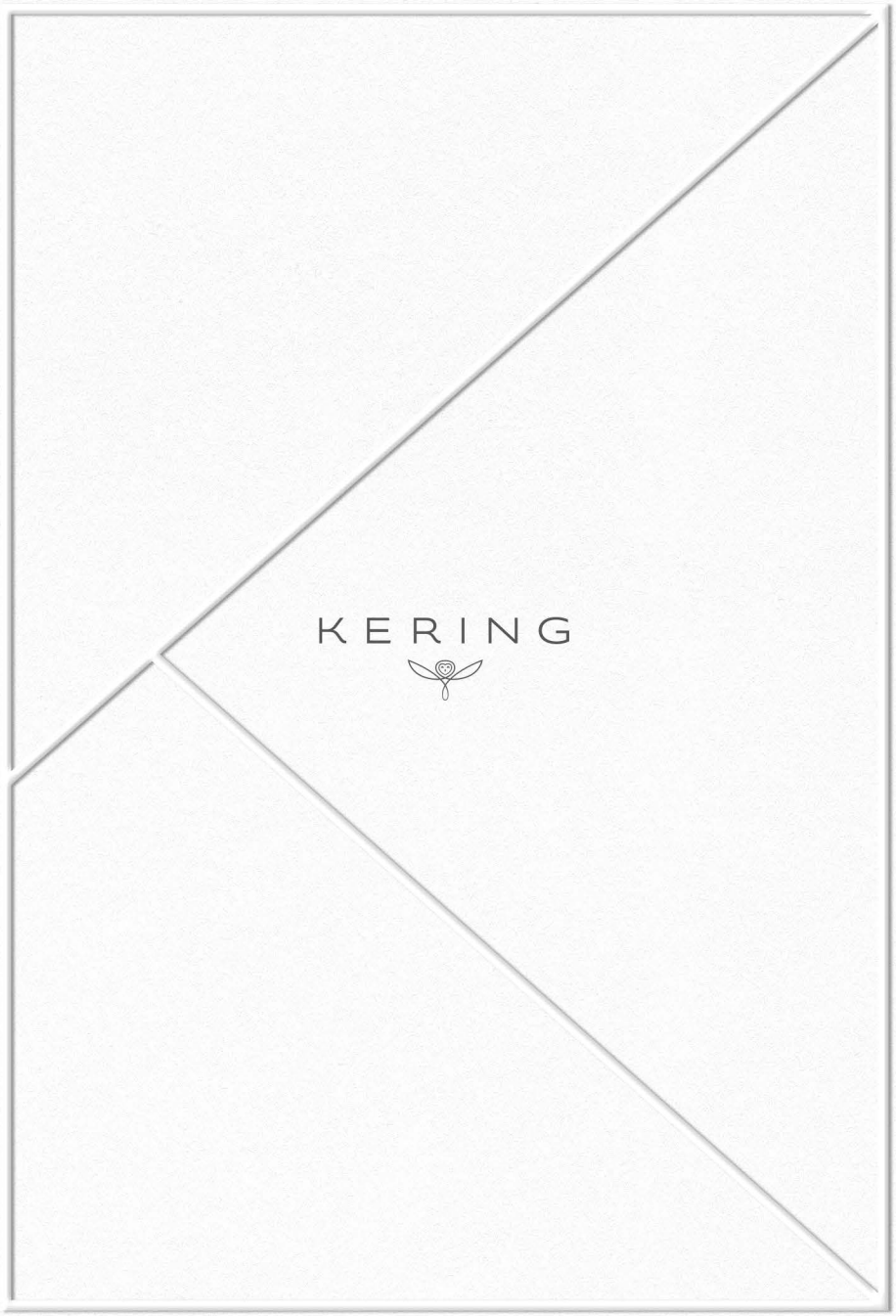

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This is a free translation into English of the 2017 Reference Document issued in French and is provided solely for the convenience of the English speaking users.

chapter 1
kering in 2017

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1. history

Kering has continuously transformed itself since its inception in 1963, guided by an entrepreneurial spirit and a commitment to constantly seek out growth and create value.

Founded by François Pinault as a lumber and building materials business, the Kering group repositioned itself on the retail market in the 1990s and soon became one of the leading European players in the sector. The acquisition of a controlling stake in Gucci Group in 1999 marked a new stage in the Group's development, and the establishment of a coherent ensemble of complementary Luxury brands. Kering is continuing its growth story, unlocking the potential of its brands and pursuing its ambition to be the world's most influential Luxury group in terms of creativity, sustainability and economic performance.

1963
- François Pinault establishes the Pinault group, specialising in lumber trading.

1988
- Listing of Pinault SA on the Paris Stock Exchange.

1990
- Acquisition of Cfao, a group specialising in trading with Africa and in electrical equipment distribution (activity renamed Rexel in 1993).

