision)	Translation adjustments	Other	2013
Provisions for restructuring costs							
Provisions for claims and litigation	17.4	2.1	(5.6)	(1.3)	(0.1)	1.9	14.4
Other non-current provisions	74.9	4.3	(2.7)	(3.1)	(1.5)	26.9	98.8
Other non-current provisions	92.3	6.4	(8.3)	(4.4)	(1.6)	28.8	113.2
Provisions for restructuring costs	95.2	16.6	(59.7)	(8.9)	(1.9)	(7.6)	33.7
Provisions for claims and litigation	36.0	20.9	(3.0)	0.1	(0.2)	2.4	56.2
Other current provisions	36.5	39.8	(14.6)	(6.9)	(0.4)	8.4	62.8
Current provisions	167.7	77.3	(77.3)	(15.7)	(2.5)	3.2	152.7
Total	260.0	83.7	(85.6)	(20.1)	(4.1)	32.0	265.9
Impact on income	(163.4)	(83.7)		20.1			(63.6)
– on recurring operating income	(7.8)	(19.8)		4.4			(15.4)
– on other non-recurring operating income and expenses	(135.5)	(60.3)		15.7			(44.6)
– on net finance costs							
– on income taxes							
– on income (loss) from discontinued operations	(20.1)	(3.6)					(3.6)

Provisions for claims and litigation mainly relate to claims brought by third parties and litigation with tax authorities in various countries. Provisions for restructuring costs chiefly reflect additions recognised and write-backs utilised during the year in connection with PUMA's

Transformation Programme. Other provisions chiefly cover the impact of restructuring measures implemented at PUMA as part of the new management's strategy (see Note 9) and risks relating to vendor warranties (see Note 33.1).

note 27 – cash and cash equivalents

27.1. Breakdown by category

Cash and cash equivalents break down as follows:

<i>(in € millions)</i>	2013	2012
Cash	1,161.6	1,232.5
Cash equivalents	257.6	848.5
Total	1,419.2	2,081.0

As of December 31, 2013, cash equivalents include UCITS, certificates of deposit and term deposits with a maturity of less than three months.

The items classified by the Group as cash and cash equivalents strictly comply with the AMF's position published in 2008 and updated in 2011. In particular,

cash investments are reviewed on a regular basis in accordance with Group procedures and in strict compliance with the eligibility criteria set out in IAS 7 and the AMF's recommendations. As of December 31, 2013, no reclassifications were made as a result of these reviews.

27.2. Breakdown by currency

<i>(in € millions)</i>	2013	%	2012	%
EUR	868.4	61.2%	1,495.7	71.9%
USD	165.9	11.7%	180.7	8.7%
HKD	52.4	3.7%	42.9	2.0%
JPY	37.2	2.6%	27.5	1.3%
CHF	35.8	2.5%	38.4	1.9%
CNY	35.2	2.5%	44.4	2.1%
GBP	32.0	2.3%	45.7	2.2%
Other currencies	192.3	13.5%	205.7	9.9%
Total	1,419.2		2,081.0	

note 28 – borrowings

28.1. Breakdown of borrowings by maturity

(in € millions)	2013	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond
Non-current borrowings	3,132.4		814.7	61.0	359.6	504.6	1,392.5
Bonds	2,589.6		750.6		349.0	497.0	993.0
Confirmed lines of credit							
Other bank borrowings	152.1		58.0	57.0	6.6	3.7	26.8
Obligations under finance leases	67.0		4.0	4.0	4.0	3.9	51.1
Other borrowings	323.7		2.1				321.6
Current borrowings	1,788.8	1,788.8					
Bonds	700.9	700.9					
Confirmed lines of credit							
Drawdowns on unconfirmed lines of credit	152.8	152.8					
Other bank borrowings	302.1	302.1					
Obligations under finance leases	4.1	4.1					
Bank overdrafts	181.6	181.6					
Commercial paper	358.0	358.0					
Other borrowings	89.3	89.3					
Total	4,921.2	1,788.8	814.7	61.0	359.6	504.6	1,392.5
%		36.3%	16.6%	1.2%	7.3%	10.3%	28.3%

(in € millions)	2012	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond
Non-current borrowings	2,988.9		1,003.6	822.1	25.5	360.3	777.4
Bonds	2,298.9		704.2	751.3		348.8	494.6
Confirmed lines of credit							
Other bank borrowings	419.1		294.7	64.3	21.6	7.6	30.9
Obligations under finance leases	58.6		4.0	3.9	3.9	3.9	42.9
Other borrowings	212.3		0.7	2.6			209.0
Current borrowings	1,864.9	1,864.9					
Bonds	749.4	749.4					
Confirmed lines of credit							
Drawdowns on unconfirmed lines of credit	295.2	295.2					
Other bank borrowings	147.4	147.4					
Obligations under finance leases	4.1	4.1					
Bank overdrafts	105.9	105.9					
Commercial paper	449.0	449.0					
Other borrowings	113.9	113.9					
Total	4,853.8	1,864.9	1,003.6	822.1	25.5	360.3	777.4
%		38.4%	20.7%	16.9%	0.6%	7.4%	16.0%

All gross borrowings as of December 31, 2013 are recognised at amortised cost based on an effective interest rate determined after taking into account any identified issue costs and redemption or issue premiums relating to each liability. However, the May 2008 bond issues indexed to changes in the Kering share price were recognised at fair value through income.

As of December 31, 2013, a fair value adjustment of €1.4 million (€4.3 million as of December 31, 2012) was recognised in respect of borrowings – mainly bond issues – partially or fully hedged in a fair value hedging relationship.

Bond issues represented 66.9% of gross borrowings as of December 31, 2013 and 62.8% as of end-2012.

Borrowings with a maturity of more than one year represented 63.7% of total gross borrowings as of December 31, 2013 and 61.6% as of December 31, 2012.

The total amount of confirmed lines of credit was €4,148.0 million at the end of the reporting period, including €22.1 million available in the form of short-term loans.

Short-term drawdowns on facilities backed by confirmed lines of credit maturing in more than one year are included in non-current borrowings.

Accrued interest is recorded in "Other borrowings".

The financing of Redcats customer loans contributed €51.4 million to gross borrowings as of December 31, 2013.

28.2. Breakdown by repayment currency

(in € millions)	2013	Non-current borrowings	Current borrowings	%	2012	%
EUR	4,233.0	2,851.9	1,381.1	86.0%	4,058.8	83.6%
JPY	334.5	97.2	237.3	6.8%	432.2	8.9%
CHF	179.6	128.4	51.2	3.7%	180.7	3.7%
CNY	80.3		80.3	1.6%	39.9	0.8%
USD	54.1	44.2	9.9	1.1%	96.5	2.0%
HKD	6.9	6.9		0.1%		
Other currencies	32.8	3.8	29.0	0.7%	45.7	1.0%
Total	4,921.2	3,132.4	1,788.8		4,853.8	

Borrowings denominated in currencies other than the euro are distributed to Group subsidiaries for local financing purposes.

28.3. Breakdown of gross borrowings by category

The Kering group gross borrowings break down as follows:

(in € millions)	2013	2012
Bonds	3,290.5	3,048.3
Other bank borrowings	454.2	566.5
Confirmed lines of credit		
Drawdowns on unconfirmed lines of credit	152.8	295.2
Commercial paper	358.0	449.0
Obligations under finance leases	71.1	62.7
Bank overdrafts	181.6	105.9
Other borrowings	413.0	326.2
Total	4,921.2	4,853.8

Group borrowings primarily consist of bonds, bank borrowings, drawdowns on confirmed lines of credit and commercial paper issues, which account for 91.8% of gross borrowings as of December 31, 2013 (90.4% as of December 31, 2012).

As of December 31, 2013, other borrowings include €324.2 million in respect of put options granted to minority shareholders (see Note 2.3.2), including the liability in respect of the put options granted to Sowind and Pomellato group shareholders.

28.4. Description of the main bond issues

Kering bond issues

The Group has a Euro Medium Term Notes (EMTN) programme capped at €5,000 million as of December 31, 2013.

This programme was signed and approved by Luxembourg's financial sector supervisory commission (*Conseil de Surveillance du Secteur Financier* – CSSF) on December 3, 2013. The programme existing as of December 31, 2013 expires on December 3, 2014.

As of December 31, 2013, the bonds issued under this programme totalled €3,300.1 million.

All borrowings benefit from the rating awarded to the Kering group by Standard & Poor's ("BBB" with a stable outlook) and are not subject to any financial covenants.

(in € millions)

Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	2013	2012
600.0 ⁽¹⁾	4.00% fixed	4.08% & 4.79%	6/29/2005 & 6/19/2006	-	1/29/2013		599.7
200.0 ⁽²⁾	6.536% fixed	-	5/16/2008	-	5/16/2013		149.7
550.1 ⁽³⁾	8.625% fixed	8.86% & 7.86%	4/3/2009	-	4/3/2014	549.8	550.4
150.0 ⁽⁴⁾	7.75% fixed	7.94%	6/3/2009	6-month Euribor floating rate swap for €150 million Documented under IFRS	6/3/2014	151.1	153.8
150.0 ⁽⁵⁾	6.50% fixed	6.57%	6/29/2009	-	6/29/2017	149.6	149.5
200.0 ⁽⁶⁾	6.50% fixed	6.57%	11/6/2009	-	11/6/2017	199.4	199.3
750.0 ⁽⁷⁾	3.75% fixed	3.87% & 3.24%	4/8/2010 & 1/26/2012	-	4/8/2015	750.6	751.3
500.0 ⁽⁸⁾	3.125% fixed	3.31%	4/23/2012	-	4/23/2019	495.4	494.6
500.0 ⁽⁹⁾	2.50% fixed	2.58%	7/15/2013	-	7/15/2020	497.6	
500.0 ⁽¹⁰⁾	1.875% fixed	2.01%	10/8/2013	-	10/8/2018	497.0	

(1) Issue price: bond issue, comprising of 600,000 bonds with a par value of €1,000 each under the EMTN programme, with 300,000 bonds issued on June 29, 2005 and 300,000 additional bonds issued on June 19, 2006, thereby raising the issue to 600,000 bonds.
Redemption: in full on January 29, 2013.

(2) Issue price: bond issue indexed to Kering shares, issued on May 16, 2008 under the EMTN programme, comprising of 2,362,907 bonds with a par value of €84.64 each.
Redemption: the redemption price, indexed to changes in the Kering share price, was €138.2 million maturing on May 16, 2013.

(3) Issue price: bond issue, comprising of 550,100 bonds with a par value of €1,000 each under the EMTN programme, with 600,000 bonds issued on April 3, 2009 and 200,000 additional bonds issued on May 13, 2009, thereby raising the issue to 800,000 bonds. A total of 249,900 of these bonds were redeemed on April 26, 2011.
Redemption: in full on April 3, 2014.

(4) Issue price: bond issue on June 3, 2009, comprising of 150,000 bonds with a par value of €1,000 each under the EMTN programme.
Redemption: in full on June 3, 2014.

(5) Issue price: bond issue on June 29, 2009, comprising of 3,000 bonds with a par value of €50,000 each under the EMTN programme.
Redemption: in full on June 29, 2017.

(6) Issue price: bond issue on November 6, 2009, comprising of 4,000 bonds with a par value of €50,000 each under the EMTN programme.
Redemption: in full on November 6, 2017.

(7) Issue price: bond issue on April 8, 2010, comprising of 500,000 bonds with a par value of €1,000 each under the EMTN programme, and 250,000 additional bonds issued on January 26, 2012, thereby raising the issue to 750,000 bonds.
Redemption: in full on April 8, 2015.

(8) Issue price: bond issue on April 23, 2012, comprising of 500,000 bonds with a par value of €1,000 each under the EMTN programme.
Redemption: in full on April 23, 2019.

(9) Issue price: bond issue on July 15, 2013, comprising of 5,000 bonds with a par value of €100,000 each under the EMTN programme.
Redemption: in full on July 15, 2020.

(10) Issue price: bond issue on October 8, 2013, comprising of 5,000 bonds with a par value of €100,000 each under the EMTN programme.
Redemption: in full on October 8, 2018.

The bonds issued between 2009 and 2013 within the scope of the EMTN programme are all subject to change-of-control clauses entitling bondholders to request early redemption at par if Kering's rating is downgraded to non-investment grade following a change of control.

In addition, the bonds issued in 2009 and 2010 – including the bonds added in January 2012 to those issued in April 2010 – include a “step-up coupon” clause that applies in the event that Kering's rating is downgraded to non-investment grade.

The corresponding amounts are recognised in the statement of financial position at amortised cost based on the effective interest rate, taking account of the fair value adjustment resulting from the hedging relationship documented in accordance with IAS 39. However, the May 2008 bond issues indexed to changes in the Kering share price are recognised at fair value through income.

Accrued interest is recorded in “Other borrowings”.

28.5. Main bank borrowings and confirmed lines of credit

28.5.1. Breakdown of main bank borrowings

The Group has the following bank borrowings:

Long-and medium-term borrowings contracted by Kering

(in € millions)

Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	2013	2012
83.0	Floating 3-month Euribor +3.09%	-	6/24/2009	3-month Euribor floating rate swap for the full amount <i>Not documented under IFRS</i>	6/24/2014	83.0	83.0
69.5	Floating 3-month Euribor +3.30%	-	6/24/2009	3-month Euribor floating rate swap for the full amount <i>Not documented under IFRS</i>	6/24/2014	69.5	69.5

Long-and medium-term borrowings contracted by the Luxury Division

(in € millions)

Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	2013	2012
36.3 ⁽¹⁾	Floating USD Libor +1.00%	-	8/8/2003	-	8/15/2013		3.8
35.0 ⁽²⁾	Floating Euribor +0.70%	-	3/29/2004	-	6/30/2014	1.4	4.1
38.3 ⁽³⁾	Floating JPY Tiber +0.65%	-	11/15/2010	-	11/15/2013		39.6
27.6 ⁽⁴⁾	Floating JPY Tiber +0.35%	-	3/31/2011	-	3/31/2016	13.8	24.6
41.5 ⁽⁵⁾	Floating JPY Tiber +0.38%	-	5/15/2011	-	4/15/2014	32.6	45.8
27.6 ⁽⁶⁾	Floating JPY Tiber +0.45%	-	12/14/2011	-	12/14/2014	27.6	35.2
29.4 ⁽⁷⁾	Floating JPY Tiber +0.45%	-	12/14/2011	-	9/15/2016	17.6	29.9
32.5 ⁽⁸⁾	Floating JPY Tiber +0.50%	-	9/27/2012	-	9/28/2015	21.7	41.4
39.8 ⁽⁹⁾	Floating JPY Tiber +0.45%	-	9/30/2013	-	9/30/2016	38.6	

(1) Redeemable loan initially contracted by Gucci America Inc. for USD 50 million (€36.3 million).

(2) Loan redeemable as from 2006 initially contracted for €35 million.

(3) Redeemable loan contracted in November 2010 for JPY 5,540 million (€38.3 million).

(4) Redeemable loan contracted in March 2011 for JPY 4,000 million (€27.6 million). The outstanding balance on this loan was JPY 2,000 million (€13.8 million) as of December 31, 2013.

(5) Redeemable loan contracted in May 2011 for JPY 6,000 million (€41.5 million). The outstanding balance on this loan was JPY 4,720 million (€32.6 million) as of December 31, 2013.

(6) Loan contracted in December 2011 for JPY 4,000 million (€27.6 million).

(7) Redeemable loan contracted in December 2011 for JPY 4,250 million (€29.4 million). The outstanding balance on this loan was JPY 2,550 million (€17.6 million) as of December 31, 2013.

(8) Redeemable loan contracted in September 2012 for JPY 4,700 million (€32.5 million). The outstanding balance on this loan was JPY 3,140 million (€21.7 million) as of December 31, 2013.

(9) Redeemable loan contracted in September 2013 for JPY 5,756 million (€39.8 million). The outstanding balance on this loan was JPY 5,586 million (€38.6 million) as of December 31, 2013.

28.5.2. Confirmed lines of credit available to the Group

As of December 31, 2013, the Group had access to €4,148.0 million in confirmed lines of credit (versus €4,431.6 million as of December 31, 2012).

28.5.3. Breakdown of confirmed lines of credit

Kering and Kering Finance SNC: €3,901.0 million breaking down by maturity as follows:

(in € millions)	2013	Less than one year	One to five years	More than five years	2012
Confirmed lines of credit	3,901.0		3,901.0		3,811.0

The confirmed lines of credit include a syndicated line for €2.5 billion set up on January 14, 2011 and maturing in January 2016.

As of December 31, 2013, no amounts had been drawn down under the January 2011 syndicated facility.

Total confirmed undrawn credit lines available to Kering and Kering Finance SNC as of December 31, 2013 amounted to €3,901.0 million.

Other confirmed lines of credit: €247.0 million breaking down by maturity as follows:

(in € millions)	2013	Less than one year	One to five years	More than five years	2012
Redcats					372.7
PUMA ⁽¹⁾	247.0	247.0			247.9
	247.0	247.0			620.6

(1) PUMA: including €22.1 million drawn down in the form of bank borrowings as of the end of December 2013.

The Group's confirmed bank lines of credit are governed by the standard commitment and default clauses customarily included in this type of agreement: *pari passu* ranking, a negative-pledge clause that limits the security that can be granted to other lenders, and a cross-default obligation.

Kering and Kering Finance SNC confirmed lines of credit include a default clause (early repayment) in the event of failure to comply with the following financial covenant: Consolidated net debt/Consolidated EBITDA less than or equal to 3.75. This ratio is calculated based on pro forma data.

As of December 31, 2013, Kering and Kering Finance SNC had not drawn down any of the €3,901.0 million available under confirmed lines of credit subject to this covenant.

The Group was in compliance with all these covenants as of December 31, 2013 and there is no foreseeable risk of breach.

The undrawn balance on these confirmed lines of credit as of December 31, 2013 was €4,125.9 million (€4,023.6 million as of December 31, 2012).

The undrawn confirmed lines of credit guarantee the Group's liquidity and back the commercial paper issue programme, on which a total of €358.0 million remained outstanding as of December 31, 2013 (€449.0 million as of December 31, 2012).

note 29 – exposure to interest rate, foreign exchange and equity risk

The Group uses derivative financial instruments to manage its exposure to market risks.

Derivatives used by the Group as of December 31, 2013 are described below.

29.1. Exposure to interest rate risk

To manage interest rate risk on its financial assets and liabilities, and particularly on its borrowings, the Kering group uses instruments with the following outstanding notional amounts:

(in € millions)	2013	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond	2012
Swaps: fixed-rate lender	650.0	550.0	100.0					431.9
Swaps: fixed-rate borrower	14.3						14.3	
Other interest rate instruments ⁽¹⁾	252.5	152.5		100.0				152.5
Total	916.8	702.5	100.0	100.0			14.3	584.4

(1) Including floating/floating rate swaps.

As part of the Group's interest rate hedging strategy, these instruments are primarily designed to:

- convert fixed-rate bonds into floating-rate debt: the Group has entered into interest rate swaps as a fixed-rate lender in an amount of €150 million to hedge Kering bond issues;

- convert fixed-rate negotiable debt securities, borrowings and credit-line drawdowns into floating-rate debt: the Group has entered into interest rate swaps as a fixed-rate lender in an amount of €600 million.

In accordance with IAS 39, these financial instruments were analysed with respect to hedge accounting eligibility criteria.

As of December 31, 2013, documented and non-documented financial instruments can be analysed as follows:

(in € millions)	2013	Fair value hedges	Cash flow hedges	Non-documented hedges
Swaps: fixed-rate lender	650.0	150.0		500.0
Swaps: fixed-rate borrower	14.3		14.3	
Other interest rate instruments	252.5			252.5
Total	916.8	150.0	14.3	752.5

These interest rate derivatives are recognised in the statement of financial position at their market value at the end of the reporting period.

The accounting treatment of fair value movements depends on the purpose of the derivative instrument and the resulting accounting classification.

In the case of interest rate derivatives designated as fair value hedges, fair value movements are recognised in net income for the period, fully or partly offsetting symmetrical changes in the fair value of the hedged debt. The ineffective portion impacts net finance costs for the period.

As of December 31, 2013, fair value hedges concerned fixed-rate bonds issued by the Group in June 2009, hedged by interest rate swaps for a nominal amount of €150 million.

In the case of interest rate derivatives designated as cash flow hedges, the effective portion of changes in fair value is initially recognised in other comprehensive income and subsequently taken to income when the hedged position itself affects income. The ineffective portion impacts net finance costs for the period.

Movements in the fair value of non-documented derivative instruments are recognised directly in income, with an impact on net finance costs for the period.

As of December 31, 2013, derivative instruments that did not qualify for hedge accounting under IAS 39 primarily comprised options in the form of interest rate swaps intended to hedge revolving financing issued at fixed rates.

The Group's exposure to interest rate risk **before the impact of hedging** is presented below, with a distinction made between:

- fixed-rate financial assets and liabilities, exposed to a price risk before hedging:

(in € millions)	2013	2013 maturities			2012
		Less than one year	One to five years	More than five years	
Fixed-rate financial assets	79.0	67.4	10.8	0.8	252.3
Bonds	3,290.5	700.9	1,596.6	993.0	3,048.3
Commercial paper	358.0	358.0			312.0
Other borrowings	4.4	0.6	2.4	1.4	8.1
Fixed-rate financial liabilities	3,652.9	1,059.5	1,599.0	994.4	3,368.4

- floating-rate financial assets and liabilities, exposed to a cash flow risk before hedging:

(in € millions)	2013	2013 maturities			2012
		Less than one year	One to five years	More than five years	
Floating-rate financial assets	1,397.2	1,381.3	15.9		1,924.5
Bonds					137.0
Commercial paper					1,348.4
Other borrowings	1,268.3	729.3	140.9	398.1	
Floating-rate financial liabilities	1,268.3	729.3	140.9	398.1	1,485.4

The Group's exposure to interest rate risk **after the impact of hedging** is presented below, with a distinction made between:

- fixed-rate financial assets and liabilities, exposed to a price risk after hedging:

(in € millions)	2013	2013 maturities			2012
		Less than one year	One to five years	More than five years	
Fixed-rate financial assets	79.0	67.4	10.8	0.8	252.3
Bonds	2,897.4	507.8	1,396.6	993.0	2,894.5
Commercial paper					30.1
Other borrowings	18.7	1.8	7.6	9.3	8.1
Fixed-rate financial liabilities	2,916.1	509.6	1,404.2	1,002.3	2,932.7

- floating-rate financial assets and liabilities, exposed to a cash flow risk after hedging:

(in € millions)	2013	2013 maturities			2012
		Less than one year	One to five years	More than five years	
Floating-rate financial assets	1,397.2	1,381.3	15.9		1,924.5
Bonds	393.1	193.1	200.0		153.7
Commercial paper	358.0	358.0			419.0
Other borrowings	1,254.0	728.1	135.7	390.2	1,348.4
Floating-rate financial liabilities	2,005.1	1,279.2	335.7	390.2	1,921.1

Financial assets and liabilities consist of interest-bearing items recorded in the statement of financial position.

The breakdown of gross borrowings by type of interest rate before and after hedging transactions is as follows:

(in € millions)	2013	Before hedging		After hedging	
		Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
Gross borrowings	4,921.2	3,652.9	1,268.3	2,916.1	2,005.1
%		74.2%	25.8%	59.3%	40.7%

(in € millions)	2012	Before hedging		After hedging	
		Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
Gross borrowings	4,853.8	3,368.4	1,485.4	2,932.7	1,921.1
%		69.4%	30.6%	60.4%	39.6%

Analysis of sensitivity to interest rate risk

Based on the fixed/floating rate mix after hedging, a sudden 50 basis point increase or decrease in interest rates would have a full-year impact of €4.9 million on pre-tax consolidated net income. As of December 31, 2012, the impact of a sudden 50 basis point increase or decrease in interest rates was estimated at €2.7 million (assumption consistent with relative interest rate levels observed at year-end).

Based on market data at the end of the reporting period, and the particularly low benchmark interest rates for the Group, the impact of interest rate derivatives and financial liabilities carried at fair value through income was determined assuming a sudden increase or decrease of 50 basis points in the euro yield curve as of December 31, 2013.

(in € millions)	Impact on reserves	Impact on income
As of December 31, 2013		
Increase of 50 basis points		1.6
Decrease of 50 basis points		(2.0)
As of December 31, 2012		
Increase of 50 basis points		0.4
Decrease of 50 basis points		(0.5)

All other market variables were assumed to remain unchanged for the purpose of the sensitivity analysis.