1991
- The Group acquires Conforama and enters the retail market.

1992
- Takeover of Au Printemps SA, a department store chain which also held a majority interest in mail order clothing brand La Redoute.

1994
- La Redoute is merged into Pinault-Printemps, renamed Pinault-Printemps-Redoute.
- Takeover of Fnac, a retailer of books, music, films and consumer electronics.

1999
- Acquisition of a 42% stake in Gucci Group NV, marking the Group's entry into the Luxury Goods sector.
- 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.

2000
- Acquisition by Gucci Group of high jewelry House Boucheron.

2001
- Gucci Group acquires Italian leather goods brand Bottega Veneta and the House of Balenciaga and signs partnership agreements with Alexander McQueen and Stella McCartney.
- The Group raises its stake in Gucci Group to 53.2%.

2003
- Sale of Pinault Bois & Matériaux to the Wolseley group of the UK.
- The Group raises its stake in Gucci Group to 67.6% (after raising it to 54.4% in 2002).

2004
- The Group raises its stake in Gucci Group to 99.4% further to a tender offer.
- Sale of Rexel.

2005
- Pinault-Printemps-Redoute becomes PPR.

2006
- Sale of a 51% controlling stake in Printemps to RREEF and the Borletti group.

2007
- Sale of the residual 49% stake in Printemps to RREEF and the Borletti group.
- Acquisition of a 27.1% controlling stake in PUMA. This stake was increased to 62.1% further to a tender offer.

2008
- Sale of YSL Beauté to L'Oréal.
- Acquisition of a 23% stake in watchmaker Girard-Perregaux.

2009
- Acquisition by PUMA of Dobotex International BV.
- Acquisition by PUMA of Brandon AB.
- Listing of 58% of Cfao.

2010
- Acquisition by PUMA of a 20% stake in Wilderness Holdings Ltd.
- Acquisition by PUMA of COBRA.

2011
- Closing of the sale of Conforama to Steinhoff.
- Acquisition of Volcom.
- The Group raises its stake in Sowind Group (Girard-Perregaux and JEANRICHARD) to 50.1%.

2012
- Closing of the acquisition of Italian men's tailor Brioni.
- Sale of the remaining 42% stake in Cfao.
- Creation of a joint venture with Yoox S.p.A. dedicated to e-commerce for several of the Group's Luxury brands.

2013
- Closing of the acquisition of a majority stake in Chinese fine jewelry brand Qeelin.
- Acquisition of a majority stake in the luxury designer brand Christopher Kane.
- Acquisition of a majority stake in France Croco, a Normandy-based tannery specialising in precious skins.
- Listing of Groupe Fnac on the Paris Stock Exchange.
- Change of corporate name: PPR becomes Kering.
- Acquisition of a majority stake in Italian jewelry group Pomellato.

2014
- Closing of the sale of La Redoute.
- Acquisition of watchmaker Ulysse Nardin.

2015
- Sale by PUMA of the intellectual property rights of the Tretorn group (including trademark rights, patents and designs).
- Launch of Kering Eyewear.
- Sale of Italian shoemaker Sergio Rossi.
- Publication of the very first Environmental Profit and Loss Account (EP&L) at Group level.

2016
- Creation of a new division called Kering Luxury Logistics and Industrial Operations (KLLIO) which combines Kering Supply Chain, Logistics and Industrial Operations.
- Sale of Electric by Volcom.
- Kering relocates its head office to the former Laennec Hospital, in the heart of Paris' Left Bank.

2017
- Agreement signed between Kering Eyewear and Maison Cartier to develop, manufacture and distribute the Cartier eyewear collections, with Richemont acquiring a minority stake in Kering Eyewear.

2. key consolidated figures

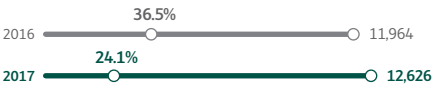
(in € millions)	2017	2016	Change
Revenue	**15,478**	**12,385**	**+25.0%**
EBITDA	**3,464**	**2,318**	**+49.4%**
EBITDA margin (as a % of revenue)	*22.4%*	*18.7%*	*+3.7pts*
Recurring operating income	**2,948**	**1,886**	**+56.3%**
Recurring operating margin (as a % of revenue)	*19.0%*	*15.2%*	*+3.8pts*
Net income attributable to owners of the parent	**1,786**	**814**	**+119.5%**
o/w continuing operations excluding non-recurring items	**2,002**	**1,282**	**+56.2%**
Gross operating investments [1]	**752**	**611**	**+23.1%**
Free cash flow from operations [2]	**2,318**	**1,189**	**+94.9%**
Net debt [3]	**3,049**	**4,371**	**-30.2%**
Average number of employees *(full time equivalent)*	**38,596**	**35,877**	**+7.6%**

Per share data *(in €)*	2017	2016	Change
Earnings per share attributable to owners of the parent	14.17	6.46	+119.3%
o/w continuing operations excluding non-recurring items	15.89	10.17	+56.2%
Dividend per share [4]	6.00	4.60	+30.4%

dividend per share
(in €)

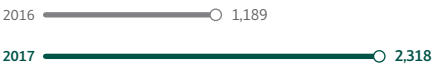
net income attributable to owners of the parent
(in € millions)

equity and debt-to-equity ratio*
(in € millions and in %)



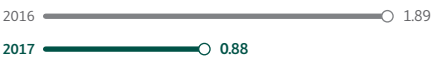
** Net debt [3] / equity.*

free cash flow from operations [2]
(in € millions)



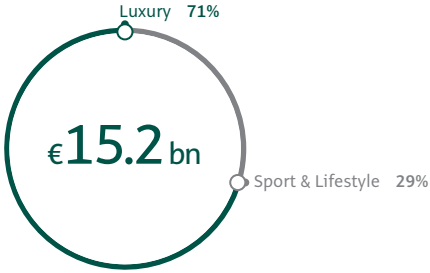
net debt [3]
(in € millions)

solvency ratio
(Net debt[3]/EBITDA)



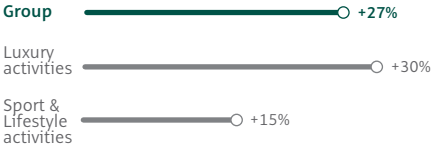
(1) Purchases of property, plant and equipment and intangible assets.
(2) Net cash flow from operating activities less net acquisitions of property, plant and equipment and intangible assets.
(3) Net debt is defined on page 86.
(4) Subject to the approval of the Annual General Meeting to be held on April 26, 2018.

revenue breakdown by activity(1)

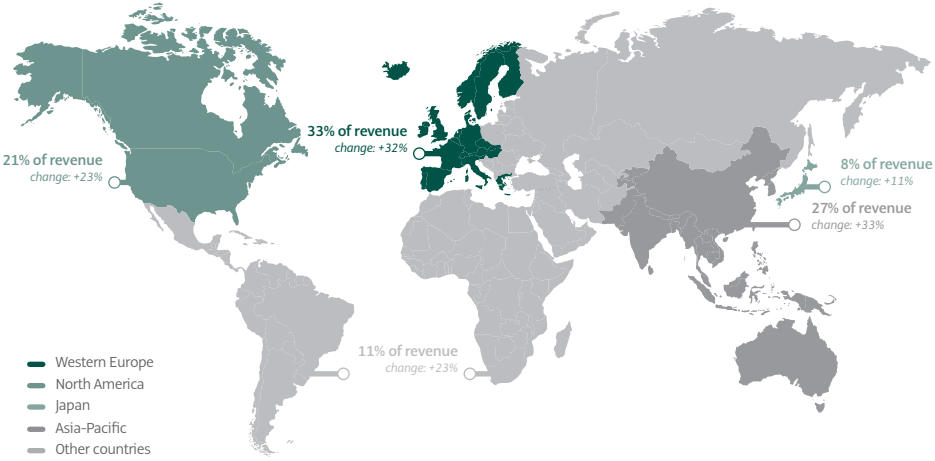


group revenue

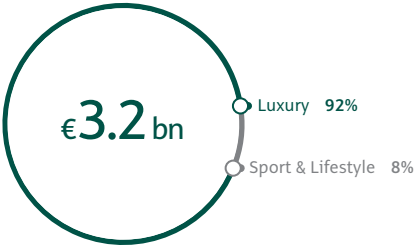
2017 vs 2016 comparable(2) change, in %



revenue breakdown and comparable(2) change by region



recurring operating income breakdown by activity(3)

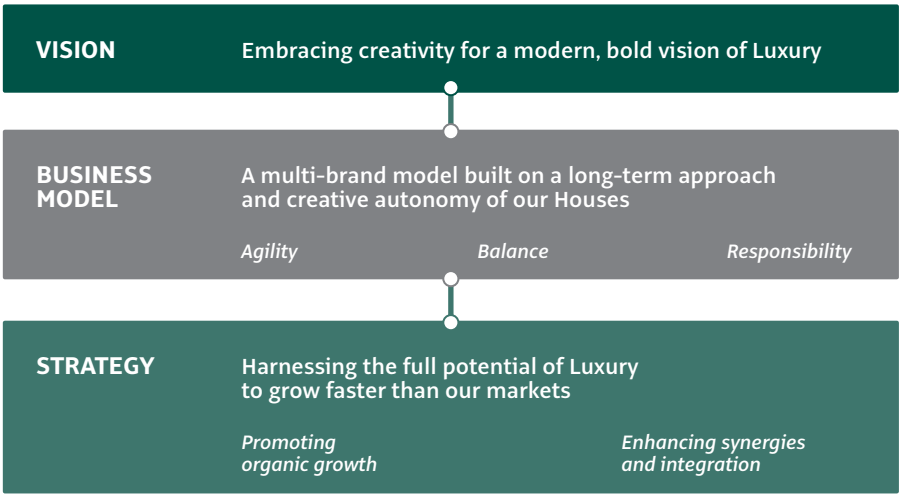


recurring operating income change and margin

(in € millions)	Recurring operating income	Reported change *(in %)*	Recurring operating margin *(in %)*
Luxury	2,911	+50.4%	27.0%
Sport & Lifestyle	244	+98.1%	5.6%
Corporate and other	(207)	-19.7%	-
Group	**2,948**	**+56.3%**	**19.0%**