The impact on equity is generated by interest rate instruments eligible for cash flow hedge accounting and was not material as of December 31, 2013.

The impact on net finance costs arises from interest rate instruments not eligible for hedge accounting and from financial liabilities carried at fair value through income.

These amounts are shown before tax.

29.2. Exposure to foreign exchange risk

The outstanding notional amounts of instruments used by the Kering group to manage its foreign exchange risk are shown below:

<i>(in € millions)</i>	2013	2012
Currency forwards and currency swaps	(2,028.2)	(1,565.8)
Currency options – export tunnels	(214.2)	(244.0)
Currency options – purchases	98.9	130.3
Currency options – sales	(61.7)	(71.4)
Total	(2,205.2)	(1,750.9)

The Group primarily uses forward currency contracts and/or currency swaps to hedge commercial import/export risks and to hedge the financial risks stemming in particular from inter-company refinancing transactions in foreign currencies.

The Group may also implement plain vanilla option strategies (purchases of options or tunnels) to hedge future exposures.

These derivative financial instruments were analysed with respect to IAS 39 hedge accounting eligibility criteria. The Group has no derivatives eligible for net investment hedge accounting.

As of December 31, 2013, documented and non-documented derivative instruments were as follows:

(in € millions)

	2013	EUR	USD	JPY
Cash flow hedges				
Forward purchases and forward purchase swaps	787.8	0.1	778.7	
Forward sales and forward sale swaps	(1,597.0)		(692.5)	
Currency options – purchases of export tunnels	(214.2)			(214.2)
Fair value hedges				
Forward purchases and forward purchase swaps	232.8	4.2	90.7	33.4
Forward sales and forward sale swaps	(763.0)	(23.1)	(144.7)	(55.8)
Not documented				
Forward purchases and forward purchase swaps	304.8	17.5	129.1	21.1
Forward sales and forward sale swaps	(993.6)	(17.3)	(777.2)	(95.2)
Currency options – purchases	98.9	6.6	81.9	
Currency options – sales	(61.7)	(6.6)	(25.9)	
Maturity				
Less than one year				
Forward purchases and forward purchase swaps	1,267.5	21.8	940.6	54.5
Forward sales and forward sale swaps	(3,332.2)	(40.4)	(1,614.4)	(151.0)
Currency options – purchases of export tunnels	(206.3)			(206.3)
Currency options – purchases	98.9	6.6	81.9	
Currency options – sales	(61.7)	(6.6)	(25.9)	
More than one year				
Forward purchases and forward purchase swaps	57.9		57.9	
Forward sales and forward sale swaps	(21.4)			
Currency options – purchases of export tunnels	(7.9)			(7.9)
Currency options – purchases				
Currency options – sales				

Foreign exchange derivatives are recognised in the statement of financial position at their market value at the end of the reporting period.

Derivatives qualifying as cash flow hedges are used to hedge highly probable future cash flows (not yet recognised) based on a budget for the current budget period (season or catalogue, quarter, half-year, etc.) or certain future cash flows not yet recognised (firm orders).

As of December 31, 2013, the majority of foreign exchange derivatives qualifying as cash flow hedges had a residual maturity of less than one year and are used to hedge cash flows expected to be realised and recorded in the accounts in the coming reporting period.

Derivatives qualifying as fair value hedges are used to hedge items recognised in the consolidated statement of financial position at the end of the reporting period, or certain future cash flows not yet recognised (firm orders). Hedges of items recognised in the statement of financial position chiefly concern brands in the Luxury Division.

Certain foreign exchange derivatives treated as hedges for management purposes are not documented in accordance with IAS 39 hedge accounting and are therefore recorded as derivatives, with any changes in their fair value impacting net finance costs.

These derivatives mainly hedge items recorded in the statement of financial position and future cash flows which do not satisfy the 'highly probable' criteria required by IAS 39.

GBP	CHF	SEK	HKD	CNY	KRW	Other	2012
0.4 (138.0)	1.5 (22.2)	3.4 (19.9)	3.7 (254.8)	(265.9)	(105.1)	(98.6)	962.3 (1,583.3) (244.0)
14.1 (103.3)	22.0 (84.3)	0.3 (1.4)	25.3 (77.9)	7.1 (146.3)	14.4 (28.2)	21.3 (98.0)	268.0 (834.2)
45.8 (8.2)	56.3 (43.0)	1.3 (19.0)	3.5 (3.5)			30.2 (30.2)	330.2 (708.8)
1.6 (11.1)	2.4 (7.7)	1.1 (5.1)				5.3 (5.3)	130.3 (71.4)
60.3 (247.3)	79.8 (147.9)	5.0 (38.9)	32.5 (336.2)	7.1 (402.6)	14.4 (129.2)	51.5 (224.3)	1,535.4 (3,095.4) (228.2)
1.6 (11.1)	2.4 (7.7)	1.1 (5.1)				5.3 (5.3)	130.3 (71.4)
(2.2)	(1.6)	(1.4)		(9.6)	(4.1)	(2.5)	25.1 (30.9) (15.8)

As of December 31, 2013, the exposure to foreign exchange risk on the statement of financial position was as follows:

(in € millions)	2013	EUR	USD	JPY
Monetary assets	2,364.2	23.9	1,026.9	220.7
Monetary liabilities	1,092.1	25.9	290.5	341.0
Gross exposure in the statement of financial position	1,272.1	(2.0)	736.4	(120.3)
Forecast gross exposure	1,051.6		(55.4)	214.2
Gross exposure before hedging	2,323.7	(2.0)	681.0	93.9
Hedging instruments	(2,200.0)	(18.8)	(559.8)	(310.7)
Gross exposure after hedging	123.7	(20.8)	121.2	(216.8)

Monetary assets comprise loans and receivables, bank balances, investments and cash equivalents maturing within three months of the acquisition date.

Monetary liabilities comprise borrowings, operating payables and other payables.

Most of these monetary items are denominated in the functional currency in which the subsidiary operates or are converted into the Group's functional currency using foreign exchange derivatives in accordance with applicable procedures.

Analysis of sensitivity to foreign exchange risk

This analysis excludes the impact of translating the financial statements of each Group entity into the presentation currency (euro) and the measurement of the foreign exchange position of the statement of financial position, not considered material as of the end of the reporting period.

Based on market data as of December 31, 2013, the impact of foreign exchange derivative instruments in the event of a sudden 10% increase or decrease in the euro exchange rate against the principal currencies to which the Group is exposed in terms of commercial appeal (USD, JPY and CNY) would be as follows:

As of December 31, 2013 (in € millions)	Impact on reserves		Impact on income	
	+10% increase	-10% decrease	+10% increase	-10% decrease
USD	(7.4)	12.3		2.7
JPY	9.5	(8.7)	(0.1)	(0.1)
CNY	24.2	(29.5)	(0.3)	0.3

As of December 31, 2012 (in € millions)	Impact on reserves		Impact on income	
	+10% increase	-10% decrease	+10% increase	-10% decrease
USD	(33.6)	41.0	(1.7)	8.4
JPY	22.2	(26.6)	(0.2)	(0.1)
CNY	22.4	(27.4)	(0.4)	0.4

All other market variables were assumed to remain unchanged for the purpose of the sensitivity analysis.

The impact on equity is generated by foreign exchange instruments qualifying for cash flow hedge accounting.

The impact on net finance costs arises from foreign exchange instruments not qualifying for cash flow hedge accounting and from the change in the ineffective portion of cash flow hedges.

These amounts are shown before tax.

29.3. Exposure to equity risk

In the normal course of its business, the Group enters into transactions involving shares in consolidated companies or shares issued by Kering.

Shares held in connection with non-consolidated investments represent a low exposure risk for the Group and are not hedged.

As of December 31, 2013, no equity risk hedging transaction had been recognised as a derivative instrument in accordance with IAS 39.

GBP	CHF	SEK	HKD	CNY	KRW	Other	2012
128.0	142.5	35.3	99.4	191.8	37.7	458.0	2,340.6
42.0	230.4	3.0	15.1	89.4	1.4	53.4	1,225.2
86.0	(87.9)	32.3	84.3	102.4	36.3	404.6	1,115.4
137.9	20.0	15.6	251.1	265.9	105.1	97.2	831.5
223.9	(67.9)	47.9	335.4	368.3	141.4	501.8	1,946.9
(198.7)	(83.2)	(25.8)	(303.7)	(405.1)	(118.9)	(175.3)	(1,835.3)
25.2	(151.1)	22.1	31.7	(36.8)	22.5	326.5	111.6

29.4. Other market risks – Credit risk

The Group uses derivative instruments solely to reduce its overall exposure to foreign exchange, interest rate and equity risk arising in the normal course of business. All transactions involving derivatives are carried out on organised markets or over-the-counter with leading firms.

All bonds issued in 2009 and 2010 within the scope of the EMTN programme, including the additional bonds issued in January 2012 for the April 2010 bond issue, are subject to a "step-up coupon" clause in the event that Kering's rating is downgraded to non-investment grade. This would increase the coupon payable on each issue by 1.25%, and could lead to an increase of €22.5 million in finance costs over a full year.

The Group has a large number of customers in a wide range of business segments and is therefore not exposed to any concentration of credit risk on its receivables. Generally, the Group considers that it is not exposed to any specific credit risk on these financial assets.

29.5. Derivative instruments at market value

As of December 31, 2013, and in accordance with IAS 39, the market value of derivative financial instruments is recognised in assets under the headings "Non-current financial assets" and "Other current financial assets", and in liabilities under the headings "Other non-current financial liabilities" and "Other current financial liabilities".

The fair value of derivatives hedging interest rate risk is recognised in non-current or current assets or liabilities depending on the maturity of the underlying debt.

The fair value of foreign exchange derivatives is recognised in other current financial assets or liabilities.

<i>(in € millions)</i>	2013	Interest rate risk	Foreign exchange risk	Other market risks	2012
Derivative assets	101.5	8.5	93.0		89.6
Non-current	0.4	0.4			12.4
At fair value through income	0.4	0.4			1.1
Cash flow hedges					
Fair value hedges					11.3
Current	101.1	8.1	93.0		77.2
At fair value through income	14.7	0.4	14.3		5.5
Cash flow hedges	78.6		78.6		66.2
Fair value hedges	7.8	7.7	0.1		5.5
Derivative liabilities	26.3	0.7	25.6		18.7
Non-current	0.7	0.7			
At fair value through income					
Cash flow hedges	0.7	0.7			
Fair value hedges					
Current	25.6		25.6		18.7
At fair value through income	5.3		5.3		2.4
Cash flow hedges	19.9		19.9		16.3
Fair value hedges	0.4		0.4		
TOTAL	75.2	7.8	67.4		70.9

Derivatives qualifying for fair value hedge accounting mainly hedge debt in the form of bonds. They are presented in assets for an amount of €7.7 million as of December 31, 2013 and €11.3 million as of December 31, 2012.

The effective portion of derivatives hedging future cash flows is recorded against equity.

Changes in the cash flow hedging reserve in 2013 are presented in Note 14.

In accordance with IFRS 13, derivatives were measured as of December 31, 2013 taking into account credit and debit value adjustments (CVA/DVA). The probability of default used is based on market data where this is available for the counterparty. The impact of this revised measurement was not material for the Group as of the end of the reporting period and is recognised in net finance costs.

29.6. Liquidity risk

Liquidity risk management for the Group and each of its subsidiaries is closely monitored and periodically assessed by Kering within the scope of Group financial reporting procedures.

In order to guarantee its liquidity, the Group holds confirmed lines of credit totalling €4,148.0 million. As of December 31, 2013, this includes an amount of €4,125.9 million not yet drawn and available cash of €1,419.2 million.

The table below shows contractual commitments relating to borrowings and trade payables. It includes accrued interest payable and excludes the impact of netting agreements. The table also includes Group commitments relating to derivative instruments recorded in assets or liabilities.

Forecast cash flows relating to interest payable are included in "Other borrowings" and calculated up to the contractual maturity of the borrowings to which they relate. Future floating-rate interest is set based on the last coupon for the current period, based on fixings applicable at the end of the reporting period for flows associated with subsequent maturities.

The future cash flows presented have not been discounted.

Based on data available as of the end of the reporting period, the Group does not expect that the cash flows indicated will materialise before the scheduled date or that the amounts concerned will differ significantly from those set out in the maturity schedule.

This analysis excludes non-derivative financial assets in the statement of financial position and in particular, the cash and cash equivalents and trade receivables captions, which amounted to €1,419.2 million and €949.9 million, respectively, as of December 31, 2013.

(in € millions)

	2013		Less than one year	One to five years	More than five years
	Carrying amount	Cash flow			
Non-derivative financial instruments					
Bonds	3,290.5	(3,300.1)	(700.1)	(1,600.0)	(1,000.0)
Commercial paper	358.0	(358.0)	(358.0)		
Other borrowings	1,272.7	(1,656.5)	(803.9)	(412.9)	(439.7)
Trade payables	766.1	(766.1)	(766.1)		
Other non-derivative financial instruments associated with assets classified as held for sale or for distribution	259.1	(259.1)	(252.1)	(7.0)	
Derivative financial instruments					
Interest rate hedges	(7.8)				
Interest rate swaps		8.2	8.4	0.2	(0.4)
Other interest rate instruments					
Foreign exchange hedges	(67.4)				
Currency forwards and currency swaps					
Outflows		(4,056.7)	(3,991.7)	(65.0)	
Inflows		4,085.3	4,020.8	64.5	
Other foreign exchange instruments					
Outflows		(235.7)	(227.8)	(7.9)	
Inflows		262.7	254.1	8.6	
Total	5,871.2	(6,276.0)	(2,816.4)	(2,019.5)	(1,440.1)

(in € millions)

	2012		Less than one year	One to five years	More than five years
	Carrying amount	Cash flow			
Non-derivative financial instruments					
Bonds	3,048.3	(3,038.3)	(738.2)	(1,800.1)	(500.0)
Commercial paper	449.0	(449.0)	(449.0)		
Other borrowings	1,356.5	(1,753.2)	(730.3)	(697.3)	(325.6)
Trade payables	684.5	(684.5)	(684.5)		
Other non-derivative financial instruments associated with assets classified as held for sale or for distribution	1,484.8	(1,493.7)	(1,393.6)	(100.1)	
Derivative financial instruments					
Interest rate hedges	(12.4)				
Interest rate swaps		12.6	4.5	8.1	
Other interest rate instruments					
Foreign exchange hedges	(58.5)				
Currency forwards and currency swaps					
Outflows		(3,990.2)	(3,953.4)	(36.8)	
Inflows		4,004.5	3,968.8	35.7	
Other foreign exchange instruments					
Outflows		(320.1)	(304.3)	(15.8)	
Inflows		349.2	331.6	17.6	
Total	6,952.2	(7,362.7)	(3,948.4)	(2,588.7)	(825.6)

note 30 – accounting classification and market value of financial instruments

The basis of measurement for financial instruments and the market value of these instruments as of December 31, 2013 are presented below:

(in € millions)

(in € millions)	2013		Breakdown by accounting classification					
	Carrying amount	Market value	Fair value through income	Available-for-sale assets	Loans and receivables	Amortised cost	Derivatives qualifying for hedge accounting	Derivatives not qualifying for hedge accounting
Non-current assets								
Non-current financial assets	316.8	316.8		149.4	167.0			0.4
Current assets								
Trade receivables	949.9	949.9				949.9		
Other current financial assets	107.7	107.7			6.6		86.4	14.7
Cash and cash equivalents	1,419.2	1,419.2	257.6			1,161.6		
Non-current liabilities								
Non-current borrowings	3,132.4	3,260.6				3,132.4		
Other non-current financial assets	0.7	0.7					0.7	
Current liabilities								
Current borrowings	1,788.8	1,802.7				1,788.8		
Other current financial liabilities	213.2	213.2				187.6	20.3	5.3
Trade payables	766.1	766.1				766.1		

(in € millions)

(in € millions)	2012		Breakdown by accounting classification					
	Carrying amount	Market value	Fair value through income	Available-for-sale assets	Loans and receivables	Amortised cost	Derivatives qualifying for hedge accounting	Derivatives not qualifying for hedge accounting
Non-current assets								
Non-current financial assets	273.7	273.7		64.2	197.1		11.3	1.1
Current assets								
Trade receivables	985.3	985.3				985.3		
Other current financial assets	87.0	87.0			9.8		71.7	5.5
Cash and cash equivalents	2,081.0	2,081.0	848.5			1,232.5		
Non-current liabilities								
Non-current borrowings	2,988.9	3,225.2				2,988.9		
Current liabilities								
Current borrowings	1,595.1	1,596.7	149.7			1,445.4		
Other current financial liabilities	207.9	207.9				189.2	16.3	2.4
Trade payables	684.5	684.5				684.5		

As of December 31, 2013, the following methods were used to price financial instruments:

- Financial instruments other than derivatives recorded in assets:

Carrying amounts are based on reasonable estimates of market value, with the exception of marketable securities and investments in non-consolidated companies, whose market value was determined based on the last known stock market price as of December 31, 2013 for listed securities.

- Financial instruments other than derivatives recorded in liabilities:

The market value of listed bonds was determined on the basis of the last market price at the end of the reporting period.

The market value of other borrowings was calculated using other valuation techniques such as discounted future cash flows, taking into account the Group's credit risk and interest rate conditions as of the end of the reporting period. For indexed bond issues, the valuation also takes into account the Kering share price and volatility assumptions.

- Derivative financial instruments:

The market value of derivative financial instruments was provided by the financial institutions involved in the transactions or calculated using standard valuation methods that factor in market conditions as of the end of the reporting period.

The Group has identified three financial instrument categories based on the two valuation methods used (listed prices and valuation techniques). In accordance with international accounting standards, this classification is used as a basis for presenting the characteristics of financial instruments recognised in the statement of financial position at fair value through income as of the end of the reporting period:

Level 1 category: financial instruments quoted on an active market;

Level 2 category: financial instruments whose fair value is determined using valuation techniques drawing on observable market inputs;

Level 3 category: financial instruments whose fair value is determined using valuation techniques drawing on non-observable inputs (inputs whose value does not result from the price of observable market transactions for the same instrument or from observable market data available as of the end of the reporting period) or inputs which are only partly observable.

The table below shows the fair value hierarchy by financial instrument category as of December 31, 2013:

(in € millions)

	Fair value hierarchy			2013
	Market price = Level 1	Models based on observable inputs = Level 2	Models based on non-observable inputs = Level 3	
Non-current assets				
Non-current financial assets	74.7	0.4	241.7	316.8
Current assets				
Trade receivables			949.9	949.9
Other current financial assets		101.1	6.6	107.7
Cash and cash equivalents	205.8	51.8	1,161.6	1,419.2
Non-current liabilities				
Non-current borrowings			3,132.4	3,132.4
Other non-current financial liabilities		0.7		0.7
Current liabilities				
Current borrowings			1,788.8	1,788.8
Other current financial liabilities		25.6	187.6	213.2
Trade payables			766.1	766.1

(in € millions)

	Fair value hierarchy			2012
	Market price = Level 1	Models based on observable inputs = Level 2	Models based on non-observable inputs = Level 3	
Non-current assets				
Non-current financial assets	10.3	12.4	251.0	273.7
Current assets				
Trade receivables			985.3	985.3
Other current financial assets		77.2	9.8	87.0
Cash and cash equivalents	619.4	229.1	1,232.5	2,081.0
Non-current liabilities				
Non-current borrowings			2,988.9	2,988.9
Current liabilities				
Current borrowings		149.7	1,445.4	1,595.1
Other current financial liabilities		18.7	189.2	207.9
Trade payables			684.5	684.5

note 31 – net debt

Group net debt breaks down as follows:

<i>(in € millions)</i>	2013	2012
Gross borrowings excluding the financing of customer loans	4,869.8	4,584.0
Fair value hedges (interest rate)	(7.7)	(11.3)
Cash and cash equivalents	(1,419.2)	(2,081.0)
Net debt	3,442.9	2,491.7

note 32 – statement of cash flows

Cash and cash equivalents net of bank overdrafts amounted to €1,237.6 million as of December 31, 2013, reflecting total cash and cash equivalents presented in the statement of cash flows.

<i>(in € millions)</i>	2013	2012
Cash and cash equivalents as reported in the statement of financial position	1,419.2	2,081.0
Bank overdrafts	(181.6)	(105.9)
Cash and cash equivalents as reported in the statement of cash flows	1,237.6	1,975.1

32.1. Cash flow from operating activities

Cash flow from operating activities breaks down as follows:

<i>(in € millions)</i>	2013	2012
Net income from continuing operations	861.5	1,357.9
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets	295.8	275.1
Expenses relating to share-based payment	(4.8)	7.5
Impairment losses on non-current operating assets	361.2	53.6
Gains/(losses) on asset disposals, net of tax	1.2	(233.4)
Income/(expenses) in respect of fair value movements	8.0	(51.2)
Deferred tax	(89.3)	(68.6)
Share in earnings of associates	(1.6)	(36.9)
Dividends received from associates	-	22.6
Other non-cash income and expenses	115.2	150.0
Cash flow from operating activities	1,547.2	1,476.6

32.2. Purchases of property, plant and equipment and intangible assets

Purchases of property, plant and equipment and intangible assets totalled €677.7 million in 2013 and €441.9 million in 2012 (see section 1.5. of the activity report).

32.3. Acquisitions and disposals of subsidiaries

<i>(in € millions)</i>	2013	2012
Acquisitions of subsidiaries, net of cash acquired	(345.0)	(219.3)
Proceeds from disposals of subsidiaries and associates, net of cash transferred	24.7	916.5
Total	(320.3)	697.2

In 2013, acquisitions of subsidiaries mainly concerned Pomellato group, Christopher Kane, Qeelin, France Croco and Tannerie de Périers (see Note 3.2.3).

In 2012, acquisitions of subsidiaries mainly concerned Brioni. Proceeds from disposals of subsidiaries related mainly to the sale of the residual interest in Cfao in second-half 2012.

The cash flow relating to businesses sold that were restated in accordance with IFRS 5 is shown on the line "Net cash from discontinued operations".

32.4. Increase/decrease in share capital and other transactions with owners

In 2013, transactions with owners mainly concern Kering and PUMA's acquisition of PUMA shares, bringing the Group's interest in PUMA to 85.81% as of December 31, 2013.

32.5. Treasury share transactions

In 2013, the impact of acquisitions and disposals of treasury shares resulted from (see Note 24.1):

- the acquisition of 1,585,556 shares and the disposal of 1,585,556 shares held under the liquidity agreement, resulting in a net outflow of €0.2 million;
- the disposal of 103,037 shares following the exercise of stock purchase options under the 2006 and 2007 stock purchase option plans for €12.0 million;

- the acquisition of 130,000 shares in connection with future subscriptions under the 2006 and 2007 stock purchase option plans for €21.7 million;
- the acquisition of 106,000 shares in connection with 2009 and 2011 free share plans for €18.9 million;
- the acquisition of 720,000 shares in connection with external growth transactions for €120.9 million;
- the tender of 714,514 shares in connection with external growth transactions for €110.7 million.

In 2012, the impact of acquisitions and disposals of treasury shares resulted from:

- the acquisition of 1,027,556 shares and the disposal of 1,027,556 shares held under the liquidity agreement, resulting in a net inflow of €0.4 million;
- the disposal of 79,376 shares following the exercise of stock purchase options under the 2006 and 2007 stock purchase option plans for €9.0 million;
- the acquisition of 75,000 shares in connection with future subscriptions under the 2006 and 2007 stock purchase option plans for €9.9 million;
- the cancellation of 1,030,967 Kering shares with no impact on cash;
- the acquisition of 115,000 shares in connection with the 2008 and 2010 free share plans for €14.4 million.

32.6. Debt issues and redemptions

(in € millions)

	2013	2012
Bond issues	938.9	676.5
Bond redemptions	(740.0)	(138.7)
Increase/decrease in other borrowings	(309.9)	(565.9)
Total	(111.0)	(28.1)

Debt issues primarily concerned the issuance on July 15, 2013 of the €500 million 2.5% bond maturing in July 2020 and the issuance on October 8, 2013 of a €500 million, 1.875% fixed-rate bond maturing in October 2018.

Bond redemptions during the period mainly concerned the repayment of the €600 million 4% bond issued in 2005,

including the additional bonds issued in 2006, which fell due in January 2013; and the second €200 million tranche of the May 2008 bond issue indexed to changes in the Kering share price, which fell due on May 16, 2013.

Changes in other borrowings include issues and redemptions of Kering Finance commercial paper.

note 33 – contingent liabilities, contractual commitments not recognised and other contingencies

33.1. Commitments given and received following asset disposals

Vendor warranties given by the Group on the sale of companies are summarised below:

Disposals	Vendor warranties
May 2003	
Sale of Guilbert Contract to Office Depot	Vendor tax warranties covering periods not yet time barred.
June 2003	
Sale of Pinault Bois & Matériaux to Wolseley	The vendor warranty granted by Saprodis is limited to a specific warranty for certain damages relating to health, safety and the environment. This warranty expires on July 7, 2014 and is capped at €50 million.
December 2010	
Sale of Conforama	Vendor warranties covering tax-related or similar claims expiring when the period becomes time-barred, capped at €120 million. This disposal is related to the commitment by Kering to continue commercial relations between Conforama and the BNP Paribas group as regards customer loans.
December 2012	
Sale of The Sportsman's Guide and The Golf Warehouse	Vendor warranties covering (i) tax-related or similar claims which expire when the period becomes time-barred, (ii) certain fundamental representations (including with respect to organisation, capitalisation and authority) which survive indefinitely and (iii) representations with respect to employment and benefit plans which terminate six months after the applicable statute of limitations. The warranty is capped at USD 21.5 million.
February 2013	
Sale of OneStopPlus	Customary vendor warranty expiring at the earliest of April 30, 2014 and five days after the publication of the 2013 financial statements, except for (i) tax-related or similar claims which expire when the period becomes time-barred; (ii) certain fundamental representations (including with respect to organisation, capitalisation and authority), which survive indefinitely; and (iii) certain environmental obligations. The warranty is capped at USD 52.5 million.
March 2013	
Sale of Redcats' Children and Family division	Customary vendor warranty expiring after June 30, 2014, except for (i) tax-related or similar claims which expire when the period becomes time-barred; and (ii) representations with respect to employment and benefit plans, trademark and title ownership, which expire five years after the sale transaction date. The warranty is capped at €10 million.
June 2013	
Sale of Ellos	Customary vendor warranty expiring after December 31, 2014, except for certain fundamental representations (including with respect to organisation, capitalisation and authority), which survive indefinitely. The warranty is capped at €29 million. Specific vendor warranty covering tax-related or similar claims which expires on June 2, 2019 and is capped at €40 million. This was accompanied by a commitment received as regards the continuation of commercial relations with Finaref, covered by a €70 million bank guarantee expiring in 2023.

In addition to the vendor warranties described above, minor vendor warranty agreements with standard terms

were set up for the purchasers of the other companies sold by the Group.

33.2. Other commitments given

33.2.1. Contractual obligations

The table below shows all the Group's contractual commitments and obligations, excluding employee benefit obligations presented in the previous notes.

(in € millions)

	Payments due by period			2013	2012
	Less than one year	One to five years	More than five years		
Non-current borrowings (see Note 28)	1,788.8	1,739.9	1,392.5	4,921.2	4,853.8
Operating lease agreements	481.1	1,080.5	574.5	2,136.1	2,509.7
Binding purchase commitments	22.6			22.6	177.1
Total commitments given	2,292.5	2,820.4	1,967.0	7,079.9	7,540.6
Total commitments received					

Operating leases

The amount of contractual obligations presented on the line "Operating lease agreements" represents future minimum lease payments under operating lease agreements for the period, which cannot be cancelled by the lessee. These mainly include non-cancellable rental payments in respect of stores, logistics hubs and other buildings (head offices and administrative offices).

As of December 31, 2013, total future minimum lease payments which the Group expects to receive under non-cancellable sub-lease agreements amounted to €2.4 million (€3.3 million as of December 31, 2012).

The 2013 rental charge in respect of minimum lease payments amounted to €488.3 million (€622.0 million in 2012), and the charge for contingent payments was €315.9 million (€327.6 million in 2012), based on actual revenue.

Sub-lease revenue totalled €0.9 million in 2013 (€3.5 million in 2012).

Finance leases

The present value of future lease payments included in "Borrowings" and relating to capitalised assets meeting the definition of a finance lease set out in IAS 17 is as follows:

(in € millions)

	2013	2012
Less than one year	9.4	9.2
One to five years	36.4	31.9
More than five years	49.1	52.6
	94.9	93.7
Finance costs included	(23.9)	(28.7)
Present value of future minimum lease payments	71.0	65.0

As of December 31, 2013, the Group does not expect to receive future minimum lease payments under non-cancellable sub-lease agreements.

33.2.2. Guarantees and other collateral

Guarantees and other collateral granted by the Group break down as follows:

(in € millions)

	Pledge start date	Pledge expiry date	Amount of assets pledged as of Dec. 31, 2013	Statement of financial position total (carrying amount)	Corresponding %	Amount of assets pledged as of Dec. 31, 2012
Intangible assets				10,702.8		
Property, plant and equipment	7/11/2004	6/25/2018	222.9	1,676.9	13.3%	307.2
Non-current financial assets			0.1	316.8		
Total non-current assets pledged as collateral			223.0	12,696.5	1.8%	307.2

33.2.3. Individual training entitlement

Pursuant to French Law No. 2004-391 of May 4, 2004 on vocational training, all employees of the Group's French companies receive a 20-hour training credit each year, which can be accumulated over six years and is capped at 120 hours. Any training courses followed within the

framework of this training entitlement are deducted from the number of training hours accumulated.

The total unused cumulative training entitlement accrued by employees represented 0.4 million training hours as of December 31, 2013 and 1.6 million hours as of December 31, 2012.

33.2.4. Other commitments

Other commitments break down as follows:

(in € millions)

	Payments due by period			2013	2012
	Less than one year	One to five years	More than five years		
Confirmed lines of credit (see Note 28)	247.0	3,901.0		4,148.0	4,431.6
Letters of credit	20.0			20.0	15.1
Other guarantees received	10.3	7.6	1.1	19.0	45.7
Total commitments received	277.3	3,908.6	1.1	4,187.0	4,492.4
Guarantees given to banks responsible for cash pooling arrangements	1.3	0.2	18.9	20.4	23.6
Rent guarantees, property guarantees	3.5	1.2	1.3	6.0	52.5
Sponsoring and advertising commitments	117.2	364.2	55.3	536.7	324.3
Other commitments	27.3	20.9	1.8	50.0	140.8
Total commitments given	149.3	386.5	77.3	613.1	541.2

Other commitments given primarily include customs warranties and operating guarantees.

To the best of the Group's knowledge, there are no other significant commitments given or contingent liabilities.

33.3. Dependence on patents, licences and supply contracts

The Group is not significantly dependent on any patents, licences or supply contracts.

33.4. Litigation

Group companies are involved in a number of lawsuits or disputes arising in the normal course of business, including litigation with tax, social security and customs authorities. Provisions have been set aside for the

probable costs, as estimated by the Group's entities and their counsel.

According to the Group's legal counsel, no litigation currently in progress is likely to have a material impact on normal or foreseeable operations or the planned development of the Group or any of its subsidiaries.

The Group believes there is no known litigation likely to have a potential material impact on its net assets, earnings or financial position that is not adequately covered by provisions recorded at the end of the reporting period. No individual claim is material to the Company or the Group.

The Group is not aware of any other dispute or arbitration, which has had in the recent past, or is likely to have in the future, a significant impact on the financial position, activity or earnings of the Company or Group.

note 34 – transactions with related parties

34.1. Related party controlling the Group

Kering is controlled by Artémis, which in turn is wholly owned by Société Financière Pinault. As of December 31, 2013, the Artémis group held 40.9% of Kering's share capital and 57.5% of its voting rights.

The main transactions carried out between Kering's consolidated companies and Artémis in 2013 are described below:

- payment of an interim dividend in respect of 2013 totalling €77.4 million in January 2014;

- balancing payment of the cash dividend for 2012 of €116.1 million, further to the payment of an interim dividend of €77.4 million in January 2013 (€180.7 million in 2011) and a complementary in-kind dividend settled in Groupe Fnac shares for €129.2 million;
- recognition of fees totalling €1.0 million (€2.2 million in 2012) for (i) business development consulting services and complex transaction support, and (ii) the supply of development opportunities, new business and cost reduction solutions. These fees are governed by an agreement reviewed by the Audit Committee and approved by the Board of Directors.

34.2. Associates

In the normal course of business, the Group enters into transactions with associates on an arm's length basis.

The main transactions with associates are summarised in the following table:

<i>(in € millions)</i>	2013	2012
Trade receivables	-	1.6
Sales of goods and services	-	17.9

34.3. Senior executive remuneration

The table below shows remuneration paid to members of the Board of Directors and the Group's Executive Committee:

<i>(in € millions)</i>	2013	2012
Short-term benefits	20.0	24.7
Payroll taxes	4.3	6.1
High income tax	2.0	-
Post-employment benefits	0.9	0.6
Other long-term benefits	2.0	1.0
Termination indemnities	-	4.3
Share-based payment	3.7	6.5
Total	32.9	43.2

Short-term benefits, long-term benefits and termination benefits correspond to amounts paid during the year; post-employment benefits and share-based payment correspond to the amounts recognised as expenses.

A list of the members of the Board of Directors and Executive Committee is provided in the "Corporate Governance" section of the Reference Document.

note 35 – subsequent events

Exclusive negotiations for the disposal of La Redoute and Relais Colis continued between Kering and the Directors, who presented the details of the methods and

procedures of their business plan to the staff representative bodies as part of the normal information-consultation process prior to the transfer in January 2014.

note 36 – list of consolidated subsidiaries as of december 31, 2013

Details of Group subsidiaries are provided below.

Consolidation method: Full consolidation : F

Equity method : E

Company	% interest			
	Dec. 31, 2013		Dec. 31, 2012	
Kering	Parent company			
LUXURY DIVISION				
France				
ARCADES PONTHIEU	F	95.00	F	95.00
BALENCIAGA SA	F	100.00	F	100.00
BOTTEGA VENETA France SAS	F	100.00	F	100.00
BOUCHERON HOLDING SAS	F	100.00	F	100.00
BOUCHERON PARFUM SAS	F	100.00	F	100.00
BOUCHERON SAS	F	100.00	F	100.00
BRIONI France SA	F	100.00	F	100.00
C. MENDES SAS	F	100.00	F	100.00
DODO PARIS SAS	F	81.00	Acquisition	
France CROCO SAS	F	85.00	Acquisition	
TANNERIE DE PERIERS SAS	F	85.00	Acquisition	
GG FRANCE 11 SAS	F	100.00	F	100.00
GG FRANCE HOLDING SAS	F	100.00	F	100.00
GG FRANCE SERVICES SAS	F	100.00	F	100.00
GPO HOLDING SAS	F	100.00	Creation	
GUCCI FRANCE SAS	F	100.00	F	100.00
GUCCI GROUP WATCHES France SAS	F	100.00	F	100.00
LES BOUTIQUES BOUCHERON SAS	F	100.00	F	100.00
POMELLATO PARIS SA	F	81.00	Acquisition	
QEELIN France SARL	F	100.00	Acquisition	
SOWIND France SAS ⁽¹⁾	F	50.00	F	50.00
STELLA MCCARTNEY France SAS	F	50.00	F	50.00
YSL VENTES PRIVEES France SAS	F	100.00	F	100.00
YVES SAINT LAURENT				
BOUTIQUE France SAS	F	100.00	F	100.00
YVES SAINT LAURENT PARFUMS SAS	F	100.00	F	100.00
YVES SAINT LAURENT SAS ⁽¹⁾	F	100.00	F	100.00
Germany				
BOTTEGA VENETA GERMANY GmbH	F	100.00	F	100.00
DODO DEUTSCHLAND GmbH	F	81.00	Acquisition	
GG LUXURY GOODS GmbH	F	100.00	F	100.00
POMELLATO DEUTSCHLAND GmbH	F	81.00	Acquisition	

Company	% interest			
	Dec. 31, 2013	Dec. 31, 2012		
TRADEMA GmbH ⁽¹⁾	F	50.00	F	50.00
YVES SAINT LAURENT GERMANY GmbH	F	100.00	F	100.00
Austria				
BOTTEGA VENETA AUSTRIA GmbH	F	100.00		Creation
GUCCI AUSTRIA GmbH	F	100.00	F	100.00
YVES SAINT LAURENT AUSTRIA GmbH	F	100.00	F	100.00
Belgium				
GUCCI BELGIUM SA		Liquidation	F	100.00
LA MERIDIANA FASHION SA	F	100.00	F	100.00
SERGIO ROSSI BELGIUM SPRL	F	100.00	F	100.00
Spain				
BOTTEGA VENETA ESPANA SL	F	100.00	F	100.00
BRIONI RETAIL SPAGNA SRL	F	100.00	F	100.00
DODO SPAIN SA	F	81.00		Acquisition
LUXURY GOODS SPAIN SL	F	100.00	F	100.00
LUXURY TIMEPIECES ESPAÑA SL	F	100.00	F	100.00
NOGA LUXE SL	F	100.00	F	100.00
SERGIO ROSSI ESPANA SL	F	100.00	F	100.00
STELLA MCCARTNEY SPAIN SL	F	50.00	F	50.00
YVES SAINT LAURENT SPAIN SA	F	100.00	F	100.00
United Kingdom				
ALEXANDER MCQUEEN TRADING Ltd	F	100.00	F	100.00
AUTUMNPAPER Limited	F	100.00	F	100.00
BALENCIAGA UK Ltd	F	100.00	F	100.00
BIRDSWAN SOLUTIONS Ltd	F	100.00	F	100.00
BOTTEGA VENETA UK CO. Limited	F	100.00	F	100.00
BOUCHERON UK Ltd	F	100.00	F	100.00
BRIONI UK Ltd	F	100.00	F	100.00
CHRISTOPHER KANE Ltd ⁽¹⁾	F	80.00		Acquisition
DODO UK Ltd	F	81.00		Acquisition
GUCCI Limited	F	100.00	F	100.00
LUXURY TIMEPIECES (UK) Ltd	F	100.00	F	100.00
PAINTGATE Limited	F	100.00	F	100.00
POMELLATO UK Ltd	F	81.00		Acquisition
QEELIN UK Ltd	F	100.00		Acquisition

Company	% interest			
	Dec. 31, 2013	Dec. 31, 2012		
SERGIO ROSSI UK Limited	F	100.00	F	100.00
STELLA MCCARTNEY Limited	F	50.00	F	50.00
YVES SAINT LAURENT UK Ltd	F	100.00	F	100.00
Greece				
LUXURY GOODS GREECE AE	F	94.75	F	94.75
Hungary				
GUCCI HUNGARY KFT	F	100.00	F	100.00
Ireland				
GUCCI IRELAND Limited	F	100.00	F	100.00
Italy				
ALEXANDER MCQUEEN ITALIA SRL	F	100.00	Creation	
ALTO VICENTINO PELLETERIE SRL	F	100.00	F	100.00
ARDORA SRL	F	100.00	F	100.00
BRIONI SPA	F	100.00	F	100.00
BRIONI OUTLET SRL	F	100.00	F	100.00
BRIONI RETAIL SRL	F	100.00	F	100.00
BRIONI RETAIL EUROPA SRL	F	100.00	F	100.00
BRIONI RETAIL ITALIA SRL	F	100.00	F	100.00
BURINI SRL	F	100.00	F	100.00
B.V. CALZATURE SRL	F	100.00	Creation	
B.V. ITALIA SRL	F	100.00	F	100.00
B.V. OUTLETS SRL	F	100.00	F	100.00
B.V. SERVIZI SRL	F	100.00	F	100.00
BOTTEGA VENETA SRL	F	100.00	F	100.00
CALZATURIFICIO FLORA SRL	F	100.00	F	100.00
CONCERIA BLU TONIC SpA	F	51.00	F	51.00
CAPRI GROUP SRL	F	100.00	F	100.00
CARAVEL PELLI PREGIATE SpA	F	100.00	F	100.00
DESIGN MANAGEMENT SRL	F	100.00	F	100.00
E_lite Spa ⁽¹⁾	F	51.00	F	51.00
GARPE SRL ⁽¹⁾	F	100.00	F	100.00
GAUGUIN SRL	F	100.00	F	100.00
G-CARDS EUROPE SRL	F	100.00	F	100.00
G COMMERCE EUROPE SpA	F	100.00	F	100.00
G.F. LOGISTICA SRL	F	100.00	F	100.00
G.F. SERVICES SRL	F	100.00	F	100.00
GGW ITALIA SRL	F	100.00	F	100.00
GJP SRL	F	100.00	F	100.00
GPA SRL ⁽¹⁾	F	100.00	F	100.00
GUCCI IMMOBILIARE LECCIO SRL ⁽¹⁾	F	100.00	F	100.00
GUCCI LOGISTICA SPA	F	100.00	F	100.00
GUCCIO GUCCI SpA	F	100.00	F	100.00

Company	% interest			
	Dec. 31, 2013	Dec. 31, 2012		
GT SRL ⁽¹⁾	F	100.00	F	100.00
LUXURY GOODS ITALIA SpA	F	100.00	F	100.00
LUXURY GOODS OUTLET SRL	F	100.00	F	100.00
MANIFATTURA VENETA				
PELLETERIE SRL	F	51.00	F	51.00
PIGINI SRL ⁽¹⁾	F	100.00	F	100.00
POMELLATO SpA	F	81.00	Acquisition	
POMELLATO EUROPA SpA	F	81.00	Acquisition	
REGAIN 1957 SRL ⁽¹⁾	F	100.00	F	100.00
ROMAN MODE SRL	F	100.00	F	100.00
ROMAN STYLE SpA	F	100.00	F	100.00
SERGIO ROSSI MANUFACTURING SRL	F	100.00	F	100.00
SERGIO ROSSI RETAIL SRL	F	100.00	F	100.00
SERGIO ROSSI SpA	F	100.00	F	100.00
SFORZA SRL	F	100.00	F	100.00
SOWIND ITALIA SRL ⁽¹⁾	F	50.00	F	50.00
STELLA MCCARTNEY ITALIA SRL	F	50.00	F	50.00
TIGER FLEX SRL ⁽¹⁾	F	100.00	F	100.00
TRAMOR SRL	Disposal		F	100.00
YVES SAINT LAURENT DEVELOPMENT SRL	F	100.00	F	100.00
YVES SAINT LAURENT LOGISTICA SRL	F	100.00	Creation	
Luxembourg				
BOTTEGA VENETA INTERNATIONAL SARL	F	100.00	F	100.00
BOUCHERON LUXEMBOURG SARL	F	100.00	F	100.00
CASTERA SARL	F	100.00	F	100.00
LUXURY FASHION LUXEMBOURG SA	F	50.00	Creation	
QEELIN HOLDING LUXEMBOURG SA	F	100.00	Creation	
SERGIO ROSSI INTERNATIONAL SARL	F	100.00	F	100.00
Monaco				
BOUCHERON SAM	F	100.00	F	100.00
GUCCI SAM	F	100.00	F	100.00
SMHJ SAM	F	81.00	Acquisition	
SAM YVES SAINT LAURENT OF MONACO	F	100.00	F	100.00
Netherlands				
BOTTEGA VENETA HOLDING BV	F	100.00	F	100.00
GEMINI ARUBA NV	F	100.00	F	100.00
GG MIDDLE EAST BV	F	100.00	F	100.00
GUCCI ASIAN HOLDING BV	F	100.00	F	100.00
GUCCI NETHERLANDS BV	F	100.00	F	100.00
GG OTHER TERRITORIES BV	F	100.00	Creation	

Company	% interest		
	Dec. 31, 2013	Dec. 31, 2012	
G DISTRIBUTION BV	F 100.00	Creation	
G OPERATIONS BV	F 100.00	F 100.00	
OLIMA BV	F 100.00	F 100.00	
Czech Republic			
BRIONI PRAGUE SRO	F 100.00	F 100.00	
LUXURY GOODS CZECH REPUBLIC SRO	F 100.00	F 100.00	
Russia			
GUCCI RUS OOO	F 100.00	Creation	
Serbia			
GUCCI LUXURY TANNERY DOO	F 51.00	Creation	
Switzerland			
BOUCHERON (SUISSE) SA	F 100.00	F 100.00	
BOTTEGA VENETA SA	F 100.00	Creation	
BRIONI SWITZERLAND SA	F 100.00	F 100.00	
FABBRICA QUADRANTI SA	F 51.00	Acquisition	
LUXURY FASHION SWITZERLAND SA	F 50.00	Creation	
LUXURY GOODS INTERNATIONAL SA	F 100.00	F 100.00	
LUXURY GOODS LOGISTIC SA	F 51.00	F 51.00	
LUXURY GOODS OPERATIONS SA	F 51.00	F 51.00	
LUXURY GOODS OUTLET EUROPE SAGL	F 100.00	F 100.00	
LUXURY TIMEPIECES INTERNATIONAL SA	Merger	F 100.00	
SOWIND GROUP SA ⁽¹⁾	F 50.00	F 50.00	
SOWIND SA ⁽¹⁾	F 50.00	F 50.00	
Sweden			
GUCCI SWEDEN AB	F 100.00	F 100.00	
Brazil			
BOTTEGA VENETA HOLDING Ltda	F 100.00	F 100.00	
GUCCI BRASIL IMPORTACAO E EXPORTACAO Ltda	F 100.00	F 100.00	
Canada			
G. BOUTIQUES Inc.	F 100.00	F 100.00	
United States			
741 MADISON AVENUE Corp.	F 60.00	Acquisition	
BALENCIAGA AMERICA Inc.	F 100.00	F 100.00	
BOTTEGA VENETA Inc.	F 100.00	F 100.00	
BOUCHERON JOAILLERIE (USA) Inc.	F 100.00	F 100.00	
BRIONI RETAIL ASPEN Inc.	F 100.00	F 100.00	
BRIONI RETAIL BAL HARBOUR LLC	F 100.00	F 100.00	
BRIONI RETAIL BEVERLY HILLS Inc.	F 100.00	F 100.00	
BRIONI RETAIL HOLDING Inc.	F 100.00	F 100.00	

Company	% interest		
	Dec. 31, 2013	Dec. 31, 2012	
BRIONI RETAIL NEW YORK Inc.	F 100.00	F 100.00	
BRIONI ROMAN STYLE USA CORPORATION Ltd	F 100.00	F 100.00	
BRIONI STORE LLC	F 100.00	F 100.00	
B/W CLOTHIERS LLC	F 50.00	F 50.00	
DODO RETAIL Inc.	F 60.00	Acquisition	
E_LITE US Inc. ⁽¹⁾	F 51.00	F 51.00	
GUCCI AMERICA Inc.	F 100.00	F 100.00	
GUCCI CARIBBEAN Inc.	F 100.00	F 100.00	
GUCCI GROUP WATCHES Inc.	F 100.00	F 100.00	
LUXURY HOLDINGS Inc.	F 100.00	F 100.00	
POMELLATO USA Inc.	F 60.00	Acquisition	
ROMAN LOOK Ltd	F 100.00	F 100.00	
SERGIO ROSSI USA Inc.	F 100.00	F 100.00	
STELLA MCCARTNEY AMERICA Inc.	F 50.00	F 50.00	
TRADEMA OF AMERICA Inc. ⁽¹⁾	F 50.00	F 50.00	
YVES SAINT LAURENT AMERICA HOLDING Inc.	F 100.00	F 100.00	
YVES SAINT LAURENT AMERICA Inc.	F 100.00	F 100.00	
Mexico			
BOTTEGA VENETA MEXICO, S DE RL DE CV	F 100.00	F 100.00	
BOTTEGA VENETA SERVICIOS, S DE RL DE CV	F 100.00	F 100.00	
D ITALIAN CHARMS SA DE CV	F 81.00	Acquisition	
GUCCI IMPORTACIONES SA DE CV	F 100.00	F 100.00	
GUCCI MEXICO SA DE CV	F 100.00	F 100.00	
RETAIL LUXURY SERVICIOS SA DE CV	F 100.00	F 100.00	
Australia			
BOTTEGA VENETA AUSTRALIA PTY Ltd	F 100.00	F 100.00	
GUCCI AUSTRALIA PTY Limited	F 100.00	F 100.00	
New Zealand			
GUCCI NEW ZEALAND Ltd	F 100.00	F 100.00	
China			
ALEXANDER MCQUEEN (HONG KONG) Limited	F 100.00	F 100.00	
ALEXANDER MCQUEEN (SHANGHAI) TRADING Ltd	F 100.00	F 100.00	
BALENCIAGA ASIA PACIFIC Limited	F 100.00	F 100.00	
BALENCIAGA FASHION SHANGHAI CO Ltd	F 100.00	F 100.00	
BOTTEGA VENETA HONG KONG Limited	F 100.00	F 100.00	
BOTTEGA VENETA (CHINA) TRADING Ltd	F 100.00	F 100.00	