(1) Excluding corporate and other, with a revenue of €300 million in 2017.
(2) Comparable revenue is defined on page 86.
(3) Excluding corporate and other.

3. group strategy



vision: embracing creativity for a modern, bold vision of luxury

A new world order is unfolding. Against a backdrop of ever-faster change, new economies are taking shape as cultures collide, disruptive technologies emerge and young "always-on" consumers seek meaningful connections. Today's change generation is shaking up the rules.

Kering is setting the trend, purposefully shaping the Luxury of tomorrow, which will be more responsible and more in tune with our times while remaining true to the exceptional history and heritage of our Houses. Our ambition is to be the world's most influential Luxury group in terms of creativity, sustainability and economic performance.

Boldness is an essential source of inspiration and creativity. We dare to think differently so that we can constantly propose fresh and innovative ideas that inspire emotion and enthusiasm for our exceptional products. We dare to take risks. This way, we can meet the radically changing expectations of all our audiences. Not only is Luxury synonymous with heritage and know-how, it has also become a vital means of self-expression, enabling our clients to display their singular personalities.

What Kering and its Houses propose is an experience. Our values are closely tied to a powerful, creative content imbued with modernity, and are complemented by the entrepreneurial spirit that permeates each of our brands and creative teams. Our Group is driven forward by committed women and men who strive each day to create authentic, ever-changing Luxury.

We want to play our part in the emergence of a more sustainable world. We are constantly raising our creative and production standards to ensure respect for the environment while at the same time having positive social impacts. We aim to create value that is equitably distributed among all our stakeholders.

Pronounced "caring", Kering is much more than a signature – it gives meaning to everything we do.

business model: a multi-brand model built on a long-term approach and creative autonomy of our houses

Kering is a Luxury group. We develop a complementary ensemble of some of the most prestigious and audacious Houses in leather goods, fashion, shoes, jewelry and watches: Gucci, Bottega Veneta, Saint Laurent, Alexander McQueen, Balenciaga, Brioni, Christopher Kane, McQ, Stella McCartney, Tomas Maier, Boucheron, Dodo, Girard-Perregaux, Pomellato, Qeelin and Ulysse Nardin.

Kering also develops Sport & Lifestyle brands PUMA, COBRA and Volcom.

Due to our international footprint and the strength of our brands combined with the creative autonomy enjoyed by our Houses and the unique quality of our creations, Kering is among the foremost players in the Luxury Goods market. Our unrivalled integrated model fosters rapid growth for our brands and creates the space for them to thrive. Our multi-brand approach is built on a long-term vision and combines agility, balance and responsibility.

> *"Meeting our customers' changing expectations is a collective effort that we revisit each day"*

Agility:
Kering provides its Houses with an organisational structure that unlocks their potential for excellence

- **Constancy**

Kering began as a family company more than 50 years ago and is now 40.9%-owned by Artémis, a holding company controlled by the Pinault family. With a strong and stable controlling shareholder, Kering boasts an attractive and sustainable profile conducive to developing our vision in the Luxury Goods market over the long term.

- **Flexibility**

From a conglomerate of diversified retail activities until the early 2000s, Kering has transformed itself into a Group of Luxury Houses focusing on personal items. We are now an integrated Group developing around 20 of the world's most prestigious Luxury brands. Through the years, we have been able to leverage the most effective growth drivers.

- **Clarity**

Kering helps its Houses realise their full growth potential. At each stage of their development, they benefit from the Group's solid integrated value chain and pooled support functions. By encouraging imagination in all its forms, our organisation fosters performance while enabling our Houses to unleash the best of their talents and creativity. The Group ensures that performance is aligned with the Houses' long-term visions and objectives. Challenging our Houses and looking at a broader horizon than the annual calendar of collections, our straightforward vision aims at securing the performance of the Group and its Houses.

Balance:
Now a fully integrated Group, Kering's multi-brand model is reaching optimal efficiency

- **An ensemble of exceptional Houses**

Each of our brands evokes a unique blend of emotions and creations. Following our successful transformation into a leading Luxury Goods player, we boast some of the most prestigious Houses. With distinctive positionings, they play complementary roles in a coherent ensemble.