Company	% interest			
		Dec. 31, 2013	Dec. 31, 2012	
BOTTEGA VENETA MACAU Ltd	F	100.00	F	100.00
BRIONI (SHANGHAI) TRADING Ltd	F	100.00	F	100.00
BOUCHERON HONG KONG Limited	F	100.00	F	100.00
GUCCI (CHINA) TRADING Ltd	F	100.00	F	100.00
GUCCI ASIA COMPANY Ltd	F	100.00	Creation	
GUCCI GROUP (HONG KONG) Limited	F	100.00	F	100.00
GUCCI MACAU Limited	F	100.00	F	100.00
LGI (SHANGHAI) ENTERPRISE MANAGEMENT Ltd	F	100.00	F	100.00
GUCCI WATCHES MARKETING CONSULTING (SHANGHAI) Ltd	F	100.00	F	100.00
LUXURY TIMEPIECES (HONG KONG) Limited	F	100.00	F	100.00
POMELLATO CHINA Ltd	F	49.00	Acquisition	
POMELLATO SHANGHAI Co. Ltd	F	49.00	Acquisition	
POMELLATO PACIFIC Ltd	F	61.00	Acquisition	
QEELIN Limited	F	100.00	Acquisition	
QEELIN TRADING (SHANGHAI) Co. Limited	F	100.00	Acquisition	
SERGIO ROSSI (SHANGHAI) TRADING Ltd	F	100.00	F	100.00
SERGIO ROSSI MACAU Ltd	F	100.00	F	100.00
STELLA MCCARTNEY (SHANGHAI) TRADING Ltd	F	50.00	F	50.00
SOWIND ASIA Ltd ⁽¹⁾	F	50.00	F	50.00
YVES SAINT LAURENT MACAU Limited	F	100.00	F	100.00
YVES SAINT LAURENT (SHANGHAI) TRADING Limited	F	100.00	F	100.00
Korea				
BALENCIAGA KOREA Ltd	F	100.00	F	100.00
BOTTEGA VENETA KOREA Ltd	F	100.00	F	100.00
BOUCHERON KOREA Ltd	F	100.00	Creation	
GUCCI GROUP KOREA Ltd	F	100.00	F	100.00
Guam				
BOTTEGA VENETA GUAM Inc.	F	100.00	F	100.00
GUCCI GROUP GUAM Inc.	F	100.00	F	100.00
India				
GUCCI INDIA PRIVATE Ltd ⁽¹⁾	F	100.00	F	100.00
LUXURY GOODS RETAIL PRIVATE LGR	F	51.00	F	51.00
Japan				
BALENCIAGA JAPAN Ltd	F	100.00	F	100.00
BOTTEGA VENETA JAPAN Limited	F	100.00	F	100.00
BRIONI JAPAN & CO. Limited	F	100.00	F	100.00
E_LITE JAPAN Ltd ⁽¹⁾	F	51.00	Creation	

Company	% interest			
		Dec. 31, 2013	Dec. 31, 2012	
GUCCI YUGEN KAISHA	F	100.00	F	100.00
LUXURY TIMEPIECES JAPAN Limited	F	100.00	F	100.00
POMELLATO JAPAN Co Ltd	F	61.00	Acquisition	
STELLA MCCARTNEY JAPAN Limited	F	50.00	F	50.00
SOWIND JAPAN KK ⁽¹⁾	F	50.00	F	50.00
Bahrain				
FLORENCE 1921 WLL	F	49.00	Creation	
United Arab Emirates				
LUXURY GOODS GULF LLC	F	49.00	F	49.00
LUXURY FASHION GULF LLC	F	49.00	Creation	
Kuwait				
LUXURY GOODS KUWAIT Wll	F	49.00	F	49.00
Qatar				
LUXURY GOODS QATAR LLC	F	49.00	F	49.00
Malaysia				
BOTTEGA VENETA MALAYSIA Sdn Bhd	F	100.00	F	100.00
GUCCI (MALAYSIA) Sdn Bhd	F	100.00	F	100.00
Singapore				
BOTTEGA VENETA SINGAPORE PRIVATE Limited	F	100.00	F	100.00
GUCCI SINGAPORE PTE Limited	F	100.00	F	100.00
Taiwan				
BOUCHERON TAIWAN CO Ltd ⁽¹⁾	F	100.00	F	100.00
GUCCI GROUP WATCHES TAIWAN Limited	F	100.00	F	100.00
Turkey				
POMELLATO MUCEVHERAT VE AKSESUAR DAGITIM VE TIKARET Limited SIRKETI	F	81.00	Acquisition	
Thailand				
GUCCI THAILAND CO Ltd	F	100.00	F	100.00
G-OPERATIONS FRASEC Ltd	F	49.00	Acquisition	
CLOSED-CYCLE BREEDING INTERNATIONAL Ltd	F	48.00	Acquisition	
FNAC				
GROUPE FNAC	Disposal		F	100.00
France				
FNAC SA	Disposal		F	100.00
ALIZE – SFL	Disposal		F	100.00
ATTITUDE	Disposal		F	100.00
CODIREP	Disposal		F	100.00
FRANCE BILLET	Disposal		F	100.00

Company	% interest	
	Dec. 31, 2013	Dec. 31, 2012
FNAC APPRO GROUPE	Disposal	F 100.00
FNAC DIRECT	Disposal	F 100.00
FNAC GLOBAL SERVICES	Disposal	F 100.00
FNAC LOGISTIQUE	Disposal	F 100.00
FNAC PARIS	Disposal	F 100.00
FNAC PERIPHERIE	Disposal	F 100.00
FNAC SERVICE	Disposal	F 100.00
FNAC SPECTACLES	Disposal	F 100.00
FNAC TOURISME	Disposal	F 100.00
FORM@HOME	Disposal	F 100.00
KYRO CONCEPT	Disposal	F 100.00
LYSIANE THOMAS DIFFUSION	Disposal	F 100.00
MSS	Disposal	F 100.00
RELAIS FNAC	Disposal	F 100.00
Belgium		
FNAC BELGIUM	Disposal	F 100.00
Spain		
GRANDES ALMACENES		
FNAC ESPANA	Disposal	F 100.00
Monaco		
FNAC MONACO	Disposal	F 100.00
Portugal		
FNAC PORTUGAL	Disposal	F 100.00
Switzerland		
FNAC SUISSE SA	Disposal	F 100.00
Brazil		
FNAC BRASIL	Disposal	F 100.00
REDCATS		
REDCATS	F 100.00	F 100.00
France		
CYRILLUS	Disposal	F 100.00
DIAM	F 100.00	F 100.00
LA REDOUTE	F 100.00	F 100.00
LES AUBAINES MAGASINS	F 100.00	F 100.00
LES DEFIS DE VERTBAUDET	Disposal	F 100.00
MOVITEX	F 100.00	F 100.00
REDCATS INTERNATIONAL	F 100.00	F 100.00
REDCATS INTERNATIONAL HOLDING	F 100.00	F 100.00
REDCATS MANAGEMENT SERVICES	F 100.00	F 100.00
LA REDOUTE MAG	F 100.00	F 100.00
REF BRESIL	F 100.00	F 100.00
SADAS	Disposal	F 100.00

Company	% interest	
	Dec. 31, 2013	Dec. 31, 2012
LES TROUVAILLES	F 100.00	F 100.00
RELAIS COLIS	F 100.00	F 100.00
SOMEWHERE STOCK	Disposal	F 100.00
THOMAS INDUSTRIES	Disposal	F 100.00
VBMAG	Disposal	F 100.00
AWS	F 100.00	F 100.00
GIORNICA	F 100.00	F 100.00
REDCATS BUSINESS DEVELOPMENT	F 100.00	F 100.00
Germany		
CYRILLUS GmbH	Disposal	F 100.00
VERTBAUDET VERWALTUNGS GmbH	Disposal	E 50.00
Austria		
REDCATS BETEILIGUNG GmbH	F 100.00	F 100.00
REDOUTE VERSAND GmbH	F 100.00	F 100.00
Belgium		
CYRILLUS BENELUX	Disposal	F 100.00
REDOUTE CATALOGUE BENELUX	F 100.00	F 100.00
Denmark		
ELLOS AS	Disposal	F 100.00
Spain		
REDCATS ESPANA	F 100.00	F 100.00
Estonia		
ELLOS EESTI OU	Disposal	F 100.00
Finland		
ELLOS TILI OY	Disposal	F 100.00
REDCATS OY	Disposal	F 100.00
United Kingdom		
CYRILLUS UK	Disposal	F 100.00
HOLDSWORTH COLLECTION Limited	F 100.00	F 100.00
MOVITEX UK Limited	F 100.00	F 100.00
REDCATS (BRANDS) Limited	F 100.00	F 100.00
REDCATS FINANCE Limited	F 100.00	F 100.00
REDCATS UK PLC	F 100.00	F 100.00
REDOUTE UK	F 100.00	F 100.00
VERTBAUDET UK	Disposal	F 100.00
Greece		
REDOUTE HELLAS	F 100.00	F 100.00
Italy		
REDCATS ITALY	F 100.00	F 100.00
Norway		
ELLOS HOLDING AS	Disposal	F 100.00
REDCATS AS	Disposal	F 100.00

Company	% interest			
	Dec. 31, 2013	Dec. 31, 2012		
REDOUTE NORWAY AS	F	100.00	F	100.00
Portugal				
REDCATS PORTUGAL	F	100.00	F	100.00
Russia				
LA REDOUTE RUS	F	100.00	F	100.00
Sweden				
ELLOS AB	Disposal		F	100.00
JOTEX AB	Disposal		F	100.00
REDCATS NORDIC AB	Disposal		F	100.00
REDCATS FINANS AB	Disposal		F	100.00
REDOUTE SVERIGE AB	F	100.00	F	100.00
Switzerland				
CYRILLUS SUISSE	Disposal		F	100.00
REDCATS SUISSE	F	100.00	F	100.00
Brazil				
REDCATS DO BRASIL	F	100.00	F	100.00
Canada				
REDCATS USA CANADA HOLDING Inc.	Disposal		F	100.00
United States				
AVENUE GIFT CARDS, Inc.	Disposal		F	100.00
BNY SERVICE CORPORATION	Disposal		F	100.00
JESSICA LONDON Inc.	Disposal		F	100.00
REDCATS USA DROP SHIP	Disposal		F	100.00
REDCATS USA GIFT CARDS	Disposal		F	100.00
REDCATS USA LLC	Disposal		F	100.00
REDCATS USA LP	Disposal		F	100.00
REDCATS USA MANAGEMENT SERVICES LP	Disposal		F	100.00
REDCATS USA, Inc.	Disposal		F	100.00
SPS INVESTMENT LLC	Disposal		F	100.00
VLP CORPORATION	Disposal		F	100.00
RUSA TEXAS LLC	Disposal		F	100.00
Hong Kong				
REDCATS ASIA	F	100.00	F	100.00
REDCATS MANAGEMENT CONSULTING (SHANGHAI)	F	100.00	F	100.00
India				
REDCATS INDIA PRIVATE Limited	F	100.00	F	100.00
Japan				
CYRILLUS JAPON	Disposal		F	100.00

Company	% interest			
	Dec. 31, 2013	Dec. 31, 2012		
Turkey				
REDCATS TEKSTIL ITHALAT VE IHRACAT TICARET	F	100.00	F	100.00
China				
REDCATS COMMERCE ET TRADING	F	100.00	F	100.00
PUMA				
PUMA SE (GERMANY)	F	85.81	F	82.99
France				
DOBOTEX FRANCE SAS ⁽¹⁾	F	100.00	F	100.00
PUMA FRANCE SAS	F	100.00	F	100.00
PUMA SPEEDCAT SAS	F	100.00	F	100.00
Germany				
DOBOTEX DEUTSCHLAND GmbH ⁽¹⁾	F	100.00	F	100.00
BRANDON GERMANY GmbH	F	100.00	F	100.00
PUMA AVANTI GmbH	Merger		F	100.00
PUMA MOSTRO GmbH	F	100.00	F	100.00
PUMA SPRINT GmbH	F	100.00	F	100.00
PUMA VERTRIEB GmbH	F	100.00	F	100.00
Austria				
AUSTRIA PUMA DASSLER GmbH	F	100.00	F	100.00
DOBOTEX ÖSTERREICH GmbH ⁽¹⁾	F	100.00	F	100.00
Bulgaria				
PUMA BULGARIA EOOD	F	100.00	F	100.00
Cyprus				
PUMA CYPRUS Ltd ⁽¹⁾	F	100.00	F	100.00
Croatia				
PUMA Sport HRVATSKA DOO	F	100.00	F	100.00
Denmark				
PUMA DENMARK A/S	F	100.00	F	100.00
Spain				
PUMA IBERIA SLU	F	100.00	F	100.00
DOBOTEX SPAIN SL ⁽¹⁾	F	100.00	F	100.00
Estonia				
PUMA ESTONIA OU	F	100.00	F	100.00
Finland				
BRANDON OY	F	100.00	F	100.00
PUMA FINLAND OY	F	100.00	F	100.00
TRETORN FINLAND OY	F	100.00	F	100.00
United Kingdom				
DOBOTEX UK Ltd ⁽¹⁾	F	100.00	F	100.00
BRANDON MERCHANDISE UK Ltd	F	100.00	F	100.00

Company	% interest			
		Dec. 31, 2013	Dec. 31, 2012	
PUMA PREMIER Ltd	F	100.00	F	100.00
PUMA UNITED KINGDOM Ltd	F	100.00	F	100.00
Greece				
PUMA HELLAS SA ⁽¹⁾	F	100.00	F	100.00
Hungary				
PUMA HUNGARY KFT	F	100.00	F	100.00
Ireland				
TRETORN R&D Ltd	F	100.00	F	100.00
Israel				
PUMA Sport ISRAEL Ltd	F	100.00	F	100.00
Italy				
DOBOTEX ITALIA SRL ⁽¹⁾	F	100.00	F	100.00
PUMA ITALIA SRL	F	100.00	F	100.00
Lithuania				
PUMA BALTIC UAB	F	100.00	F	100.00
Malta				
PUMA BLUE SEA Ltd	F	100.00	F	100.00
PUMA MALTA Ltd	F	100.00	F	100.00
PUMA RACING Ltd	F	100.00	F	100.00
Norway				
BRANDON AS	Liquidation	F	100.00	
PUMA NORWAY AS	F	100.00	F	100.00
TRETORN NORWAY AS	F	100.00	F	100.00
Netherlands				
DOBO LOGIC BV ⁽¹⁾	F	100.00	F	100.00
DOBOTEX LICENSING HOLDING BV	F	100.00	F	100.00
DOBOTEX BV ⁽²⁾	F	100.00	F	100.00
DOBOTEX INTERNATIONAL BV ⁽¹⁾	F	100.00	F	100.00
PUMA INTERNATIONAL SPORTS MARKETING BV	F	100.00	Creation	
PUMA BENELUX BV	F	100.00	F	100.00
Poland				
PUMA POLSKA SPOLKA ZOO	F	100.00	F	100.00
Portugal				
PUMA PORTUGAL ARTIGOS DESPORTIVOS Lda	Merger	F	100.00	
Czech Republic				
PUMA CZECH REPUBLIC SRO	F	100.00	F	100.00
Romania				
PUMA Sport ROMANIA SRL	F	100.00	F	100.00
Russia				
PUMA-RUS Ltd	F	100.00	F	100.00

Company	% interest			
		Dec. 31, 2013	Dec. 31, 2012	
Serbia				
PUMA SERBIA DOO	F	100.00	F	100.00
Slovakia				
PUMA SLOVAKIA SRO	F	100.00	F	100.00
Slovenia				
PUMA LJUBLJANA, TRGOVINA, DOO	Liquidation	F	100.00	
Sweden				
BRANDON AB	F	100.00	F	100.00
BRANDON COMPANY AB	F	100.00	F	100.00
BRANDON SERVICES AB	Disposal	F	100.00	
HUNT Sport AB	F	100.00	F	100.00
PUMA NORDIC AB	F	100.00	F	100.00
TRETORN AB	F	100.00	F	100.00
TRETORN SWEDEN AB	F	100.00	F	100.00
2EXPRESSIONS MERCHANDISE SVENSKA AB	F	100.00	F	100.00
Switzerland				
DOBOTEX SWITZERLAND AG ⁽¹⁾	F	100.00	F	100.00
MOUNT PUMA AG (SWITZERLAND)	F	100.00	F	100.00
PUMA RETAIL AG	F	100.00	F	100.00
PUMA SCHWEIZ AG	F	100.00	F	100.00
Ukraine				
PUMA UKRAINE Ltd	F	100.00	F	100.00
Argentina				
UNISOL SA	F	100.00	F	100.00
Brazil				
PUMA SPORTS Ltda	F	100.00	F	100.00
Canada				
PUMA CANADA, Inc.	F	100.00	F	100.00
Chile				
PUMA CHILE SA	F	100.00	F	100.00
PUMA SERVICIOS SpA	F	100.00	F	100.00
United States				
COBRA Golf Inc.	F	100.00	F	100.00
PUMA NORTH AMERICA, Inc.	F	100.00	F	100.00
PUMA SUEDE HOLDING, Inc.	F	100.00	F	100.00
BRANDON USA, Inc.	F	100.00	F	100.00
PUMA WHEAT ACCESSORIES, Ltd	F	51.00	F	51.00
JANED LLC	F	51.00	F	51.00
British Virgin Islands				
LIBERTY CHINA HOLDING Ltd ⁽¹⁾	F	100.00	F	100.00

Company	% interest			
	Dec. 31, 2013		Dec. 31, 2012	
Mexico				
DOBOTEX DE MEXICO SA DE CV	F	100.00	F	100.00
IMPORTACIONES RDS SA DE CV	F	100.00	F	100.00
PUMA MEXICO SPORT SA DE CV	F	100.00	F	100.00
SERVICIOS PROFESIONALES RDS SA DE CV	F	100.00	F	100.00
Peru				
DISTRIBUIDORA DEPORTIVA PUMA SAC	F	100.00	F	100.00
DISTRIBUIDORA DEPORTIVA PUMA TACNA SAC	F	100.00	F	100.00
PUMA RETAIL PERU SAC	F	100.00	F	100.00
Uruguay				
PUMA SPORTS LA SA	F	100.00	F	100.00
Botswana				
WILDERNESS HOLDINGS Ltd	E	25.10	E	25.10
South Africa				
PUMA SPORTS DISTRIBUTORS (PTY) Ltd	F	100.00	F	100.00
PUMA SPORTS SA	F	100.00	F	100.00
Australia				
KALOLA PTY Ltd	F	100.00	F	100.00
PUMA AUSTRALIA PTY Ltd	F	100.00	F	100.00
WHITE DIAMOND AUSTRALIA PTY Ltd	F	100.00	F	100.00
WHITE DIAMOND PROPERTIES	F	100.00	F	100.00
New Zealand				
PUMA NEW ZEALAND Ltd	F	100.00	F	100.00
United Arab Emirates				
PUMA MIDDLE EAST FZ LLC	F	100.00	F	100.00
PUMA UAE LLC ⁽¹⁾	F	100.00	F	100.00
Turkey				
PUMA SPOR GIYIM SANANYI VE TICARET AS	F	100.00	F	100.00
China				
BRANDON TRADING (SHANGHAI) Ltd	F	100.00	Creation	
DOBOTEX CHINA Ltd ⁽¹⁾	F	100.00	F	100.00
PUMA CHINA Ltd	F	100.00	F	100.00
GUANGZHOU WORLD CAT INFORMATION CONSULTING SERVICES CO. Ltd	F	100.00	F	100.00
Hong Kong				
BRANDON HONG KONG Ltd	F	100.00	F	100.00
DEVELOPMENT SERVICES Ltd	F	100.00	F	100.00

Company	% interest			
	Dec. 31, 2013		Dec. 31, 2012	
India				
DOBOTEX Ltd ⁽¹⁾	F	100.00	F	100.00
PUMA ASIA PACIFIC Ltd	F	100.00	F	100.00
PUMA HONG KONG Ltd	F	100.00	F	100.00
WORLD CAT Ltd	F	100.00	F	100.00
Japan				
PUMA JAPAN KK	F	100.00	F	100.00
Korea				
PUMA KOREA Ltd	F	100.00	F	100.00
DOBOTEX KOREA Ltd ⁽¹⁾	F	100.00	F	100.00
Malaysia				
PUMA SPORTS GOODS SDN BHD	F	100.00	F	100.00
Singapore				
PUMA SPORTS SINGAPORE PTE Ltd	F	100.00	F	100.00
Taiwan				
PUMA TAIWAN SPORTS Ltd ⁽¹⁾	F	100.00	F	100.00
Vietnam				
WORLD CAT VIETNAM CO. Ltd	F	100.00	F	100.00
WORLD CAT VIETNAM SOURCING & DEVELOPMENT SERVICES CO. Ltd	F	100.00	F	100.00
VOLCOM				
VOLCOM Inc.	F	100.00	F	100.00
United States				
VOLCOM RETAIL Inc.	F	100.00	F	100.00
VOLCOM ENTERTAINMENT Inc.	F	100.00	F	100.00
LS&S RETAIL Inc.	F	100.00	F	100.00
VOLCOM OUTLET Inc.	F	100.00	F	100.00
ELECTRIC VISUAL EVOLUTION LLC	F	100.00	F	100.00
Luxembourg				
VOLCOM LUXEMBOURG HOLDING SA	F	100.00	F	100.00
Switzerland				
VOLCOM INTERNATIONAL SARL	F	100.00	F	100.00
WELCOM DISTRIBUTION SARL	F	100.00	F	100.00
Spain				
VOLCOM DISTRIBUTION SPAIN SL	F	100.00	F	100.00
ELECTRIC VISUAL EVOLUTION SPAIN	F	100.00	F	100.00

Company	% interest			
		Dec. 31, 2013	Dec. 31, 2012	
France				
VOLCOM SAS	F	100.00	F	100.00
VOLCOM RETAIL FRANCE	F	100.00	F	100.00
SARL ELECTRIC EUROPE	F	100.00	F	100.00
United Kingdom				
VOLCOM DISTRIBUTION (UK) Limited	F	100.00	F	100.00
VOLCOM RETAIL (UK) Limited	F	100.00	F	100.00
Australia				
VOLCOM AUSTRALIA HOLDING COMPANY PTY Ltd	F	100.00	F	100.00
VOLCOM AUSTRALIA PTY Ltd	F	100.00	F	100.00
ELECTRIC VISUAL EVOLUTION AUSTRALIA PTY Ltd	F	100.00	F	100.00
New Zealand				
VOLCOM NEW ZEALAND Limited	F	100.00	F	100.00
ELECTRIC VISUAL EVOLUTION NEW ZEALAND Limited		Liquidation	F	100.00
Japan				
VOLCOM JAPAN GODOGAISHIYA	F	100.00	F	100.00
China				
VOLCOM HONG KONG	F	100.00	Creation	
HOLDING COMPANIES AND OTHER				
France				
CONSEIL ET ASSISTANCE	F	100.00	F	100.00
DISCODIS	F	100.00	F	100.00
FINANCIERE MAROTHI	Merger		F	100.00
KERING FINANCE	F	100.00	F	100.00
SAPARDIS	F	100.00	F	100.00
GG FRANCE 13 SAS	F	100.00	F	100.00
GG FRANCE 14	F	100.00	Creation	
SAPRODIS SERVICES SAS	F	100.00	F	100.00
YSL BEAUTE CONSULTING	-	-	F	100.00
GG France 10	-	-	F	100.00
United Kingdom				
KERING INTERNATIONAL Limited	F	100.00	Creation	
KERING UK SERVICES Limited	F	100.00	F	100.00
Germany				
SAPARDIS DEUTSCHLAND SE	F	100.00	F	100.00
Italy				
KERING ITALIA SpA	F	100.00	F	100.00
KERING SERVICE ITALIA SpA	F	100.00	F	100.00
REXCOURTA SpA	F	100.00	F	100.00

Company	% interest			
		Dec. 31, 2013	Dec. 31, 2012	
Luxembourg				
ABBEY REINSURANCE	F	100.00	Acquisition	
E-KERING LUX SA	F	100.00	F	100.00
FI HOLDING LUX SA		Disposal	F	100.00
PPR DISTRI LUX SA	F	100.00	F	100.00
PPR INTERNATIONAL	F	100.00	F	100.00
PRINTEMPS REASSURANCE	F	100.00	F	100.00
KERING LUXEMBOURG SA	F	100.00	F	100.00
Netherlands				
KERING HOLLAND NV	F	100.00	F	100.00
GUCCI INTERNATIONAL NV	F	100.00	F	100.00
GUCCI PARTICIPATION BV	F	100.00	F	100.00
KERING NETHERLANDS BV	F	100.00	F	100.00
Switzerland				
LUXURY GOODS SERVICES SA	F	100.00	F	100.00
Hong Kong				
KGS	F	100.00	F	100.00
China				
KERING ASIA PACIFIC Ltd	F	100.00	F	100.00
KERING (CHINA) ENTERPRISE MANAGEMENT Ltd	F	100.00	Creation	
PPR HOLDING Limited	F	100.00	F	100.00
Korea				
KERING KOREA Limited	F	100.00	Creation	
Japan				
KERING JAPAN Limited	F	100.00	F	100.00
KERING TOKYO INVESTMENTS	F	100.00	Creation	
United States				
KERING AMERICAS	F	100.00	F	100.00

(1) Income of these consolidated companies is consolidated based on the Group's contractual share in their operations which may differ from the Group's share in capital.