- **Multi-brand model**

We use our strength as a Group to help forge a distinctive identity for each House. Our brands find ways to express their unique characters: couture and accessories for some, jewelry and traditional watchmaking for others. The Group supports the brands by providing its expertise, reliable supply chain and access to distribution networks, as well as enhancing customer experience – especially in digital channels – and promoting communications. It also encourages the brands to form synergies with each other and share best practices, all of which drives innovation.

- **Growth prospects**

Spurred by positive demographic, economic and sociological factors, the global Luxury Goods market enjoys significant structural growth potential. Kering adds its own momentum on top of these intrinsic factors, further amplified by placing creative boldness at the heart of its model. So while our most firmly established Houses are reinventing themselves and re-engaging with their audiences, our emerging brands are focused on realising their full potential and gaining new customers.

- **Ready to weather adverse market conditions**

With both mature and emerging brands in various specialties, segments and markets, Kering has an extensive footprint in geographically diverse regions. Due to the variety of its customers, products, brands and locations, the Group is well placed to weather changes in market conditions and seize growth opportunities.

> *"Our economic model is built on exceptional Houses, complementary positionings and varied maturity profiles"*

Responsibility:
All our operations are founded on a responsible economic model. Our comprehensive, sustainable approach is a structural competitive advantage

- **Towards sustainable Luxury**

Can a responsible economic approach change the very nature of Luxury? For Kering, the answer is a resounding "yes". For our brands, sustainability is an economic opportunity, a source of inspiration and innovation. Methods, materials, resources and products are being reinvented and customers' usages and expectations are changing. Having set itself measurable social and environmental performance targets as part of its 2025 strategy, Kering is changing the way it designs Luxury products through the inclusion of non-financial criteria to create sustainable value for customers as well as for society.

- **A people-centred approach**

The aim of the responsible model is to rethink Kering's relationships with its stakeholders so as to ensure fair and ethical treatment that constantly takes into account the social and environmental impacts of the Group's operations. The model impacts all dimensions of Kering's ecosystem, from the Group's strategy and the Houses' creative decisions to operational production, processing and distribution choices. Placing people at the heart of the model brings fresh entrepreneurial spirit, inspiring and engaging employees and customers.

- **Creative potential**

Responsibility is deeply embedded in the Group's organisational structure, bringing about short- and long-term competitive gains. As well as promoting business growth through ever more innovative and attractive products, it rewards best business practices such as good cost control and process upgrading. In a context of limited natural resources, new high-quality materials are being fashioned and more sustainable processes devised. We are constantly on the look-out for innovative and disruptive technologies. For our brands, this represents a vast swathe of creative territory yet to be explored.

- **Governance and ethics**

Built on the Group's core values, Kering's responsible model leverages an ambitious governance structure, supported by the Board of Directors and its Sustainability Committee. Together they drive the sustainability strategy, which the Houses put into action every day under the guidance of dedicated experts. In 2018, the Group is also establishing a new kind of committee made up of Millennials from both within the Group and outside. Called the Young Leaders Advisory Group, its forward-looking role entails infusing the Group with new ideas and thinking.

> *"Being a responsible Luxury group means crafting the Luxury of tomorrow – We perceive change as an opportunity and a growth lever"*

strategy: harnessing the full potential of luxury to grow faster than our markets

Over the past decade, Kering has undergone a major strategic shift to become a leader in the Luxury Goods sector. Today, three of the Group's brands, Luxury flagships, generate annual revenue of more than €1 billion. Kering is aiming to strengthen and sustain its growth momentum in coming years.

Promoting organic growth

- **Above-market performance in a growth industry**

The future of the Luxury Goods market is structurally bright. The growth of emerging economies, the cultural exposure of new populations to new global brands and the increasing use of new technologies are major sources of value creation for Kering. The market growth rate having normalised over recent years, the challenge for each of our brands is to outperform its respective market in all segments and categories.

- **Product innovation**

Energised by new creative teams, our Houses are setting trends in most of their specialties. Backed by the Group, they are moving into new product categories and coming up with ever more fresh ideas. Their offerings both stimulate and meet their customers' expectations and aspirations by arousing desire, inspiring dreams and tapping into emotions.

- **Sales efficiency**

In their networks of directly operated stores, our brands deploy initiatives to boost sales performance, capitalising on increasingly effective merchandising and in-store operational excellence, supported by the Group and its dedicated teams. Optimising comparable-store sales performance is a key organic growth lever for Kering.

- **Customer experience**

Improving the quality of in-store customer experience is central to driving sales performance. Personalised customer experience and customisation help make each client relationship unique. So as to enable our Houses to create and sustain lasting connections, customer service before, during and after the sale must be as distinctive as our actual collections.

- **Omni-channel approach**

Our customers are connected and mobile, constantly flicking between distribution channels, from digital communications platforms to brick-and-mortar stores. Our customer relations strategy is epitomised by continuity on all communication and distribution channels. This holistic omni-channel approach is supported by targeted directly operated store extensions and strategies for distribution agreements, travel retail, e-commerce, social media and digital communication.

> *"Digital is simultaneously accelerating and deepening our relationships with our customers, encouraging them to communicate and share their emotions with us"*

Enhancing synergies and integration

Our integrated model gives us a distinct advantage. Our brands benefit from Group-wide synergies while preserving their unique characters and exclusivity.

- **Resource pooling**

Our Houses share certain support functions, allowing them to concentrate on what really counts: creativity, production quality, product range development and renewal, customer relations and brand and product communication. The Group pools resources and streamlines certain strategic functions such as logistics, purchasing, legal affairs, property, accounting and payroll, advertising space buying, IT and the development of new tools (in particular with respect to the omni-channel approach). Safe in the knowledge that they are supported by the Group, our Houses can give free reign to their creative energy.

- **Cross-business expertise**

In order to enrich its brands' offerings, the Group draws on cross-business expertise. A notable success story in this domain is Kering Eyewear, which has been developed internally. Our Houses benefit from a dedicated specialist which ensures full control over the value chain of their frame and sunglasses businesses, from creation and development to supply chain; brand strategy and marketing to distribution. This innovative management model enables Kering to harness the full growth potential of its brands in this category and generate significant value creation opportunities.

- **Vertical integration**

From 2013, the Group strengthened its upstream positioning in the Luxury Goods value chain, in particular via the targeted acquisition of leather tanneries to secure raw materials sourcing. Logistics activities for its Couture & Leather Goods brands have been centralised, much like ready-to-wear prototyping, which is pooled in a shared unit. To ensure the effectiveness and efficiency of this vertical integration, all these operations have been placed under the direct governance and oversight of Kering.

- **Talent excellence**

We pay particular attention to the professional development and satisfaction of the women and men working for our Houses and in our head offices. Thanks to an ambitious worldwide human resources framework based on ever-greater mobility, Kering facilitates the growth of its Houses through a shared pool of talents, expertise and excellence. The Group helps employees reach their potential and express their creativity by developing skills and performance, as well as by offering aspirational development opportunities.

Kering also pays careful attention to the role of women, who make up the majority of its employees and customers. Internal systems are in place to guarantee gender equality, as evidenced by our ambitious global parental policy. The Kering Corporate Foundation is committed to combating violence against women. The aim of the Women in Motion initiative is to showcase the contribution of women to the film industry, whether in front of the camera or behind.

> ***"The Group strives to create value for its Houses and is geared to unlocking their creative potential"***

kering in 2017: a record-breaking year

Despite a persistently uncertain environment shaped by geopolitical tensions and their ramifications, the global Luxury Goods market enjoyed stronger-than-expected growth in 2017 (see Chapter 2 for a presentation of the global Luxury Goods market), with a marked upturn compared with 2016. However, not all players benefited from this dynamic. Performances across the sector varied widely, with some groups – in particular multi-brand groups – considerably outperforming mono-brand players.

Kering demonstrated the relevance of its multi-brand model, harnessing the growth of the Luxury Goods market across the various segments, regions and consumer groups. It was a year of record results for the Group, in line with its vision and strategic objectives of:

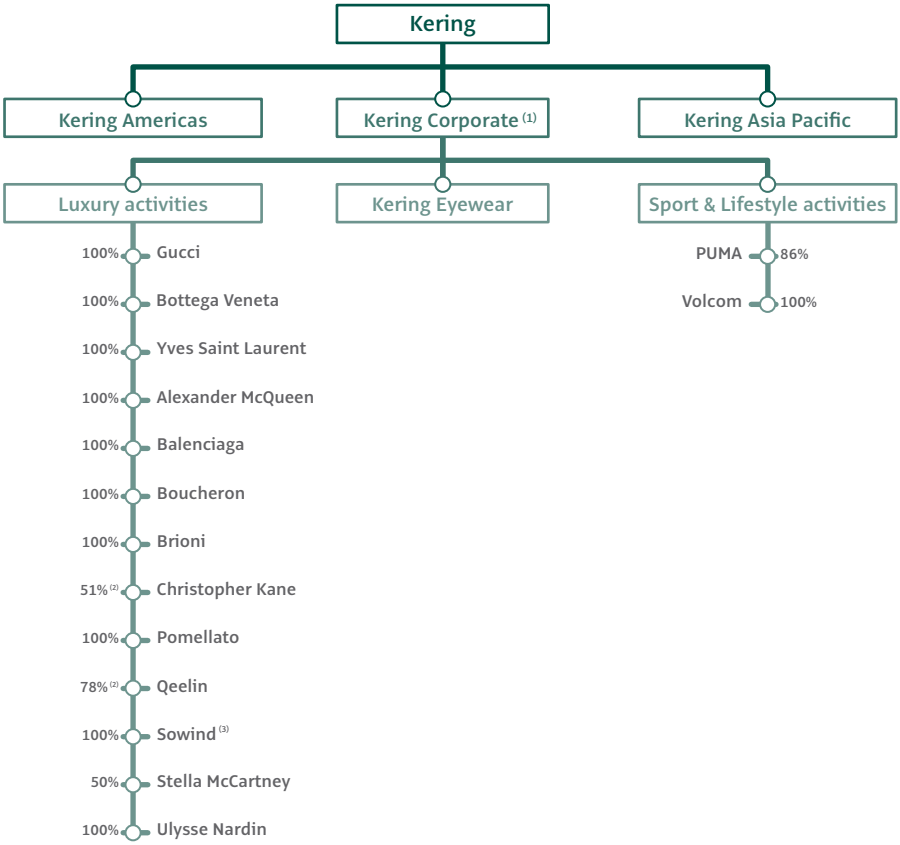
- promoting long-term value creation, combining boldness and imagination, creativity and measured risk-taking, adaptability and agility;
- nurturing each brand's potential, with priority given to organic growth and operating cash flow generation.