5. *statutory auditors' report on the consolidated financial statements*

year ended december 31, 2013

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In accordance with our appointment as Statutory Auditors at your Annual General Meetings, we hereby report to you for the year ended December 31, 2013 on:

- the audit of the accompanying consolidated financial statements of Kering S.A.;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

1. *Opinion on the consolidated financial statements*

We conducted our audit in accordance with professional standards applicable in France. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position and assets and liabilities of the Group as of December 31, 2013 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

2. *Justification of our assessments*

Pursuant to Article L. 823-9 of the French Commercial Code (*Code de commerce*) governing the justification of our assessments, we hereby report on the following:

- During the second half of the year, your Company systematically tests goodwill and assets with an indefinite useful life for impairment, and also assesses whether there is indication of impairment of long-term assets, in accordance with the methods described in Note 2.10 to the consolidated financial statements. We examined the methods used to implement these impairment tests, the cash flow forecasts and assumptions used and verified that Note 18 to the consolidated financial statements provides the appropriate disclosure.
- Your Company recognizes provisions, as described in Note 2.16 to the consolidated financial statements. Our procedures mainly consisted in assessing the data and assumptions underlying such estimates, verifying, on a test basis, the Company's calculations and examining the Management approval procedures for these estimates. We have assessed the reasonableness of those estimates based on this work.

- Note 2.17 to the consolidated financial statements sets out the methods used to measure post-employment and other long-term employee benefit obligations. These obligations were measured by independent actuaries. Our procedures consisted in examining the data used, assessing the underlying assumptions and verifying that Note 25 to the consolidated financial statements provides the appropriate disclosures.

These assessments were performed as part of our audit approach for the consolidated financial statements taken as a whole and therefore contributed to the expression of our opinion in the first part of this report.

3. *Specific verification*

We have also performed the other procedures required by law on the information relating to the Group given in the Management Report, in accordance with professional standards applicable in France.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris La Défense and Neuilly-sur-Seine, March 31, 2014

The Statutory Auditors

KPMG Audit
Département de KPMG SA
Hervé Chopin

Deloitte & Associés
Antoine de Riedmatten

6. *parent company financial statements*

6.1. *balance sheet – assets*

as of december 31, 2013 and 2012

ASSETS (in € millions)	Notes			Dec. 31, 2013 Carrying amount	Dec. 31, 2012 Carrying amount
		Gross	Depreciation, amortisation and provisions		
Non-current assets					
Investments		10,160.5	(1,384.7)	8,775.8	10,191.5
Other long-term investments ⁽¹⁾		0.5	(0.2)	0.3	0.5
	3	10,161.0	(1,384.9)	8,776.1	10,192.0
Property, plant and equipment and intangible assets	4	367.8	(18.8)	349.0	3.5
Non-current assets		10,528.8	(1,403.7)	9,125.1	10,195.5
Current assets					
Receivables ^{(2) (3)}	5	72.6		72.6	93.3
Marketable securities	6	71.9		71.9	61.8
Cash ⁽³⁾	6	1,406.8		1,406.8	2.5
Current assets		1,551.3	0.0	1,551.3	157.6
TOTAL ASSETS		12,080.1	(1,403.7)	10,676.4	10,353.1
(1) o/w due in less than one year:				0.1	0.2
(2) o/w due in more than one year:				0.0	0.0
(3) o/w concerning associates:				1,440.0	64.8

6.2. *balance sheet – shareholders' equity and liabilities*

as of december 31, 2013 and 2012

SHAREHOLDERS' EQUITY AND LIABILITIES (in € millions)	Notes	Dec. 31, 2013	Dec. 31, 2012
Shareholders' equity			
Share capital		504.9	504.5
Additional paid-in capital		2,048.3	2,040.1
Reserves	7	1,587.9	1,588.7
Retained earnings		1,426.3	1,706.1
Net income for the year		832.9	505.6
Shareholders' equity		6,400.3	6,345.0
Provisions	8	463.0	50.8
Liabilities			
Bonds ⁽¹⁾	9.1	3,300.1	3,100.1
Other borrowings ^{(1) (3)}	9.1	241.7	594.5
Other liabilities ^{(2) (3)}	10	271.3	262.7
		3,813.1	3,957.3
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		10,676.4	10,353.1
(1) o/w due in more than one year:		2,600.0	2,452.6
(2) o/w due in more than one year:		0.0	0.0
(3) o/w concerning associates:		30.4	354.6

6.3. *income statement*

For the years ended December 31, 2013 and 2012

<i>(in € millions)</i>	Notes	2013	2012
Operating income		117.5	100.8
Operating expenses		(133.7)	(117.3)
Net operating loss	12	(16.2)	(16.5)
Dividends		2,188.2	876.1
Other financial income and expenses		(96.7)	(129.4)
Net financial income	13	2,091.5	746.7
Recurring income before tax		2,075.3	730.2
Net non-recurring expense	14	(1,259.2)	(364.7)
Employee profit-sharing		(3.3)	(2.0)
Income tax	15	20.1	142.1
Net income for the year		832.9	505.6

6.4. *statement of cash flows*

For the years ended December 31, 2013 and 2012

<i>(in € millions)</i>	2013	2012
Dividends received	2,188.2	876.1
Interest on borrowings	(145.5)	(174.8)
Income tax received	42.2	111.6
Other	(28.9)	(11.4)
Change in cash resulting from operating activities	2,056.0	801.5
(Acquisitions)/disposals of operating assets	(3.9)	(1.8)
Change in long-term investments	(87.5)	(574.9)
Change in cash resulting from investing activities	(91.4)	(576.7)
Net change in borrowings	(155.0)	206.5
Share capital increases	8.6	12.1
Dividends paid by Kering	(471.2)	(440.6)
Change in cash resulting from financing activities	(617.6)	(222.0)
Changes in Group structure following the merger of Financière Marothi	67.4	-
Change in cash and cash equivalents	1,414.4	2.8
Cash and cash equivalents at beginning of year	64.3	61.5
Cash and cash equivalents at end of year	1,478.7	64.3

6.5. *statement of changes in shareholders' equity*

<i>(in € millions) (before appropriation of net income)</i>	Number of shares	Share capital	Additional paid-in capital	Reserves and retained earnings	Net income for the year	Shareholders' equity
As of December 31, 2011	127,000,889	508.0	2,135.3	3,261.8	663.6	6,568.7
Appropriation of 2011 net income				663.6	(663.6)	-
Dividends paid				(440.6)		(440.6)
Interim dividend				(189.2)		(189.2)
Exercise of stock options	146,780	0.6	11.5			12.1
Cancellation of shares	(1,030,967)	(4.1)	(106.7)			(110.8)
Changes in tax-driven provisions				(0.8)		(0.8)
2012 net income					505.6	505.6
As of December 31, 2012	126,116,702	504.5	2,040.1	3,294.8	505.6	6,345.0
Appropriation of 2012 net income				505.6	(505.6)	-
Dividends paid				(282.2)		(282.2)
Dividends paid in the form of Groupe Fnac shares				(313.9)		(313.9)
Interim dividend				(189.3)		(189.3)
Exercise of stock options	110,059	0.4	8.2			8.6
Changes in tax-driven provisions				(0.8)		(0.8)
2013 net income					832.9	832.9
As of December 31, 2013	126,226,761	504.9	2,048.3	3,014.2	832.9	6,400.3

As of December 31, 2013, Kering's share capital comprised 126,226,761 shares with a par value of €4 each.

6.6. *notes to the parent company financial statements*

Note 1. 2013 highlights

At the Annual General Meeting on June 18, 2013, Kering's shareholders authorised:

- the change of the Company's name to Kering;
- an additional dividend in the form of Groupe Fnac shares at a ratio of one Groupe Fnac share for every eight Kering shares held.

As part of the planned sale of La Redoute and Relais Colis, subsidiaries of Redcats, Kering has undertaken to recapitalise La Redoute and Relais Colis (around €315 million) at the time of the sale.

Kering issued €500 million worth of seven-year bonds with a fixed-rate coupon of 2.50% on July 15, 2013 and €500 million worth of five-year bonds with a fixed-rate coupon of 1.875% on October 8, 2013.

In January 2013, Kering redeemed at maturity its two €300 million bonds issued in June 2005 and 2006.

In May 2013, Kering redeemed at maturity its €200 million May 2008 bond issue indexed to changes in the Kering share price, generating €62 million in income.

Note 2. Accounting policies and methods

The annual financial statements are prepared in accordance with the provisions of the French accounting standards setter (*Comité de la réglementation comptable* – CRC) regulation no. 99-03 of April 29, 1999 on the revision of the General Chart of Accounts and the new accounting rules on assets introduced by CRC regulation no. 2002-10, as amended by CRC regulation no. 2003-07 and CRC regulation no. 2004-06.

2.1. Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are recorded in the balance sheet at their acquisition cost. Depreciation and amortisation is calculated using the straight-line method based on the nature and useful life of each component.

2.2. Long-term investments

Investments

Securities classified as "Investments" are those considered necessary for the Company's activities, particularly because they provide the Company with influence over, or control of, the issuer.

Pursuant to notice no. 2007-C issued by the Emerging Issues Taskforce of the French accounting standards authority (*Conseil National de la Comptabilité* – CNC) on June 15, 2007, the Company elected to recognise acquisition fees as part of the cost of investments.

As of the end of the reporting period, the gross amount of investments is compared to their value in use to the Company, determined with reference to the subsidiary's estimated economic value and taking into consideration the purpose of the original transaction. Value in use is determined using a multi-criteria approach based on future cash flow projections, the revised asset value, and the share of consolidated or revalued shareholders' equity. Other methods are used where necessary.

An impairment loss is recorded when market value falls below the gross value.

Other long-term investments

Other long-term investments include other investments and certain treasury shares.

Other investments (excluding treasury shares)

Other investments are investments that the Company plans or is required to hold on a long term basis, but which are not deemed necessary for the Company's activities.

The gross amount of such investments is equal to the acquisition cost plus any related acquisition fees.

An impairment loss is recognised based on the value in use of these securities to the Company.

Treasury shares

Treasury shares acquired under liquidity agreements are recorded under "Other long-term investments". These shares are written down where necessary to reflect the average share price over the last month of the fiscal year.

Treasury shares acquired for the express purpose of being used in a future capital reduction are also classified under "Other long-term investments". These shares are not written down to reflect the share price.

2.3. Receivables

Receivables are recorded in the balance sheet at their nominal value, and are written down where they present a risk of non-recovery.

2.4. Marketable securities and negotiable debt securities

Treasury shares

Treasury shares acquired for the express purpose of being subsequently granted to employees under stock purchase option plans and free share plans are recorded under "Marketable securities". No impairment is recognised on treasury shares to reflect the share price.

Other shares

Shares are recorded at their acquisition cost. An impairment loss is recognised when their closing price falls below their carrying amount.

Bonds

Bonds are recorded on the acquisition date at their par value adjusted by the premium or discount. Accrued interest as of the acquisition date and as of the end of the reporting period is recorded in an accrued interest account.

As of the end of the reporting period, the cost of the bonds is compared to the market value of the principal over the last month of the year, excluding accrued interest. An impairment loss is recorded when market value falls below the gross value.

Mutual funds (Sicav)

Shares in mutual funds are recorded at their acquisition cost excluding subscription fees, and their net asset value is estimated as of the end of the reporting period. A provision for impairment is recorded in respect of any unrealised capital losses. No unrealised capital gains are recognised.

Negotiable certificates of deposit, certificates of deposit and notes issued by financing companies

These negotiable debt securities are subscribed on the primary market or purchased on the secondary market. They are recorded at acquisition cost less accrued interest as of the acquisition date when purchased on the secondary market.

Prepaid interest is recognised as financial income on a proportional basis for the fiscal year.

2.5. Financial instruments

All foreign currency and interest rate positions are taken via instruments listed on exchange-traded or over-the-counter markets representing minimal counterparty risk. Any gains or losses generated on financial instruments used in hedging transactions are offset against the corresponding gain or loss on the hedged items.

Where financial instruments do not qualify as hedges, any gains or losses resulting from changes in their market

value are recorded in the income statement, except for over-the-counter transactions. For these transactions, a provision is recorded for any unrealised losses, while unrealised gains are not recognised.

2.6. Foreign currency transactions

Income and expenses denominated in foreign currencies are recorded at their euro-equivalent value on the transaction date. Borrowings, receivables and liquidity positions denominated in foreign currencies are translated at the closing exchange rate. In the case of foreign currency hedging, borrowings and receivables are translated at the hedging rate.

Any translation differences resulting from the valuation of foreign currency borrowings and receivables are recorded in accrual accounts, as an asset for unrealised losses and as a liability for unrealised gains. A contingency provision is recorded to cover any unhedged unrealised losses. Where borrowings and receivables are hedged by financial instruments, any foreign currency gains or losses are immediately recorded in the income statement.

2.7. Bond issue and capital increase fees – Bond redemption premiums

Bond issue fees are recognised as of the issue date.

Costs associated with increases in capital, mergers or restructuring are charged against the additional paid-in capital arising from the merger or restructuring.

Bonds are recorded at their par value.

Any issue or redemption premiums are assigned to the relevant balance sheet item and amortised over the term of the bond.

For convertible bonds, the redemption premium is recognised over the term of the bond, in accordance with the benchmark accounting treatment.

In the case of an indexed bond issue, a contingency provision must be recorded in respect of redemption when the estimated amount required to redeem the bonds as of the end of the reporting period exceeds the amount of the issue. This provision is calculated on a proportional basis over the term of the bond.

2.8. Provisions

Provisions are recognised in accordance with CNC regulation no. 2000.06 and include pension and other employee benefit obligations pursuant to recommendation no. 2003.R.01 of July 22, 2004.

Under defined benefit plans, obligations are valued using the projected unit credit method based on agreements in effect in the Company. Under this method, each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation. The obligation is then discounted. The actuarial assumptions used to determine the obligations vary depending on economic conditions.

These benefit obligations are assessed by independent actuaries on an annual basis. The valuations take into account the level of future compensation, the probable active life of employees, life expectancy and staff turnover.

Kering applies the notice relating to CRC regulation no. 2008-15 of December 4, 2008 on the accounting treatment of stock option plans and employee free share plans.

2.9. Tax consolidation

Kering has set up a tax consolidation group in France with several sub-groups and subsidiaries.

Each subsidiary recognises a tax expense for the amount of tax it would have paid on a stand-alone basis. The tax savings generated by the Group as a result of tax consolidation are retained by Kering, as parent company of the tax consolidation group.

Note 3. Net long-term investments

(in € millions)	As of Dec. 31, 2012	Increase	Decrease	As of Dec. 31, 2013
Gross value				
Investments	11,166.7	4,331.4	(5,337.6)	10,160.5
Kering Netherlands BV (Financière Marothi merger)		4,237.2		4,237.2
Kering Holland NV	2,566.9			2,566.9
Redcats	1,171.6			1,171.6
Groupe Fnac (formerly Caumartin Participations)	622.0	66.5	(688.5)	
Financière Marothi	4,648.1	0.7	(4,648.8)	
Sapardis	1,804.0			1,804.0
Discodis	299.7			299.7
Other	54.4	27.0	(0.3)	81.1
Other long-term investments	0.5	264.2	(264.2)	0.5
Treasury shares (liquidity agreement) ⁽¹⁾		264.1	(264.1)	
Loans	0.3		(0.1)	0.2
Deposits and guarantees	0.2	0.1		0.3
Gross value	11,167.2	4,595.6	(5,601.8)	10,161.0
Impairment losses				
Investments	(975.2)	(592.7)	183.2	(1,384.7)
Redcats	(780.5)	(391.1)		(1,171.6)
Groupe Fnac (formerly Caumartin Participations)	(182.0)		182.0	
Sapardis		(200.0)		(200.0)
Other	(12.7)	(1.6)	1.2	(13.1)
Other long-term investments		(0.2)		(0.2)
Impairment losses	(975.2)	(592.9)	183.2	(1,384.9)
CARRYING AMOUNT	10,192.0			8,776.1

(1) The amount corresponding to treasury shares is unavailable and recognised in tax-driven reserves.

Treasury share transactions

In 2013, the Group made a net acquisition of 35,508 treasury shares, resulting from the following transactions:

- the acquisition of 1,585,556 shares under the liquidity agreement;
- the disposal of 1,585,556 shares under the liquidity agreement;
- the acquisition of 106,000 shares in connection with free share plans;
- the allotment to employees of 40,005 shares under the 2009 free share plans which mature in May 2013, 62,486 shares under the 2011 free share plan which matures in May 2013, and 450 shares under the 2008 and 2009 free share plans;
- the acquisition of 130,000 shares to be allotted to employees under stock purchase option plans;
- the disposal of 44,867 shares to employees under the May 2006 stock purchase option plan, 55,670 shares under the May 2007 stock purchase option plan, and 2,500 shares under the September 2007 stock purchase option plan;
- the acquisition of 720,000 shares to be tendered as part of an external growth transaction;

- the tender of 714,514 shares as part of an external growth transaction and the allocation of the remaining 5,486 shares acquired to be allotted under stock purchase option plans.

As a result of the various stock subscription options exercised in 2013, the share capital increased by 110,059 shares.

As of December 31, 2013, the Group held no call options on its own shares to cover stock purchase and stock subscription option plans.

On May 26, 2004, Kering signed an agreement with a financial broker in order to improve the liquidity of the Group's shares and ensure share price stability. This agreement complies with the Professional Code of Conduct drawn up by the French association of financial and investment firms (*Association française des marchés financiers* – AMAFI) and approved by the French financial markets authority (*Autorité des marchés financiers* – AMF).

The agreement was initially endowed with €40 million, half of which was provided in cash and half in Kering shares. An additional €20 million in cash was allocated to the agreement on September 3, 2004, and a further €30 million on December 18, 2007.

As of December 31, 2013, Kering held no treasury shares in connection with the liquidity agreement.

Outside the scope of the liquidity agreement, Kering holds 4,275 treasury shares to be granted to employees under the 2012 free share plans which mature in 2014,

and 56,306 treasury shares in connection with stock purchase option plans.

As of December 31, 2012, 25,073 treasury shares were held by the Company outside the scope of said agreement.

Note 4. Property, plant and equipment and intangible assets

Movements in property, plant and equipment and intangible assets are presented below:

<i>(in € millions)</i>	Land and buildings	Plant and equipment	Other	Total
Gross value				
December 31, 2012	2.9	0.4	16.7	20.0
Acquisitions			3.9	3.9
Financière Marothi merger deficit			344.1	344.1
Disposals			(0.2)	(0.2)
December 31, 2013	2.9	0.4	364.5	367.8
Depreciation, amortisation and provisions				
December 31, 2012	(2.4)	(0.3)	(13.8)	(16.5)
Additions	(0.3)	(0.1)	(2.1)	(2.5)
Reversals on disposals			0.2	0.2
December 31, 2013	(2.7)	(0.4)	(15.7)	(18.8)
Carrying amount				
December 31, 2012	0.5	0.1	2.9	3.5
December 31, 2013	0.2	0.0	348.8	349.0

Other non-current assets mainly include the Financière Marothi merger deficit, improvements, head office equipment and furniture, and other intangible assets (software).

Note 5. Receivables

These line items break down as follows:

<i>(in € millions)</i>	Dec. 31, 2013	Dec. 31, 2012
Tax consolidation current accounts	15.9	50.7
Interest rate swap and forex suspense account	6.2	6.1
Kadéos account	9.4	9.4
Income tax benefit	12.0	8.4
Group customers	17.5	14.1
Bond issue premiums	3.1	(0.5)
Other	6.4	4.0
Prepaid expenses	2.1	1.1
TOTAL	72.6	93.3
<i>o/w concerning associates</i>	33.8	64.8

Note 6. Marketable securities and cash

These line items break down as follows:

<i>(in € millions)</i>	Dec. 31, 2013	Dec. 31, 2012
Treasury shares pending employee grants	0.8	0.1
Treasury shares pending allocation to stock purchase option plans	9.6	3.2
Listed securities	61.5	61.6
Impairment of listed securities	-	(3.1)
Marketable securities	71.9	61.8
Bank deposits and fund transfers	0.6	2.5
Cash current accounts	1,405.9	-
Interest on cash current accounts	0.3	-
Cash	1,406.8	2.5
CASH AND CASH EQUIVALENTS	1,478.7	64.3
o/w concerning associates	1,406.2	-

Listed securities mainly comprise mutual funds (Sicav) for €55.7 million (€55.8 million as of December 31, 2012).

Note 7. Reserves

The Company's reserves before the appropriation of net income break down as follows:

<i>(in € millions)</i>	Dec. 31, 2013	Dec. 31, 2012
Legal reserve	51.4	51.4
Tax-driven reserves	1,293.6	1,293.6
Other reserves	240.3	240.3
Reserves	1,585.3	1,585.3
Tax-driven provisions	2.6	3.4
TOTAL	1,587.9	1,588.7

Note 8. Provisions

<i>(in € millions)</i>	Dec. 31, 2012	Additions	Reversals (utilised provisions)	Reversals (surplus provisions)	Reclassification	Dec. 31, 2013
Disputes	28.4	0.6	8.2		0.5	21.3
Risks relating to subsidiaries		420.0				420.0
Pensions and other employee benefit obligations	6.3	0.3		0.1		6.5
Other contingencies	16.1	0.2		0.6	(0.5)	15.2
TOTAL	50.8	421.1	8.2	0.7		463.0
o/w:						
operating items		0.1				
financing items		0.4				
non-recurring items		420.6	8.2	0.7		

Contingency provisions for subsidiaries mainly correspond to Kering's €315 million recapitalisation commitment in relation to La Redoute and Relais Colis as well as their losses for 2013.

The main actuarial assumptions used to determine pensions and other employee benefit obligations are:

- discount rate of 3.25% versus 3.50% in 2012;
- salary increase rate of 3.00% as in 2012.

Note 9. Borrowings

Bond issues

(in € millions)	Interest rate	Issue date	Hedge	Maturity	Dec. 31, 2013	Dec. 31, 2012
Bond issue ⁽¹⁾	4.00% fixed	06/29/2005 & 06/19/2006	-	01/29/2013		600.0
Bond issue ⁽²⁾	6.536% fixed	05/16/2008	-	05/16/2013		200.0
Bond issue ⁽³⁾	8.625% fixed	04/03/2009	-	04/03/2014	550.1	550.1
Bond issue ⁽⁴⁾	7.75% fixed	06/03/2009	6-month Euribor floating rate swap for €150 million	06/03/2014	150.0	150.0
Bond issue ⁽⁵⁾	6.50% fixed	06/29/2009	-	06/29/2017	150.0	150.0
Bond issue ⁽⁶⁾	6.50% fixed	11/06/2009	-	11/06/2017	200.0	200.0
Bond issue ⁽⁷⁾	3.75% fixed	04/08/2010 & 01/26/2012	-	04/08/2015	750.0	750.0
Bond issue ⁽⁸⁾	3.125% fixed	04/23/2012	-	04/23/2019	500.0	500.0
Bond issue ⁽⁹⁾	2.50% fixed	07/15/2013	-	07/15/2020	500.0	
Bond issue ⁽¹⁰⁾	1.875% fixed	10/08/2013	-	10/08/2018	500.0	

(1) Issue price: bond issue, comprising 600,000 bonds with a par value of €1,000 each under the EMTN programme, with 300,000 bonds issued on June 29, 2005 and 300,000 additional bonds issued on June 19, 2006, thereby raising the issue to 600,000 bonds. Redemption: in full on January 29, 2013.