Structured and organised to bring more expertise, value and operational support to its brands, Kering's financial priorities are unchanged and aim to improve return on capital employed by enhancing profit margins and optimising capital allocation.

Many of the action plans implemented during previous years yielded positive results during the year. Gucci, which has undertaken a major transformation programme since early 2015 to overhaul its creative drive, organisation and collections, had an exceptional year, demonstrating the ability of the soon-to-be century-old brand to reinvent itself and rapidly return to the forefront of the Luxury Goods industry. PUMA, under the direction of a new management team since 2013, continued to roll out its strategic plan, aimed at renewing and streamlining its product line-up and refocusing its positioning around Sport Performance. For the past three years, the results of these initiatives have been apparent in PUMA's robust top-line growth, now combined with significant profitability gains.

In a more stable but still hesitant environment shaped by the disruptive impact of geopolitical tensions, the Group is looking ahead with confidence and determination. Kering remains fully committed to environmental and social sustainability and diversity, which are crucial to its goals and long-term performance.

4. kering group simplified organisational chart as of december 31, 2017



(1) Corporate is defined on page in 77.
(2) Excluding put options.
(3) The Sowind group owns the Girard-Perregaux and JEANRICHARD brands.

chapter 2
our activities

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worldwide personal luxury goods market overview

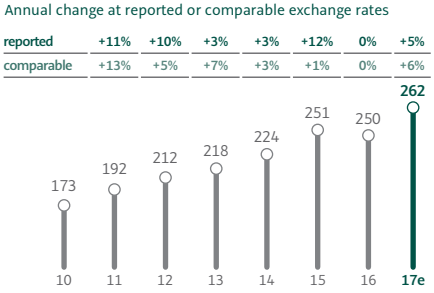
This section contains information derived from studies conducted by organisations, such as Altagamma and Bain & Company. Unless otherwise indicated, all historical and forecast information, including trends, sales, market shares, sizes and growth, comes from the Bain Luxury Study – Altagamma Worldwide Market Monitor, published in October 2017, rounded out with data from the full report published in December 2017. 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 "soft luxury" segment (Leather Goods, Apparel and Accessories), the "hard luxury" segment (watches and jewelry) and the "perfumes and cosmetics" segment.

market overview: size, trends and main growth drivers

The global personal Luxury Goods market enjoyed double-digit reported growth in 2010, 2011 and 2012. Since 2013, the market has gradually decelerated, entering 2015 at a more "normalised" growth rate, with growth stalling entirely in 2016. In 2017, market growth returned to 5% as reported and 6% at comparable exchange rates, valuing sector revenue at €262 billion.

Worldwide personal Luxury Goods market trend (2010-2017e, in € billions)

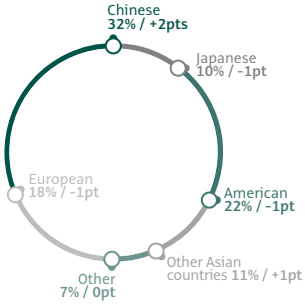


2017 was characterised by:

- greater currency volatility than in 2016, with some movements affecting local and tourist consumption patterns (appreciation of the euro accelerating in the second half of the year, depreciation of the British pound driving growth in the United Kingdom, slow but steady appreciation of the Chinese yuan and relative weakness of the Japanese yen) and some currencies staying at an absolute low level after the depreciation undergone since 2015 (Russian rouble and Brazilian real);
- lingering geopolitical tensions, political events and economic uncertainties that could weigh on consumer confidence, tourism flows and consumption trends, such as terrorism threats in Europe, political tensions with North Korea, ongoing Brexit negotiations, economic uncertainty in the Middle East, etc.;
- GDP growth however supportive (2.9% in 2017e versus 2.4% in 2016), driving a global increase in local consumption and a pick-up in tourist spending, especially in Europe and Japan, resulting in expected market growth in 2017 of 6% at constant exchange rates.