(2) Issue price: bond issue indexed to Kering shares, issued on May 16, 2008 under the EMTN programme, comprising 2,362,907 bonds with a par value of €84.64 each. Redemption: the redemption price, indexed to changes in the Kering share price, was €138.2 million maturing on May 16, 2013.

(3) Issue price: bond issue, comprising 550,100 bonds with a par value of €1,000 each under the EMTN programme, with 600,000 bonds issued on April 3, 2009 and 200,000 additional bonds issued on May 13, 2009, thereby raising the issue to 800,000 bonds. A total of 249,900 of these bonds were redeemed on April 26, 2011. Redemption: in full on April 3, 2014.

(4) Issue price: bond issue on June 3, 2009, comprising 150,000 bonds with a par value of €1,000 each under the EMTN programme. Redemption: in full on June 3, 2014.

(5) Issue price: bond issue on June 29, 2009, comprising 3,000 bonds with a par value of €50,000 each under the EMTN programme. Redemption: in full on June 29, 2017.

(6) Issue price: bond issue on November 6, 2009, comprising 4,000 bonds with a par value of €50,000 each under the EMTN programme. Redemption: in full on November 6, 2017.

(7) Issue price: bond issue on April 8, 2010, comprising 500,000 bonds with a par value of €1,000 each under the EMTN programme, and 250,000 additional bonds issued on January 26, 2012, thereby raising the issue to 750,000 bonds. Redemption: in full on April 8, 2015.

(8) Issue price: bond issue on April 23, 2012, comprising 500,000 bonds with a par value of €1,000 each under the EMTN programme. Redemption: in full on April 23, 2019.

(9) Issue price: bond issue on July 15, 2013, comprising 5,000 bonds with a par value of €100,000 each under the EMTN programme. Redemption: in full on July 15, 2020.

(10) Issue price: bond issue on October 8, 2013, comprising 5,000 bonds with a par value of €100,000 each under the EMTN programme. Redemption: in full on October 8, 2018.

The bonds issued between 2009 and 2013 within the scope of the EMTN programme are all subject to change-of-control clauses entitling bondholders to request early redemption at par if Kering's rating is downgraded to non-investment grade following a change of control.

In addition, the bonds issued in 2009 and 2010 – including the bonds added in January 2012 to those issued in April 2010 – include a “step-up coupon” clause that applies in the event that Kering's rating is downgraded to non-investment grade.

9.1. Breakdown by type

<i>(in € millions)</i>	Dec. 31, 2013	Dec. 31, 2012
Bonds	3,300.1	3,100.1
Interest on bond issues	88.7	111.1
Long- and medium-term borrowings	152.5	152.5
Interest on long- and medium-term borrowings	0.1	0.1
Outstanding bank overdrafts	0.1	-
Cash current accounts	0.3	330.7
Interest on cash current accounts	-	0.1
Other borrowings	241.7	594.5
TOTAL	3,541.8	3,694.6
o/w concerning associates	0.3	330.8

As of December 31, 2013 and 2012, no borrowings were secured by collateral.

9.2. Breakdown by maturity

<i>(in € millions)</i>	Dec. 31, 2013	Dec. 31, 2012
Less than one year	941.8	1,242.0
One to five years	1,600.0	1,952.6
More than five years	1,000.0	500.0
TOTAL	3,541.8	3,694.6

9.3. Net debt

<i>(in € millions)</i>	Dec. 31, 2013	Dec. 31, 2012
Borrowings	3,541.8	3,694.6
Marketable securities	(71.9)	(61.8)
Cash	(1,406.8)	(2.5)
TOTAL	2,063.1	3,630.3

9.4. Information on interest rates

	Dec. 31, 2013	Dec. 31, 2012
Average interest rate over the year	4.06%	4.81%
% average debt at fixed rates	71.00%	80.00%
% average debt at floating rates	29.00%	20.00%

Note 10. Other liabilities

These line items break down as follows:

<i>(in € millions)</i>	Dec. 31, 2013	Dec. 31, 2012
Tax consolidation current accounts	8.2	16.5
Dividends to be paid	189.3	189.2
Tax and employee-related liabilities	23.5	20.9
Other	50.3	36.1
TOTAL	271.3	262.7
o/w concerning associates	30.1	23.8

Note 11. Off-balance sheet commitments

11.1. Interest rate hedges

(in € millions)	Dec. 31, 2013	Y+1	Y+2	Y+3	Y+4	Y+5	>Y+5	Dec. 31, 2012
Swaps: fixed-rate lender	150.0	150.0						150.0
Other interest rate instruments ⁽¹⁾	152.5	152.5						152.5

(1) Including floating-for-floating rate swaps.

As part of the Group's policy of hedging interest rate risk, Kering sets up interest rate swaps in connection with certain fixed-rate bond issues.

Kering has also entered into floating-for-floating rate swaps on a nominal amount of €152.5 million maturing in June 2014.

As of December 31, 2013, these transactions concerned the bond issue maturing in June 2014, which was swapped in full against 6-month Euribor for €150 million.

11.2. Stock option plans and free share plans

The nature and main characteristics of the plans are indicated in the tables below:

Stock option and free share plans	2003/1 Plan	2004/1 Plan	2005/1 Plan	2005/2 Plan	2005/3 Plan
	Subscription options	Subscription options	Subscription options	Subscription options	Subscription options
Grant date	07/09/2003	05/25/2004	01/03/2005	05/19/2005	05/19/2005
Expiry date	07/08/2013	05/24/2014	01/02/2015	05/18/2015	05/18/2015
Vesting of rights	(a)	(a)	(a)	(b)	(b)
Number of beneficiaries	721	846	13	458	22
Number initially granted	528,690	540,970	25,530	333,750	39,960
Number outstanding as of Jan. 1, 2013	21,890	67,820	750	94,260	1,520
Number forfeited in 2013		2,820		336	
Number exercised in 2013	19,260	30,735		59,344	720
Number of shares issued (AGM)					
Number expired in 2013	2,630				
Number outstanding as of Dec. 31, 2013		34,265	750	34,580	800
Number exercisable as of Dec. 31, 2013		34,265	750	34,580	800
Strike price (in €)	66.00	85.57	75.29	78.01	78.97

Stock option and free share plans	2005/4 Plan	2006/1 Plan	2007/1 Plan	2007/2 Plan	2009/2 Plan
	Subscription options	Purchase options	Purchase options	Purchase options	Free shares
Grant date	07/06/2005	05/23/2006	05/14/2007	09/17/2007	05/07/2009
Expiry date	07/05/2015	05/22/2014	05/13/2015	09/16/2015	N/A
Vesting of rights	(b)	(b)	(b)	(b)	(d)
Number of beneficiaries	15	450	248	14	161
Number initially granted	20,520	403,417	355,500	51,300	46,505
Number outstanding as of Jan. 1, 2013	1,920	157,030	244,130	41,400	40,225
Number forfeited in 2013	1,520	708	43,290		220
Number exercised in 2013		44,867	55,670	2,500	
Number of shares issued (AGM)					40,005
Number expired in 2013					
Number outstanding as of Dec. 31, 2013	400	111,455	145,170	38,900	
Number exercisable as of Dec. 31, 2013	400	111,455	145,170	38,900	
Strike price (in €)	85.05	101.83	127.58	127.58	N/A

Stock option and free share plans	2010/2 Plan	2011/1 Plan	2011/2 Plan	2012/1 Plan	2012/2 Plan
	Free shares	Free shares	Free shares	Free shares	Free shares
Grant date	05/19/2010	05/19/2011	05/19/2011	04/27/2012	04/27/2012
Expiry date	N/A	N/A	N/A	N/A	N/A
Vesting of rights	(d)	(c)	(d)	(c)	(d)
Number of beneficiaries	108	184	76	198	88
Number initially granted	25,035	67,379	9,455	69,399	39,640
Number outstanding as of Jan. 1, 2013	23,625	65,524	8,870	67,564	38,675
Number forfeited in 2013	325	3,038	585	2,467	370
Number exercised in 2013					
Number of shares issued (AGM)		62,486			
Number expired in 2013					
Number outstanding as of Dec. 31, 2013	23,300		8,285	65,097	38,305
Number exercisable as of Dec. 31, 2013					
Strike price (in €)	N/A	N/A	N/A	N/A	N/A

Under all these plans, shares are subject to a four-year lock-in period, commencing on the grant date.

- (a) Options vest at a rate of 25% per full year of presence within the Group, except in the event of retirement (when rights vest in full). If a beneficiary is dismissed for gross negligence or misconduct, all rights are lost, including after the lock-in period.
- (b) Options vest at a rate of 25% per full year of presence within the Group, except in the event of retirement (when rights vest in full) or resignation (when all rights are lost). If a beneficiary is dismissed for gross negligence or misconduct, all rights are lost, including after the lock-in period.
- (c) Shares vest two years after being granted, except in the event of resignation or dismissal for gross negligence or misconduct (when all rights are lost). The total number of shares granted is subject to stock market performance conditions. The vesting period is followed by a two-year non-transferability period.
- (d) Shares vest four years after being granted, except in the event of resignation or dismissal for gross negligence or misconduct (when all rights are lost). The total number of shares granted is subject to stock market performance conditions. These shares are not subject to a non-transferability period.

11.3. Other off-balance sheet commitments

<i>(in € millions)</i>	Dec. 31, 2013	Dec. 31, 2012
Endorsements and guarantees in favour of:		
associates	-	-
third parties outside the Group	3.7	0.9
Endorsements and guarantees	3.7	0.9
Collateral: in favour of subsidiaries	-	-
 in favour of third parties	-	-

Note 12. Net operating loss

Net operating loss breaks down as follows:

<i>(in € millions)</i>	2013	2012
Group management fees	88.8	73.6
Property rental income	0.1	0.2
Payroll expenses	(31.8)	(28.6)
External purchases and expenses, taxes	(80.4)	(67.7)
Depreciation, amortisation and provisions	(2.6)	(2.5)
Other income and expenses	9.7	8.5
TOTAL	(16.2)	(16.5)

Note 13. Net financial income

Net financial income breaks down as follows:

<i>(in € millions)</i>	2013	2012
Net interest expense	(96.7)	(129.4)
Expenses and interest on non-Group debt	(149.4)	(186.5)
Indexed bond redemption benefit	61.8	63.0
Interest on Group current accounts	(9.1)	(5.9)
Dividends	2,188.2	876.1
Kering Netherlands BV	1,850.0	-
Kering Holland NV	301.8	268.3
Discodis	-	21.4
Discodis (interim dividend)	-	550.3
Groupe Fnac	-	20.5
Kering Finance	36.4	15.6
TOTAL	2,091.5	746.7
<i>o/w concerning associates:</i>		
Interest on inter-company current accounts	(9.1)	(5.9)
Dividends	2,188.2	876.1

Note 14. Net non-recurring expense

Net non-recurring expense breaks down as follows:

<i>(in € millions)</i>	2013	2012
Net proceeds from disposals of operating assets	0.1	(0.1)
Net proceeds from disposals of securities, impairment losses and related transactions	(1,237.5)	(347.3)
Cost of disputes, litigation and restructuring	(2.1)	(8.8)
Other non-recurring income/(expense)	(19.7)	(8.5)
TOTAL	(1,259.2)	(364.7)

In 2013, net non-recurring expense mainly included provisions for impairment of investments in Redcats, Groupe Fnac and Sapardis, contingency provisions for Redcats as well as the impact of the distribution of Groupe Fnac shares to Kering shareholders.

Note 15. Income tax

This line item breaks down as follows:

<i>(in € millions)</i>	2013	2012
Tax consolidation benefit	42.4	141.5
Income tax on dividends	(23.6)	(5.7)
Other	1.3	6.3
TOTAL	20.1	142.1

Under a tax consolidation agreement that came into effect on January 1, 1988, Kering pays the tax due by members of the tax consolidation group and fulfils all relevant tax obligations.

The tax consolidation group comprised 82 companies in 2013 and 80 in 2012.

If no tax consolidation arrangement had existed, the Company would not have paid any income tax.

Note 16. Deferred tax assets and liabilities (34.433% rate)**Deferred tax assets**

Retirement termination benefits	€0.4 million
Employee profit-sharing	€1.0 million
Other	€0.9 million

Deferred tax liabilities

Provision for investments	€0.9 million
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Note 17. Other information

17.1. Average headcount

The Company had an average of 171 employees in 2013 compared to 146 in 2012.

As of December 31, 2013, the number of unused training hours vested by employees under the individual training entitlement (*Droit Individuel à la Formation* – DIF) was 11,110, compared to 8,774 as of December 31, 2012.

17.2. Fees paid to Statutory Auditors

Statutory Auditors' fees recorded in the income statement are shown below:

(in € thousands)	KPMG Audit		Deloitte & Associés	
	2013	2012	2013	2012
Statutory audit, certification, review of parent company and consolidated financial statements	328	323	300	296
Other audit-related services	199	75	114	58
Other services provided	-	-	-	-
TOTAL	527	398	414	354

17.3. Consolidating company

Kering is controlled by Artémis, which holds 40.9% of its share capital. Artémis is wholly owned by Financière Pinault.

17.4. Transactions with related parties

The support agreement between Artémis and Kering signed on September 27, 1993 generated an expense of €1.0 million in 2013 compared with an expense of €2.5 million in 2012. This corresponded to a positive €2.5 million in respect of 2013 and a negative €1.5 million of adjustments in respect of prior years.

As part of the admission of Groupe Fnac shares for trading on Euronext Paris, Kering paid a net non-recurring expense of €3 million in 2013 invoiced by Groupe Fnac.

In connection with an external growth transaction and on behalf of its subsidiary GPo Holding SAS, on July 5, 2013, Kering sold 714,514 treasury shares representing a value of €110.8 million.

The other transactions with related parties were contracted at arm's length conditions. As a result, no additional disclosures are required pursuant to Article R. 183-198 11 of the French Commercial Code.

Note 18. Subsequent events

On January 24, 2014, Kering paid out an interim dividend amounting to €1.50 per share.

Subsidiaries and investments

(in € thousands)			Shareholders'
			equity excl. share capital and net income
		Share capital	

I – DETAILED INFORMATION

A – Subsidiaries (more than 50%-owned and representing over 1% of share capital)

Conseil et Assistance	France	2,010	1,390
Discodis	France	153,567	377,416
Kering Netherlands BV	Netherlands	20,000 ⁽¹⁾	6,338,119 ⁽¹⁾
Christopher Kane Limited ⁽²⁾	UK	0 ⁽¹⁾	61 ⁽¹⁾
Kering International	UK	0 ⁽³⁾	0 ⁽³⁾
Redcats	France	401	196,100
Sapardis	France	1,799,936	(182,338)
Trémi 2	France	20,710	(373)
Printemps Réassurances	Luxembourg	9,945	
	Sub-total		

B – Investments (less than 50%-owned and representing over 1% of share capital)

Kering Holland NV	Netherlands	108,246 ⁽¹⁾	2,639,245 ⁽¹⁾
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II – SUMMARY INFORMATION

A – Subsidiaries not listed in I

French subsidiaries		
Non-French subsidiaries		

B – Investments not listed in I

French investments		
Non-French investments		

(1) Based on accounts as of Dec. 31, 2012.

(2) GBP exchange rate at December 31, 2013.

(3) Based on accounts as of March 31, 2013.

% of capital held	Carrying amount of shares		Outstanding loans granted by the Company	Endorsements and guarantees given by the Company	Last published revenue excl. VAT	Last published net income (loss)	Dividends received by the Company during the year
	Gross	Net					
90.00	7,724	2,089				(1,080)	
99.99	299,736	299,736				(15,448)	
100.00	4,237,240	4,237,240				537,034 ⁽¹⁾	1,850,000
51.00	12,174	12,174			3,396 ⁽¹⁾	(1,550) ⁽¹⁾	
100.00	14,773	14,773			0 ⁽³⁾	0 ⁽³⁾	
99.99	1,171,636	0			14,330	(616,420)	
100.00	1,804,008	1,604,008				(36,545)	
100.00	20,475	19,683				(654)	
100.00	10,188	10,188					
	<u>7,577,954</u>	<u>6,199,891</u>					
33.53	<u>2,566,912</u>	<u>2,566,912</u>			<u>94,377 ⁽¹⁾</u>	<u>942,810 ⁽¹⁾</u>	<u>301,777</u>
	6,817	2,096					
	2,004	31					
	0	0					
	3,517	3,517					
	<u>10,157,204</u>	<u>8,772,447</u>					

6.7 *five-year financial summary*

	2013	2012	2011	2010	2009
Share capital at year-end					
Share capital (<i>in €</i>)	504,907,044	504,466,808	508,003,556	507,316,736	506,314,352
Number of ordinary shares outstanding	126,226,761	126,116,702	127,000,889	126,829,184	126,578,588
Maximum number of potential shares to be issued	70,795	188,160	641,571	833,932	1,127,714
by conversion of bonds					
by exercise of stock subscription options	70,795	188,160	641,571	833,932	1,127,714
Operations and results for the year (<i>in € thousands</i>)					
Income from operating activities	88,795	73,581	38,622	36,290	39,644
Net income before tax, employee profit-sharing, depreciation, amortisation and provisions	1,635,162	680,689	794,979	445,002	910,418
Income tax (expense)/benefit	20,139	142,124	118,722	63,554	111,193
Employee profit-sharing for the year	3,339	2,055	2,120	2,087	1,501
Net income after tax, employee profit-sharing, depreciation, amortisation and provisions	832,903	505,561	663,606	529,279	717,634
Dividend distribution	473,350 ⁽¹⁾	472,937 ⁽²⁾	444,503	443,902	417,709
Per share data (<i>in €</i>)					
Net income after tax, employee profit-sharing, but before depreciation, amortisation and provisions	13.09	6.51	7.18	3.99	8.06
Net income after tax, employee profit-sharing, depreciation, amortisation and provisions	6.60	4.01	5.23	4.17	5.67
Dividend:					
Net dividend per share ⁽³⁾	3.75 ⁽¹⁾	3.75	3.50	3.50	3.30
Employee data					
Average number of employees during the year	171	146	118	112	110
Total annual payroll (<i>in € thousands</i>)	21,602	19,794	15,667	15,481	13,111
Total employee benefits paid during the year (social security, social works, etc.)					
(<i>in € thousands</i>)	10,222	8,817	6,213	6,389	13,549

(1) Subject to approval by the Annual General Meeting.

Including an interim dividend of €1.50 per share paid on January 24, 2014.

(2) At the Annual General Meeting on June 18, 2013, the shareholders authorised a dividend in the form of Groupe Fnac shares at a ratio of one Groupe Fnac share for every eight Kering shares held.

(3) Pursuant to Article 243 bis of the French Tax Code (Code général des impôts), the full amount of the dividend paid to individuals who are tax residents in France qualifies for the 40% tax credit provided under Article 158-3 2 of the French Tax Code.

7. statutory auditors' report on the financial statements year ended december 31, 2013

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the Company financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the Company financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the Company financial statements. This report should be read in conjunction and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In accordance with our appointment as Statutory Auditors at your Annual General Meetings, we hereby report to you for the year ended December 31, 2013 on:

- the audit of the accompanying financial statements of Kering S.A.;
- the justification of our assessments;
- the specific procedures and disclosures required by law.

The financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

1. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position and the assets and liabilities of the Company as of December 31, 2013 and the results of its operations for the year then ended in accordance with accounting principles generally accepted in France.

2. Justification of our assessments

Pursuant to Article L. 823-9 of the French Commercial Code (*Code de commerce*) governing the justification of our assessments, we hereby report on the following:

Note 2.2 to the financial statements describes the accounting policies relating to the measurement of long-term investments.

As part of our assessment of the accounting policies implemented by your Company, we have verified the appropriateness of the above-mentioned accounting methods and their proper application.

These assessments were performed as part of our audit approach for the financial statements taken as a whole and therefore contributed to the expression of our opinion in the first part of this report.

3. *Specific procedures and disclosures*

We have also performed the other procedures required by law, in accordance with professional standards applicable in France.

We have no matters to report regarding the fair presentation and consistency with the financial statements of the information given in the Management Report of the Board of Directors and in the documents addressed to the shareholders in respect of the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code relating to remunerations and benefits received by the corporate officers and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it.

Based on these procedures, we have the following comment on the accuracy and fair presentation of this information: As indicated in the Board of Directors' Management Report, this information represents the remunerations and benefits paid by the Kering group and the companies controlling it to the corporate officers concerned with respect to the mandates, duties or tasks carried out within or on behalf of the Kering group. The information does not include the remunerations and benefits paid with respect to mandates, duties or tasks other than those carried out within or on behalf of the Kering group.

Pursuant to the law, we have verified that the Management Report contains the appropriate disclosures as to the identity of and voting rights held by shareholders.

Paris La Défense and Neuilly-sur-Seine, March 31, 2014

The Statutory Auditors

KPMG Audit
Division of KPMG S.A.

Hervé Chopin

Deloitte & Associés

Antoine de Riedmatten

8. statutory auditors' special report on regulated agreements and commitments with third parties

shareholders' meeting held to approve the financial statements for the year ended december 31, 2013

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments with third parties that is issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction and construed in accordance with French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code (Code de commerce) and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby report to you on regulated agreements and commitments with third parties.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or which we may have discovered during the course of our audit, without expressing an opinion on their usefulness and appropriateness or identifying such other agreements, if any. It is your responsibility, pursuant to Article R. 225-31 of the French Commercial Code (*Code de commerce*), to assess the interest involved in respect of the conclusion of these agreements for the purpose of approving them.

Our role is also to provide you with the information provided for in Article R. 225-31 of the French Commercial Code in respect of the performance of the agreements and commitments, already authorized by the Shareholders' Meeting and having continuing effect during the year, if any.

We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) relating to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

Agreements and commitments submitted to the approval of the shareholders' meeting

Agreements and commitments authorized during the year

Pursuant to Article L. 225-40 of the French Commercial Code, we were advised of the following agreements and commitments previously authorized by the Board of Directors.

- **Payment of exceptional expenses relating to the admission of Groupe Fnac S.A. shares for trading**

Following the decision of the Kering S.A. shareholders' meeting of June 18, 2013 to allocate Groupe Fnac S.A. shares to Kering S.A. shareholders, the said shares were admitted for trading on the Euronext Paris market on June 20, 2013.

Accordingly, exceptional expenses were incurred by Kering S.A. and Groupe Fnac S.A. These expenses were subject to an allocation agreement signed by both companies in fiscal 2013. This agreement was previously authorized by the Board of Directors on July 25, 2013.

Under this agreement, Groupe Fnac S.A. invoiced a net amount of €3,005,876.88, excluding tax, to Kering S.A. in fiscal 2013.

Person involved: Mrs. Patricia Barbizet, Director of Kering S.A. and Groupe Fnac S.A.

• **Assignment by Kering S.A. of its treasury shares on behalf of a subsidiary**

On June 18, 2013, as part of an external growth transaction, the Board of Directors authorized that this acquisition be partially settled in Kering shares to be submitted by Kering S.A. on behalf of its subsidiary, GPo Holding S.A.S.

On July 5, 2013, Kering S.A. therefore transferred 714,514 treasury shares amounting to €110,749,697.50 to the assignees, on behalf of its subsidiary GPo Holding S.A.S., a company controlled by Kering Holland N.V., itself controlled by Kering S.A.

Persons involved: Mrs. Patricia Barbizet and Mr. François-Henri Pinault, Directors of Kering S.A. and Kering Holland N.V.

Agreements and commitments previously approved by the shareholders' meeting

a) Agreements and commitments authorized in previous years and having continuing effect during the year

Pursuant to Article R. 225-30 of the French Commercial Code, we have been advised that the following agreements and commitments authorized in previous years have had continuing effect during the year.

• **Support agreement for services provided by Artémis S.A.**

Pursuant to the terms of a support agreement between Kering S.A. and Artémis S.A. signed on September 27, 1993, Artémis S.A. carries out research and advisory work for Kering S.A. in the following areas:

- strategy and development of the Kering group and support in carrying out complex legal, tax, financial and real estate transactions;
- sourcing of business development opportunities in France and abroad or cost-cutting measures.

At its March 10, 1999 meeting, the Kering S.A. Supervisory Board authorized payment for these services amounting to 0.037% of consolidated net revenue (excluding VAT).

In line with the appropriate modifications to Kering S.A.'s corporate governance rules, your Board of Directors resolved on July 6, 2005, without amending the agreement in force since September 27, 1993, that the Kering S.A. Audit Committee would perform, in addition to the usual annual review of the substance of the support provided by Artemis S.A. to Kering S.A., an annual assessment of the services and their fair price given the facilities provided and the cost savings realized in the common interest.

The methods for assessing the contractually-agreed amount were reviewed by the Audit Committee which, at its meeting of February 18, 2014, noted that Kering S.A. had continued to benefit, during 2013, from the advice and assistance of Artemis S.A. on recurring issues including communications, public and institutional relations, as well as the development strategy and its implementation.

At its February 20, 2014 meeting, your Board of Directors duly noted the payment of €2,496,000 (excluding VAT) under this agreement in respect of 2013, it being specified that the revenue of the PUMA group was excluded from the calculation of this fee, as was the case in previous years, together with revenue from discontinued operations.

Persons involved: Mrs. Patricia Barbizet and Mr. François-Henri Pinault, members of the Board of Directors of Artémis S.A., a Kering S.A. shareholder with more than 10% of voting rights.

b) Agreements and commitments authorized in previous years and without continuing effect during the year

Furthermore, we were advised of the following agreements and commitments previously approved by the Shareholders' Meeting in prior years which remained in force but had no continuing effect during the year.

- **Retirement commitment in favor of Mr. Jean-François Palus, Deputy CEO of Kering S.A.**

On January 22 and April 8, 2010, the Board of Directors authorized Kering S.A. and the companies controlled by it within the meaning of Article L. 233-16 of the French Commercial Code to grant specific retirement benefits to Mr. Jean-François Palus, Deputy CEO of Kering S.A., due to his exceptional contribution to the business development of the Luxury Goods Division. This authorization resulted in the allocation of €3,568,000 (this capital being either managed by Kering S.A. or a company controlled by it, or invested in a top-tier asset management company) to fund his retirement benefits (with reversion rights to his beneficiaries in the event of death) payable as from the legal retirement age. His presence in the Kering group is not a requirement at that date, provided that he has not left the Group before December 31, 2014 for personal reasons.

To receive these retirement benefits, Mr. Jean-François Palus must satisfy the performance conditions attached to his variable compensation, for fiscal years 2009 and 2010, in his capacity as Deputy CEO of Kering S.A. On April 8, 2010 and February 16, 2011, your Board of Directors duly noted that the performance conditions were met for fiscal years 2009 and 2010, respectively.

Pursuant to these Board of Directors' authorizations, the Supervisory Board of Gucci Group NV (now Kering Holland N.V.), wholly-owned directly and indirectly by Kering S.A., decided, on December 10, 2010, to grant Mr. Jean-François Palus, in his capacity at that date as a member of the Supervisory Board of Gucci Group NV since May 30, 2006, an irrevocable pension right in respect of retirement benefits, in accordance with the terms and conditions provided for in your Board of Directors' authorization, based on a capital of €3,568,000, in so much as Kering S.A. acknowledges, at the given time, that this right is no longer subject to the fulfillment of any conditions.

Paris La Défense and Neuilly-sur-Seine, March 31, 2014

The Statutory Auditors

KPMG Audit
Département de KPMG SA
Hervé Chopin

Deloitte & Associés
Antoine de Riedmatten

9. fees paid by the group to the statutory auditors and members of their networks in 2013

(in € thousands)

	KPMG AUDIT				DELOITTE & ASSOCIÉS				TOTAL FEES		
	AMOUNT (EXCL. TAXES)		%		AMOUNT (EXCL. TAXES)		%		AMOUNT (EXCL. TAXES)		%
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	
Audit											
Statutory audit, certification, review of parent company and consolidated financial statements	4,175.1	3,737.0	77%	83%	3,263.9	4,112.0	82%	64%	7,439.0	7,849.0	-5.2%
Issuer	327.8	324.5	6%	7%	309.3	302.8	8%	5%	637.1	627.3	1.6%
Fully-consolidated subsidiaries	3,847.3	3,412.5	71%	76%	2,954.6	3,809.2	74%	60%	6,801.9	7,221.7	-5.8%
Other audit-related services	598.5	348.0	11%	8%	155.0	1,600.4	4%	25%	753.5	1,948.4	-61.3%
Issuer	486.5	205.0	9%	5%	114.0	121.0	3%	2%	600.5	326.0	84.2%
Fully-consolidated subsidiaries	112.0	143.0	2%	3%	41.0	1,479.4	1%	23%	153.0	1,622.4	-90.6%
Sub-total	4,773.6	4,085.0	88%	91%	3,418.9	5,712.4	86%	89%	8,192.5	9,797.4	-16.4%
Other services provided by the networks to fully- consolidated subsidiaries											
Legal, tax and employment- related services	160.0	327.0	3%	7%	382.9	593.0	10%	9%	542.9	920.0	-41.0%
Other	513.0	101.0	9%	2%	182.6	86.0	5%	1%	695.6	187.0	272.0%
Sub-total	673.0	428.0	12%	9%	565.5	679.0	14%	11%	1,238.5	1,107.0	11.9%
TOTAL	5,446.6	4,513.0	100%	100%	3,984.3	6,391.4	100%	100%	9,431.0	10,904.4	-13.5%

Data for 2012 have been restated on a pro forma basis to exclude Groupe Fnac.

chapter 6

share capital and ownership structure

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1. share capital

1.1. share capital

Share capital as of December 31, 2013

As of December 31, 2013, the share capital amounted to €504,907,044 and was divided into 126,226,761 shares with a par value of €4 each (all of the same class), all fully paid up. The number of voting rights at the same date totalled 179,319,454 (less the number of treasury shares, which do not carry voting rights).

At the same date, to the Company's knowledge:

- the Directors directly held 0.078% of the share capital, representing 0.083% of the voting rights;
- the Company directly held 60,581 treasury shares, but did not hold any under the liquidity agreement; none of the Company's shares were held by controlled companies.

Share capital movements over the past seven years

Year	Description of transaction	Additional paid-in capital	Nominal amount of capital changes	Successive amounts of Company capital (as of Dec. 31)	Aggregate number of ordinary €4 shares
2013	Exercise of options	€8,147,202	€440,236		116,059
		€8,147,202	€440,236	€504,907,044	126,226,761
2012	Exercise of options	€11,473,054	€587,120		146,780
	Cancellation of shares	€(106,686,316)	€(4,123,868)		(1,030,967)
		€(95,213,262)	€(3,536,748)	€504,466,808	126,116,702
2011	Exercise of options	€13,202,936	€686,820		171,705
		€13,202,936	€686,820	€508,003,556	127,000,889
2010	Exercise of options	€17,724,677	€1,002,384		250,596
		€17,724,677	€1,002,384	€507,316,736	126,829,184
2009	Exercise of options	€1,615,358	€92,844		23,211
		€1,615,358	€92,844	€506,314,352	126,578,588
2008	Exercise of options	€1,631,590	€104,992		26,248
	Cancellation of shares	€(137,717,453)	€(6,211,240)		(1,552,810)
		€(136,085,863)	€(6,106,248)	€506,221,508	126,555,377
2007	Exercise of options	€12,546,619	€800,968		200,242
	Cancellation of shares	€(59,242,171)	€(2,022,308)		(505,577)
		€(46,695,552)	€(1,221,340)	€512,327,756	128,081,939

1.2. treasury shares held by the company and its subsidiaries

Acquisition of treasury shares by the Company

On May 26, 2004, Kering signed an agreement with a financial broker in order to improve the liquidity of the Group's shares and ensure share price stability. This agreement complies with the Professional Code of Conduct drawn up by the French Association of Financial and Investment Firms (*Association française des marchés*

financiers – AMAFI) and approved by the French financial markets authority (*Autorité des marchés financiers* – AMF).

The agreement was initially endowed with €40 million, half of which was provided in cash and half in Kering shares. An additional €20 million in cash was allocated to the agreement on September 3, 2004, and a further €30 million on December 18, 2007.

The Annual General Meeting on April 27, 2012 authorised the Board of Directors to trade in Company shares for a period of 18 months in accordance with the goals and terms of the share buy-back programme filed with the AMF. This programme specifies a maximum purchase price of €180 per share and states that the number of shares purchased may not exceed 10% of the share capital.

The Annual General Meeting on June 18, 2013 authorised the Board of Directors to trade in Company shares for a period of 18 months, under the same terms and conditions, with a maximum purchase price of €220 per share.

On May 6, 2014, the Annual General Meeting will be asked to approve an authorisation to trade in Company shares under a new buy-back programme.

Buy-backs and sales of shares during 2013 – Trading costs – Number of treasury shares held as of December 31, 2013

Share buy-backs

- 1,535,246 shares were bought back pursuant to the authorisation given by the Annual General Meeting on April 27, 2012, at an average price of €168.94;
- 1,006,310 shares were bought back by the Company pursuant to the authorisation given by the Annual General Meeting on June 18, 2013, at an average price of €165.25.

In 2013, Kering therefore bought back a total of 2,541,556 shares at an average price of €167.48 for the following purposes:

- 106,000 shares to be granted to employees under the 2009 and 2011 free share plans;
- 130,000 shares to be granted under stock option plans, in particular the 2006 and 2007 plans;
- 1,585,556 shares purchased under the liquidity agreement;
- the acquisition of 720,000 shares as part of an external growth transaction.

Sales of treasury shares

In 2013, Kering sold 1,585,556 shares at an average price of €166.44, under the aforementioned liquidity agreement. 103,037 shares were sold to employees under the 2006 and 2007 stock purchase option plans.

An additional 102,491 shares were granted to employees under the 2009 and 2011 free share plans, maturing in May 2013, and 450 shares were granted under the 2008 and 2009 free share plans.

714,514 shares were issued as part of an external growth transaction and the remaining 5,486 shares (out of the 720,000 acquired) were allocated to be allotted under stock purchase option plans.

Trading costs

Total share trading costs amounted to €0.5 million in 2013.

Share cancellations in 2013

No shares were cancelled during the year.

As of the end of the reporting period, the Company did not hold any treasury shares under the liquidity agreement. It directly held 60,581 shares with a par value of €4 each and a carrying amount of €10,392,807.12 representing 0.048% of the share capital.

Buy-backs and sales of Kering shares carried out between January 1 and March 15, 2014

Since January 1, 2014, the Company has acquired 510,250 shares at an average price of €147.75 and has sold 435,250 shares at an average price of €148.47, in connection with the liquidity agreement.

As of March 15, 2014, the Company held 75,000 shares under the liquidity agreement.

Excluding the liquidity agreement, a total of 4,466 purchase options were exercised under the 2006 and 2007 plans. An additional 360 shares were granted to employees under the 2009 free share plan.

The number of treasury shares held by Kering as of March 15, 2014 therefore totals 130,755 shares with a par value of €4 per share and a carrying amount of €20,220,150.90.

Share cancellations in 2014

No shares were cancelled between January 1 and March 15, 2014.

Use of derivatives in 2013

Kering did not buy any call options on its own shares in 2013.

The call options which expired in 2013 were not exercised.

As of December 31, 2013, Kering did not hold any call options on its own shares.

1.3. *authorisations to issue securities giving access to the share capital*

Authorisations to issue shares or other securities in force as of December 31, 2013

Pursuant to the decisions of the Extraordinary General Meeting, the Board of Directors has the following authorisations:

Description of authorisation	Date of Annual General Meeting (resolution no.)	Term of validity (Expiry date)	Maximum authorised nominal amount	Current use
Share capital increases with pre-emptive subscription rights				
Share capital increase via the issue, with pre-emptive subscription rights, of shares, warrants and/or securities giving access, either immediately or in the future, to shares or to debt securities ⁽¹⁾	June 18, 2013 (15 th)	26 months (August 2015)	€200 million ⁽¹⁾ €6 billion ⁽²⁾	Unused
Share capital increase via the capitalisation of reserves, profits or additional paid-in capital	June 18, 2013 (16 th)	26 months (August 2015)	€200 million ⁽¹⁾	Unused
Share capital increases without pre-emptive subscription rights				
Share capital increase via the issue, without pre-emptive subscription rights, by public offering, of shares, warrants and/or securities giving access, either immediately or in the future, to shares in the Company, including as consideration for shares tendered in a public exchange offer, or to debt securities	June 18, 2013 (17 th)	26 months (August 2015)	€75 million ⁽¹⁾ €6 billion ⁽²⁾	Unused
Share capital increase via the issue, without pre-emptive subscription rights, by private placement, of shares, warrants and/or securities giving access, either immediately or in the future, to shares in the Company or to debt securities immediately or in the future, to shares in the Company or to debt securities	June 18, 2013 (18 th)	26 months (August 2015)	€75 million ⁽³⁾⁽⁴⁾ €6 billion ⁽²⁾	Unused
Authorisation to set the issue price for a share capital increase, without pre-emptive subscription rights, by public offering or private placement, limited to 10% of the share capital per year	June 18, 2013 (19 th) (related to the 17 th and 18 th resolutions above)	26 months (August 2015)	€50.4 million ⁽³⁾ per year	Unused
Share capital increase in consideration for in-kind contributions, limited to 10% of the share capital	June 18, 2013 (21 st)	26 months (August 2015)	€50.4 million ⁽³⁾	Unused
Share capital increase with or without pre-emptive subscription rights				
Increase in the number of shares or securities to be issued within the scope of a share capital increase, with or without pre-emptive subscription rights, in the event of excess demand	June 18, 2013 (20 th)	26 months (August 2015)	15% of the amount of the initial issue	Unused
Share capital reductions by cancelling shares				
Authorisation to reduce the share capital by cancelling shares	June 18, 2013 (14 th)	24 months (June 2015)	10% of the share capital per 24- month period	Unused
Free share grants				
Grant of existing shares or shares to be issued, reserved for employees, Directors and executive corporate officers	June 18, 2013 (23 rd)	26 months (August 2015)	0.5% of the share capital at the grant date	Unused

(1) This amount is deductible from the overall €200 million cap for issues of shares and/or securities giving access to the share capital set by the 15th resolution.

(2) This amount is deductible from the overall €6 billion cap for issues of debt securities set by the 15th resolution.

(3) This amount is deductible from the overall €200 million and €75 million caps for issues of shares and/or securities giving access to the share capital set by the 15th and 17th resolutions.

(4) Limited to 20% of the share capital per year in all cases.

As indicated in the above table, the Extraordinary General Meeting on June 18, 2013 authorised the Board of Directors to issue, with or without pre-emptive subscription rights, securities giving access to the Company's share capital, either immediately or in the future, to increase the share capital by capitalising reserves, profits or additional paid-in capital and to grant free shares.

These delegations of authority were not used during the year.

Other securities giving access to the share capital

Special report on stock subscription and purchase options and free share grants

The policy governing stock subscription and purchase options and free share grants forms part of the Group's human resources policy and is determined each year by the Board of Directors based on preparatory work and proposals from the Remuneration Committee.

Overall, this programme aims to recognise the contribution of employees to Kering's past and future results, to encourage long-term commitment to the Group and enable Kering group employees to benefit from increases in Kering's stock market value. Stock options are designed to foster employee loyalty, while free share grants seek to recognise an employee's contribution to Kering's results.

Eligible employees include managers holding key positions and with major responsibilities within the Group who, selected at the suggestion of each brand, play a key part in the development and implementation of the Group's strategy.

Grants are made on the basis of general and specific criteria and are not cumulative with other salary-related bonuses. In 2012, grants only concerned free shares recognised as performance shares, allocated to 286 employees (see page 315).

No free shares were granted in 2013.

François-Henri Pinault, Chairman and Chief Executive Officer, and Jean-François Palus, Group Managing Director, were granted performance shares in 2012. Further details on the granting of performance shares are provided below on page 315.

Stock option plans

Grants are, in principle, made annually. However, no stock subscription and purchase option plans have been set up since 2007.

The plans set up in 2006 and 2007 have terms of eight years (compared to terms of ten years for previous plans) and the options granted are purchase options. As they have no impact on the number of shares comprising the share capital, they are not dilutive.

Since 2001, stock options have been granted without any discount with regard to the price and with a four-year lock-in period.

Employees, Directors and executive corporate officers who leave the Group before exercising their options lose part of their entitlement, determined on the basis of their length of service with the Group since the grant date and the nature of their departure.

Twenty-five percent of options are vested per full year of service. All rights vest upon retirement. Since 2005, if a beneficiary resigns, he or she loses all rights vested subject to exceptions made by the Company. If a beneficiary is dismissed for gross negligence or misconduct, all rights are lost, including after the lock-in period.

As of December 31, 2013, the number of options outstanding was 366,320 including 70,795 stock subscription options and 295,525 stock purchase options.

Kering stock option plans as of December 31, 2013

	2004/1 Plan	2005/1 Plan	2005/2 Plan	2005/3 Plan	2005/4 Plan	2006/1 Plan	2007/1 Plan	2007/2 Plan
	Subs- cription options	Subs- cription options	Subs- cription options	Subs- cription options	Subs- cription options	Purchase options	Purchase options	Purchase options
Date of Annual General Meeting	05/21/2002	05/21/2002	05/19/2005	05/19/2005	05/19/2005	05/19/2005	05/14/2007	05/14/2007
Date of Executive Board/ Board of Directors' Meeting	05/25/2004	01/03/2005	05/19/2005	05/19/2005	07/06/2005	05/23/2006	05/14/2007	09/17/2007
Number of beneficiaries	846	13	458	22	15	450	248	14
Number of options initially granted	540,970	25,530	333,750	39,960	20,520	403,417	355,500	51,300
o/w: to members of the Executive Board ⁽¹⁾ and executive corporate officers	90,000	-	50,000	-	-	55,000	60,000	-
<i>François-Henri Pinault</i>		-	50,000	-	-	55,000	60,000	-
<i>Jean-François Palus</i>		-	2,100	-	-	7,700	7,700	-
o/w to the top ten employee beneficiaries	36,305	-	23,828	-	-	18,940	20,780	-
Number of options exercised as of Dec. 31, 2013	219,618	23,880	218,082	33,560	11,630	187,951	89,542	5,400
Options forfeited as of Dec. 31, 2013	287,087	900	81,088	5,600	8,490	104,011	120,788	7,000
Number of outstanding options as of Dec. 31, 2013	34,265	750	34,580	800	400	111,455	145,170	38,900
Plan start date	05/25/2004	01/03/2005	05/19/2005	05/19/2005	07/06/2005	05/23/2006	05/14/2007	09/17/2007
Plan expiry date	05/24/2014	01/02/2015	05/18/2015	05/18/2015	07/05/2015	05/22/2014	05/13/2015	09/16/2015
Strike price	€85.57	€75.29	€78.01	€78.97	€85.05	€101.83	€127.58	€127.58

NB: each option confers entitlement to one share.

(1) Membership as of May 19, 2005.

Stock options granted by Kering and by associated companies to the top ten employee beneficiaries (excluding Directors and executive corporate officers and options exercised by them)

Stock options granted to the top ten employee beneficiaries (excluding Directors and executive corporate officers) and options exercised by them	Total number of options granted or subscribed	Weighted average price
Options granted during the year by the issuer or any other company within the scope of the option grant, to the ten employees of the issuer receiving the most options	0	-
Options in respect of the issuer or any of the aforementioned companies exercised during the year by the ten employees of the issuer purchasing or subscribing to the most shares	41,860	166.40

Performance share plans

No performance shares were granted in 2013.

The Group granted Kering Monetary Units (KMUs) instead of performance shares, as described on pages 127 and 222.

A free share policy was introduced in 2005 to replace the previous option grants for employees based in France.

Grants were in principle made annually at the same time of year.

Performance shares vest fully at the end of a two-year vesting period, which is followed by a two-year lock-in period during which the performance shares granted may not be sold.

Grants made before 2009 are subject to a performance condition, which states that if the Kering share price underperforms the CAC 40 index during the two-year vesting period (four years for foreign residents), the number of shares effectively granted is reduced in proportion to this underperformance.

The grants carried out since 2009 are subject to a performance condition, which states that if the Kering share price underperforms an index of listed European stocks from the luxury and retail sectors during the two-year vesting period (four years for foreign residents for 2009 and 2010 plans), the number of shares effectively granted is reduced in proportion to this underperformance.

Unless an exception is granted by the Company, beneficiaries who are no longer employees, Directors or executive corporate officers in the Group by the end of

the vesting period lose part of their entitlement, determined on the basis of the nature of their departure from the Group.

Kering free share plans as of Dec. 31, 2013	2009/II Plan	2010/II Plan	2011/I Plan	2011/II Plan	2012/I Plan	2012/II Plan
Date of Annual General Meeting	05/14/2007	05/14/2007	05/19/2010	05/19/2010	05/19/2010	05/19/2010
Date of Board meeting	05/07/2009	05/19/2010	05/19/2011	05/19/2011	04/27/2012	04/27/2012
Number of shares initially granted	46,505	25,035	67,379	9,455	69,399	39,640
<i>to François-Henri Pinault</i>			11,514		11,682	
<i>to Jean-François Palus</i>			13,581		8,416	
Shares forfeited as of Dec. 31, 2013	6,250	1,735	4,893	1,170	4,302	1,335
Number of shares issued as of Dec. 31, 2013	40,255		62,486			
Number of shares outstanding as of Dec. 31, 2013	0	23,300	0	8,285	65,097	38,305
Number of beneficiaries	161	108	184	76	198	88
Vesting date	05/07/2013	05/19/2014	05/19/2013	05/19/2015	04/27/2014	04/27/2016
Date on which shares may be sold	05/07/2013	05/19/2014	05/19/2015	05/19/2015	04/27/2016	04/27/2016

Performance shares granted to the top ten employee beneficiaries (excluding Directors and executive corporate officers) of the Company	Total number of free shares granted
Free shares granted during the year by the issuer or any other company within the scope of the share grant, to the ten employees (excluding Directors and executive corporate officers) of the issuer receiving the most shares	0

Changes in share capital and rights attached to shares

Any changes in the share capital and the rights attached to shares are governed by the legal requirements and the specific provisions of the Articles of Association as set out below.

Under Article 15 of the Articles of Association, in the Company's internal organisation, decisions by the Chief Executive Officer relating to the issue of securities, regardless of their nature, require the prior approval by the Board of Directors when such issues are likely to change the share capital.

1.4. employee share ownership

As of December 31, 2013, Company and Group employees held 485,675 shares, representing 0.38% of the share capital, under the provisions of Article L. 225-102 of the French Commercial Code (*Code de commerce*). Of those

shares, 130,477 were free shares that are still locked-in and represent 0.10% of the share capital. Company employees also held 15,581 shares via an employee investment fund, representing 0.01% of the share capital.

1.5. *appropriation of net income – dividends paid by the company*

Appropriation of net income

At its meeting on February 20, 2014, the Board of Directors acknowledged and proposed the following net income appropriation to the Annual General Meeting:

(in €)

Source	
Retained earnings	1,615,655,077.29
Net income for the year	832,902,513.76
Total for appropriation	2,448,557,591.05
Appropriation	
Legal reserve ⁽¹⁾	
Dividend ⁽²⁾	473,350,353.75
Retained earnings	1,975,207,237.30
Total	2,448,557,591.05

(1) No further charge to the legal reserve is proposed since the reserve stood at €51,354,910 as of December 31, 2013, i.e., above the minimum amount required by law (10% of the share capital).

(2) Representing a dividend of €3.75 per share qualifying for the 40% tax allowance, payable on May 13, 2014. This amount corresponds to the interim dividend paid on January 24, 2014 (€189,340,141.50) plus an additional dividend of €284,010,212.25, equal to €2.25 per share, calculated on the basis of the maximum number of shares carrying dividend rights.

The Board of Directors will propose to the Annual General Meeting on May 6, 2014 the payment of a dividend of €3.75 per share eligible for dividends as of January 1, 2013

If this dividend is approved, the balance of €2.25 per share will have an ex-dividend date of May 8, 2014 and will be payable as from May 13, 2014.

An interim dividend in the amount of €1.50 per share was paid on January 24, 2014 pursuant to a decision by the Board of Directors on December 20, 2013.

Dividends paid out over the past three fiscal years

Year of payment	Net dividend	Qualifying for a tax allowance of
2013	€3.75 ⁽¹⁾	40%
2012	€3.50	40%
2011	€3.30	40%

(1) Plus an in-kind dividend in the form of a right to the allotment of Groupe Fnac shares (one Groupe Fnac share for every eight Kering shares held) based on a value of €20.03 per Groupe Fnac share as of June 20, 2013, the day the shares were first listed.

1.6. *share pledges*

As of December 31, 2013, 7,925,000 registered shares were pledged by the Artémis group.

Name of registered shareholder	Beneficiary	Pledge start date	Pledge expiry date	Terms of release of the pledges	Number of issuer shares pledged	% of the issuer's capital pledged ⁽²⁾
Artémis	CA CIB	03/01/2007	Unspecified ⁽¹⁾		1,700,000	1.35%
Artémis	CA CIB	11/02/2011	Unspecified ⁽¹⁾		900,000	0.71%
Artémis	CA CIB	07/26/2012	Unspecified ⁽¹⁾		825,000	0.65%
Artémis	CA CIB	09/28/2012	Unspecified ⁽¹⁾		4,500,000	3.57%

(1) Full reimbursement or payment of the receivable.

(2) Based on the share capital as of December 31, 2013, comprising 126,226,761 shares with a par value of €4 each.

In September 2010, the Artémis group issued €690 million worth of bonds exchangeable for existing Kering shares. The exchangeable bonds were issued by Misarte, a 99.6%-owned subsidiary of Artémis.

This issue was carried out as part of the Artémis group's strategy to optimise its financial structure and diversify its sources of financing. Holders of exchangeable bonds may request to exchange their bonds for Kering shares, subject to any subsequent adjustments and Misarte's right, instead of delivering the Kering shares, to pay all or part of their exchange value in cash.

In order to facilitate the exchange or redemption of bonds for Kering shares, 4,932,094 Kering shares to be delivered to bond-holders were placed in escrow at the time of the issue.

Following the distribution of Groupe Fnac shares by Kering on June 20, 2013, the exchange parity of the bonds issued by Misarte was adjusted, as was the number of shares placed in escrow. The new exchange parity is 1.015 Kering shares for one bond and the number of Kering shares placed in escrow as of December 31, 2013 was 5,005,963.

The bonds, which were admitted for trading on the Euro MTF market of the Luxembourg stock exchange, will be fully redeemed (with the exception of those redeemed in advance) on January 1, 2016.

To the Company's knowledge, any previous issues of exchangeable bonds carried out by the Artémis group have not led to any changes in its shareholding structure.

1.7. *arrangements and agreements*

To the Company's knowledge, there are no contractual provisions involving shares or voting rights of the Company

that should have been disclosed to the AMF pursuant to Article L. 233-11 of the French Commercial Code.

2. share ownership structure

Change in share ownership and voting rights as of December 31, 2013

	2013				2012			
	Number of shares	% of share capital	Number of voting rights	% of voting rights ⁽¹⁾	Number of shares	% of share capital	Number of voting rights	% of voting rights ⁽¹⁾
Artémis group	51,614,762	40.9%	103,155,543	57.5%	51,614,762	40.9%	98,988,548	56.5%
Baillie Gifford	see Note (2) below				6,399,935	5.1%	6,399,935	3.6%
Kering	60,581	0.0%	60,581 ⁽³⁾	0.0%	25,073	0.0%	25,073 ⁽³⁾	0.0%
Employees	501,256	0.4%	800,417	0.5%	451,932	0.4%	669,850	0.4%
Free float	74,050,162	58.7%	75,302,913	42.0%	67,625,000	53.6%	69,143,852	39.5%
Total	126,226,761	100.0%	179,319,454	100.0%	126,116,702	100.0%	175,227,258	100.0%

	2011			
	Number of shares	% of share capital	Number of voting rights	% of voting rights ⁽¹⁾
Artémis group	51,614,762	40.6%	93,645,175	55.1%
Baillie Gifford	6,399,935	5.0%	6,399,935	3.8%
Kering	1,061,352	0.8%	1,061,352 ⁽³⁾	0.6%
Employees	407,324	0.3%	575,890	0.3%
Free float	67,517,516	53.3%	68,316,550	40.2%
Total	127,000,889	100.0%	169,998,902	100.0%

(1) Shares held for more than two years in a registered account in the name of the same shareholder carry double voting rights (see the section entitled "General information on the Company – Annual General Meetings" on page 325).

(2) On May 2, 2013, Baillie Gifford & Co, parent company of an investment management group based in Edinburgh (UK), acting on behalf of funds and clients under an asset management agreement, reported that, on April 30, 2013, it had crossed below the 5% threshold of Kering's share capital and that it held, on behalf of said funds and clients, 6,287,063 Kering shares representing an equal number of voting rights, i.e., 4.98% of the share capital and 3.56% of the Company's voting rights.

(3) Theoretical voting rights, in the Annual General Meeting these shares lose their voting rights.

Artémis is wholly owned by Financière Pinault, itself controlled by the Pinault family. Artémis holds 57.5% of the Company's voting rights and as such has *de jure* control of the Company within the meaning of Article L. 233-3-I of the French Commercial Code.

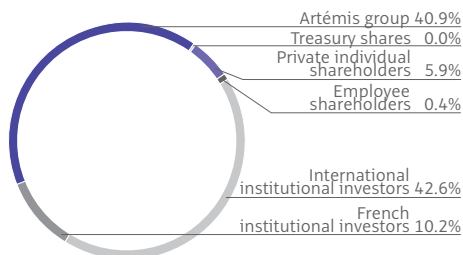
On January 17, 2014, Harris Associates L.P.⁽⁴⁾, based in Chicago (the USA) and acting on behalf of funds and clients for whom it provides asset management services, reported that it had crossed above the 5% threshold of Kering's share capital on January 14, 2014 and that it held, on behalf of said funds and clients, 6,323,756 shares representing an equal number of voting rights, i.e., 5.01% of the share capital and 3.53% of the Company's voting rights. This threshold was crossed as a result of a purchase of Kering shares on the open market.

To the Company's knowledge, no other shareholder directly, indirectly, or jointly holds 5% or more of the share capital or voting rights.

Regarding the majority shareholder's control of the Company, the organisation and operating rules of the Board and of its specialised Committees, the number of independent Directors – representing (i) more than a third of the Board members (who oversee the prevention of conflicts of interests and regularly carry out its self-assessment), (ii) two-thirds of the Audit Committee, and (iii) the majority of the Remuneration Committee, it being specified that no executive corporate officer is a member of these Committees – general compliance with current rules, internal rules and good governance practices all contribute to maintaining a balanced control (see Chapter 4 "Corporate governance").

(4) Controlled by Natixis Global Asset Management, L.P., itself controlled by Natixis. Harris Associates L.P. claims to act independently of the person controlling it, under the conditions laid down in Articles L. 233-9 II of the French Commercial Code and Articles 223-12 and 223-12-1 of the AMF's General Regulations.

BREAKDOWN OF SHARE CAPITAL AS OF DECEMBER 31, 2013



Source: Identifiable Bearer Security (Titre au Porteur Identifiable) as of December 31, 2013.

As of December 31, 2013, private individual shareholders held 5.9% of the Group's share capital. Institutional investors owned 52.8% of the share capital, with 10.2% held by French companies and 42.6% by investors residing outside France.

Among the international institutional investors, North American-based and UK-based shareholders held 15.3% and 13.8% of the share capital, respectively. Continental European investors (excluding France) held 6.9% of the share capital, including notably Norway (1.7%), the Netherlands (1.4%) and Switzerland (1.6%). Shareholders based in the Asia-Pacific region represent 2.9% of the share capital.

Stock market information

Kering share

Place of listing	NYSE Euronext Paris
Market	Eurolist A
Benchmark index	CAC 40
Initial public offering	October 25, 1988 on the Second Market February 9, 1995 on the CAC 40
Number of shares	126,226,761 as of December 31, 2013
Tickers	ISIN code: FR 0000121485 Reuters: KER.PA Bloomberg: KERFP

Change in the price of the Kering share compared to the CAC 40 index since January 1, 2013



Market price and trading volume of the Kering share

	2013	2012	2011	2010	2009
High (in €)	184.5	144.5	132.2	128.3	93.3
Low (in €)	140.3	106.4	90.5	81	36.3
Price as of December 31 (in €)	153.7	140.9	110.7	119.0	84.2
Market capitalisation as of December 31 (in € millions)	19,395	17,764	14,034	15,093	10,663
Daily average volume (in number of shares)	254,343	317,960	385,265	453,415	701,105
Number of shares as of December 31	126,226,761	126,116,702	127,000,889	126,829,184	126,578,588

Source: Euronext.

Listed securities of the Group as of December 31, 2013

Securities listed on the Paris Stock Exchange (SRD)

ISIN code

Equities

Kering	FR 00 00 121 485
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Securities listed on the Luxembourg Stock Exchange

ISIN code

Bonds

Kering 8.625% April 2014	FR 00 10 744 987
Kering 7.75% June 2014	FR 00 10 754 531
Kering 6.50% November 2017	FR 00 10 784 082
Kering 3.75% April 2015	FR 00 10 878 991
Kering 1.875% October 2018	FR 00 11 584 929
Kering 3.125% April 2019	FR 00 11 236 983
Kering 2.50% July 2020	FR 00 11 535 764

Stock market data

Kering share

2012	Share price (in €)				Volume		
	Average	High	Low	Monthly change	Average daily	Shares traded	
						€m	Number of shares
January	117.2	123.1	110.7	+8.7%	264,634	681	5,821,943
February	124.4	128.5	119.1	+6.1%	260,349	678	5,467,331
March	131.2	136.9	124.1	+1.1%	327,917	941	7,214,172
April	124.0	131.7	114.1	-2.1%	574,564	1,341	10,916,723
May	120.6	127.0	114.1	-9.0%	427,367	1,145	9,402,063
June	112.3	118.1	108.2	-2.4%	411,801	974	8,647,812
July	112.6	123.8	106.4	+8.7%	425,207	1,059	9,354,558
August	126.4	129.0	121.3	+1.8%	209,462	605	4,817,617
September	124.0	128.9	118.9	-3.9%	330,633	816	6,612,658
October	129.6	137.3	119.2	+13.6%	397,784	1,184	9,149,023
November	137.4	144.2	132.5	+5.7%	240,834	725	5,298,354
December	141.6	144.5	139.4	-1.8%	231,506	610	4,398,611

2013	Share price (in €)				Volume		
	Average	High	Low	Monthly change	Average daily	Shares traded	
						€m	Number of shares
January	149.2	159.9	142.0	+12.5%	298,194	989	6,560,258
February	162.8	175.1	156.1	+8.4%	346,778	1,155	6,935,556
March	172.3	179.5	168.7	-0.2%	294,733	1,034	5,894,656
April	166.1	179.8	161.9	-2.5%	299,701	1,063	6,293,719
May	169.3	177.2	166.5	+0.7%	241,112	912	5,304,460
June	156.9	165.2	147.0	-4.2%	405,928	1,269	8,118,558
July	168.3	178.6	155.7	+10.2%	269,147	1,042	6,190,374
August	178.8	185.2	170.9	-0.7%	164,487	646	3,618,723
September	171.5	177.7	163.6	-3.1%	230,052	824	4,831,088
October	167.5	175.6	160.3	+1.0%	218,123	839	5,016,824
November	164.5	169.0	161.1	-2.4%	170,815	589	3,587,114
December	152.1	163.6	148.1	-5.9%	262,583	797	5,251,660

2014	Share price (in €)				Volume		
	Average	High	Low	Monthly change	Average daily	Shares traded	
						€m	Number of shares
January	149.2	154.8	143.0	+3.6%	271,137	886	5,965,013
February	150.9	157.5	145.6	+0.4%	263,507	795	5,270,132

Source: Euronext.

Financial communications policy

Kering's financial communications policy endeavours to disseminate accurate and reliable information. Its actions are targeted and customised to offer different audiences, private individual shareholders and the financial community, messages suited to their respective expectations while complying with the principle of equal access to information.

Towards individual shareholders

Private individual shareholders have access to numerous media and tools to keep themselves informed on the Group and on the life of the security. These include the twice-yearly Letter to Shareholders, the shareholders' hotline in France (+33 1 45 64 65 64), the email address (actionnaire@kering.com), the financial notices in the press and on the Internet, and the annual report.

Towards the financial community

The Group maintains close relationships with the French and international financial community. A number of initiatives are designed to keep the financial community informed about its businesses, strategy and outlook. Kering has expanded its communication by organising conference calls upon the release of quarterly revenue and half-year results, and meetings to present its annual results. Kering also participates in industry conferences

held by major banks. All of the presentation material is available on the Group's website. Kering also meets with investors during roadshows held in the major financial centres around the world. In addition, the Group meets with individual investors and analysts upon request and maintains proactive relationships in terms of reporting to the AMF (*Autorité des marchés financiers*).

Procedures for communicating regulatory information

Pursuant to obligations – applicable since January 20, 2007 – to disclose regulatory information resulting from the implementation of the Transparency Directive in the AMF's General Regulations, Kering's Financial Communications Department oversees the proper and full disclosure of regulatory information. This information is filed with the AMF at the time of its disclosure and stored on the Kering website.

Full and effective communication is carried out electronically in compliance with the criteria defined by the AMF's General Regulations which require communication to a wide audience within the European Union and according to terms and conditions guaranteeing the security of the communication and information. Accordingly, Kering's Financial Communications Department has chosen to call on a professional communications agency satisfying the communication criteria set by the General Regulations and featured on the list published by the AMF, thus benefiting from a presumption of full and effective communication.

2014 shareholders' agenda

April 24, 2014	2014 first-quarter revenue
May 6, 2014	Combined General Meeting
July 2014	2014 half-year results
October 2014	2014 third-quarter revenue

chapter 7

additional information

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1. *additional information*

1.1. *general information*

Company name and registered office

Company name: Kering

Registered office: 10, avenue Hoche, 75008 Paris, France

Legal form

A French joint stock company (*société anonyme*)

Applicable law

French law

Date of incorporation and term

The Company was incorporated on June 24, 1881 for a term of 99 years. The term was extended to May 26, 2066 by the Extraordinary General Meeting on May 26, 1967, except in the case of an early dissolution or of an extension approved by the Extraordinary General Meeting.

Corporate purpose

- the purchase, retail sale or wholesale, either directly or indirectly, by all means and using all existing or future techniques, of all goods, products, commodities or services;
- the creation, acquisition, leasing, operating or sale, either directly or indirectly, of all establishments, stores or warehouses, by all means and using all existing or future techniques, for the retail sale or wholesale of all goods, products, commodities or services;
- the direct or indirect manufacture of all goods, products or commodities that are useful for corporate operations;
- the direct or indirect supply of all services;
- the purchase, operation and sale of all buildings that are useful for corporate operations;
- the creation of all commercial, non-trading, industrial and financial concerns, whether in moveable or real property, service or other businesses, the acquisition of participating interests by all means, subscription, acquisition, contribution, merger or otherwise in, to or of such concerns and businesses and the management of its participating interests;
- and, in general, all commercial, non-trading, industrial and financial operations, whether in moveable or real property, service or other businesses that can be directly or indirectly connected to the purposes specified above or to all similar, complementary or related purposes or purposes that are liable to favour the creation or development thereof.

(Article 5 of the Articles of Association)

Trade and Companies Registry

552 075 020 RCS Paris

APE code: 741 J

Consultation of legal documents

The Articles of Association, the minutes of Annual General Meetings and other corporate documents may be consulted at the registered office under the conditions provided for by law.

Fiscal year

The Company's fiscal year begins on January 1 and ends on December 31 of the same year.

Appropriation of earnings

From the profit for the fiscal year, less deferred losses where applicable, a minimum withdrawal of one-twentieth is made and paid into a reserve fund known as the "legal reserve". Said withdrawal ceases to be mandatory once said reserve reaches one-tenth of the share capital.

From the distributable profit, which is made up of the profit for the fiscal year less the deferred losses and the withdrawal referred to above, as well as the amounts to be paid into the reserves in accordance with the law, plus deferred profits, the Annual General Meeting, pursuant to a proposal by the Board of Directors, may withdraw all amounts it deems appropriate, either to be deferred to the subsequent fiscal year, or to be entered into one or more extraordinary, general or special reserve funds, the allocation and use of which is determined by the Annual General Meeting.

The balance, if any, is allocated among the shareholders.

The Annual General Meeting that votes on the financial statements for the fiscal year has the option of granting each shareholder, for all or part of the dividend or interim dividend distributed, an option between the payment of the dividend or the interim dividend in cash, in kind or in shares. The Annual General Meeting may also decide, for all or part of the dividend, interim dividends, reserves, or premiums distributed, or for any capital reduction, that the distribution of dividends, reserves or premiums or the capital reduction will be made in kind in the form of corporate assets, including securities.

(Article 22 of the Articles of Association)

Dividends not claimed after five years are paid to the State. Dividends paid over the last three fiscal years are presented in the Management Report.

Administrative and management bodies

Information regarding administrative and management bodies is presented in the "Corporate governance" chapter.

Annual General Meetings – Double voting rights

Annual General Meetings are convened by the Board of Directors and deliberate on their agenda under the conditions provided for by the law and the regulations.

Meetings are held at the registered office or in any other place specified in the convening notice.

All shareholders may attend meetings, either in person or via a proxy, under the conditions laid down by law, subject to providing proof of their identity and of the title to their securities, by the recognition of said securities in the accounts in their name within the regulatory timeframes, either in the accounts of registered securities held by the Company, or in the accounts of bearer securities held by an accredited intermediary. Proof of the capacity of a shareholder can be provided electronically, under the conditions set by the regulations in force. Pursuant to a decision of the Board of Directors, shareholders may participate in meetings via video-conference or via telecommunications means that make it possible to identify them under the conditions laid down by the regulations in force. All shareholders may vote by correspondence using a form filled out and sent to the Company under the conditions laid down by the regulations in force, including electronically, pursuant to a decision by the Board of Directors. This form must reach the Company in accordance with the regulatory conditions in order to be taken into account. The Board of Directors may reduce said timeframe for the benefit of all shareholders. The owners of securities who are not resident on French territory may be represented by an intermediary who is registered in accordance with the conditions laid down by the regulations in force.

Meetings are chaired by the Chairman of the Board of Directors or, in his/her absence, by the member of the Board who is specifically appointed for this purpose by the Board. Failing this, the meeting elects its own chair.

Meeting minutes are prepared and copies thereof are certified and issued in accordance with the law.

In all Annual General Meetings, a voting right that is double that conferred on the other shares is granted to all shares that are paid up in full and for which proof is provided that they have been held in registered form for at least two years in the name of the same shareholder. This double voting right, which existed in the Articles of Association of Pinault SA prior to its merger with Printemps SA, was restated at the time of their 1992 merger.

This double voting right may be withdrawn outright at any time pursuant to a decision of the Extraordinary General Meeting and after ratification by a special meeting of the beneficiary shareholders.

(Article 20 of the Articles of Association)

The double voting right existed in Pinault SA and Printemps SA prior to their 1992 merger. The Company's Articles of Association do not provide that, in the event of a free allocation of registered shares to a shareholder in respect of old shares for which he/she/it had a double voting right, the new shares are also entitled to a double voting right.

Pursuant to the relevant legislation, double voting rights are cancelled for any share converted to a bearer share or in the event of a transfer of ownership except in the case of a transfer following inheritance, liquidation of joint property between spouses, or donation between living family members (spouse or relative) with legal inheritance rights.

Voting rights are not limited under the Articles of Association.

The legal and regulatory provisions relating to the crossing of thresholds by shareholders apply. The Company's Articles of Association do not include any special provision in this regard.

There are no shares that are non-representative of capital.

The steps required to amend shareholder rights are those provided for by law.

Share capital

The Company is authorised to use the provisions of the law and regulations regarding the identification of the holders of securities that grant immediate or deferred access to voting rights at its own Annual General Meetings.

(Article 7 of the Articles of Association)

In addition to the voting right that is granted to each share by the law and by the specific provisions of Article 20 below, each share confers the right to a percentage, which is proportional to the number and par value of the existing shares, of the corporate assets, profits after deduction of the withdrawals provided for by law and the Articles of Association, and liquidating dividend.

In order for all the shares to receive the same net amount, without distinction, and to be listed on the same line, the Company shall, unless prohibited by law, pay the amount of any proportional tax that may be owed on certain shares only, in particular upon a winding up of the Company or capital reduction; however, the Company will not make this payment when the tax applies under the same conditions to all the shares in the same class, if there are several classes of shares to which different rights are attached.

Each time it is necessary to possess more than one share in order to exercise a right, it is the responsibility of the owners who do not possess such number to make arrangements to regroup the required number of shares.

(Article 8 of the Articles of Association)

In the event of liquidation of the Company, the remaining shareholders' equity after repayment of the par value of the shares will be allocated among the shareholders in the same proportions as their holdings in the capital.

(Article 24 of the Articles of Association)

Any changes in the share capital or the rights attached to securities comprised in the share capital are governed by the legal requirements and the specific provisions of the Articles of Association as set out below.

Under Article 15 of the Articles of Association, in the Company's internal organisation, decisions by the Chief Executive Officer relating to the issue of securities, regardless of their nature, require the prior approval by the Board of Directors when such issues are likely to change the share capital.

1.2. information on trade payables – payment terms

Kering's trade payables, amounting to €5.6 million as of December 31, 2013 (€5.1 million as of December 31, 2012), fall due in less than 60 days.

2. person responsible for the reference document

Jean-François Palus

Group Managing Director

2.1. declaration by the person responsible for the reference document and for the annual financial report

Having taken all reasonable measures to that effect, I hereby attest that the information in this Reference Document is, to my knowledge, in accordance with the facts and contains no omission likely to affect its import.

I certify that, to my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and the undertakings included in the consolidation, and that the Management Report (the cross-reference table for which is shown on page 333) includes a fair review of the development of the business, the results of operations and the financial position of the Company and of all the undertakings included in the consolidation and also describes the main risks and uncertainties to which they are exposed.

I have obtained a statement from the Statutory Auditors, KPMG Audit and Deloitte & Associés, confirming that they have audited the information contained in this document relating to the financial position and the financial statements contained herein, and that they have read this document in its entirety.

The annual consolidated and parent company financial statements of Kering SA shown in the Reference Document are subject to reports by the Statutory Auditors on pages 281-282 and 303-304 respectively of said document. The Statutory Auditors' report on the parent company financial statements contains an emphasis of matter regarding the information presented in the Management Report on remuneration paid and benefits granted to corporate officers.

Paris, April 9, 2014

Jean-François Palus

Group Managing Director
(*Directeur Général délégué*)

3. *statutory auditors*

3.1. *principal statutory auditors*

KPMG Audit, a department of KPMG SA

1, cours Valmy, 92923 Paris-La Défense Cedex

Hervé Chopin

Date of first appointment: Annual General Meeting on June 18, 1992.

Term and expiry: from May 19, 2010 until the Annual General Meeting called to approve the 2015 financial statements.

Deloitte & Associés

185, avenue Charles de Gaulle, 92524 Neuilly-sur-Seine Cedex

Antoine de Riedmatten

Date of first appointment: Annual General Meeting on May 18, 1994.

Term and expiry: from June 9, 2008 until the Annual General Meeting called to approve the 2013 financial statements.

3.2. *substitute statutory auditors*

KPMG Audit IS

3, cours du Triangle, Puteaux, 92939 Paris-La Défense Cedex

Date of first appointment: Annual General Meeting on May 19, 2010.

Term and expiry: from May 19, 2010 until the Annual General Meeting called to approve the 2015 financial statements.

BEAS

7-9, Villa Houssay, 92524 Neuilly-sur-Seine Cedex

Date of first appointment: Annual General Meeting on May 19, 2005.

Term and expiry: from June 9, 2008 until the Annual General Meeting called to approve the 2013 financial statements.

4. documents incorporated by reference

In compliance with Article 28 of European Regulation no. 809/2004 dated April 29, 2004, this Reference Document incorporates by reference the following information, to which the reader is invited to refer:

- for the fiscal year ended on December 31, 2012: key figures, activities of the Group, activity report, investment policy, consolidated financial statements, parent company financial statements and the related Statutory Auditors' reports, set out on pages 6-7, 16-42, 157-160, 169-260, 264-282, 261-262 and 283-284 respectively of the Reference Document filed on April 18, 2013 with the AMF;
- for the fiscal year ended on December 31, 2011: key figures, activities of the Group, activity report, investment policy, consolidated financial statements, parent company financial statements and the related Statutory Auditors' reports, set out on pages 6-7, 15-57, 136-162, 163-165, 173-262, 266-284, 263-264 and 285-286 respectively of the Reference Document filed on March 21, 2012 with the AMF.

Information included in these two Reference Documents other than that listed above is, where relevant, replaced or updated by the information included in this Reference Document. These two Reference Documents are available at the Group's registered office and on its website: www.kering.com, under the Finance section.

5. *cross-reference table to the disclosure requirements set out in annex 1 of european regulation no. 809/2004*

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kering

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