2017e Luxury Goods market by nationality

By nationality, the global personal Luxury Goods market is characterised by the weight of Chinese and American consumers, who together account for more than half of the market in value. In 2017, Chinese and nationals from other Asian countries were the main contributors to market growth, gaining in weight respectively 2 percentage points and 1 percentage point versus 2016.



/pts: Market share change (2017e vs 2016).

The market is facing a number of structural changes, including:

- true core luxury consumers are extending their spending from personal Luxury Goods to experiences (hotels, cruises, restaurants, etc.); while certain new luxury consumers are entering the market via the "accessible" segment, looking for entry-price items and brands;
- luxury consumption and patterns are getting more value sensitive, digital-oriented and leaning towards more innovation and newness;
- most of the key players and biggest brands have completed their international store footprint expansion.

In this new environment, luxury groups and brands need to adapt their strategy to current and future market trends that are likely to shape the industry in the coming years:

- Chinese consumers will still drive growth, with the increase mostly coming from the boost provided by the rising middle class;
- recovery of mature-market consumer spending could be driven by tailored and customer-oriented strategies implemented by luxury brands;
- rebalancing of local/tourist spending through management of international pricing strategy and the fluctuation of price differentials across regions;
- management of the generational shift of consumers and seamless integration of the various distribution channels, including e-commerce.

Certain structural factors will clearly still be supporting demand and growth of 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;
- the rising number of super-rich consumers and high-net-worth individuals (HNWI);
- increasing international mobility, generating higher travel flows and spending.

Nevertheless, the Luxury Goods market could be exposed to some short-term disruptions that could include:

- macroeconomic uncertainties and currency volatility;
- geopolitical tensions, security threats, outbreaks of epidemics/diseases;
- any other factor impacting tourism flows (such as visa policies, travel regulations, etc.) or luxury consumption (restrictions, tax and import duties, etc.);
- exogenous events such as political turmoil, unfavourable weather conditions, etc.

competitive environment

The global personal Luxury Goods market is fragmented and is characterised by the presence of a few large global players, often part of so-called "multi-brand groups", and a large number of smaller independent players. These players compete in different segments in terms of both 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 could also compete with established Luxury brands.

regional overview

Worldwide personal Luxury Goods market: breakdown by region (2017e)

	Size *(in € billions)*	Reported YoY change	YoY change at comparable exchange rates	% of total market
Europe	87	+6%	+7%	33%
Americas	84	+2%	+2%	32%
Japan	22	+4%	+8%	8%
Greater China	20	+15%	+18%	8%
Rest of Asia	36	+6%	+9%	14%
Rest of the world	13	+1%	0%	5%
TOTAL	**262**	**+5%**	**+6%**	**100%**

The nine largest countries in terms of global personal Luxury Goods in 2017 were as follows (revenue by geography and not by nationality):

2017e Rank	Country	Size *(in € billions)*	Reported YoY change	YoY change at comparable exchange rates
1	United States	74	+2%	+2%
2	Japan	22	+4%	+8%
3	Mainland China	20	+15%	+18%
4	Italy	19	+4%	+4%
5	United Kingdom	17	+13%	+21%
6	France	16	+3%	+3%
7	South Korea	12	+6%	+4%
8	Germany	12	+5%	+5%
9	Hong Kong	7	+2%	+3%

In 2017, the Americas region was the second largest market after Europe, with the United States accounting for the vast majority of revenue (c. 88%). The region was up 2% at comparable exchange rates, returning to growth albeit at a slower pace than other key regions. In the United States, top-tier local consumers outperformed while department stores continued to struggle with traffic, affecting wholesale growth. The strength of the US dollar at the beginning of 2017 spurred a shift in luxury spend to tourists, with US traveller purchases in Europe growing strongly. The weakening of the US dollar in the second part of the year (especially versus the euro) was not enough to push growth rate higher than a low single digit for the full-year. In the other countries of the region (especially Canada and Mexico) the trends were clearly more positive with some repatriation of local spending.

Europe represented 33% of the total worldwide market, with revenue up 7% versus 2016, at comparable exchange rates. In 2017, the region's growth was supported by both local and tourist spend, as the latter recovered from the negative impact of the Paris and Brussels terrorist attacks and the introduction of biometric visas for Chinese nationals in 2016. Inside the Eurozone, the first country remained Italy, performing quite well. France and Germany rebounded, whereas Spain continued its growth trend. Outside the Eurozone, the United Kingdom continued to benefit from the post-Brexit depreciation of sterling, which boosted tourist traffic.

Japan represented 8% of the global personal Luxury Goods market in 2017. It is still the second largest single country in terms of personal Luxury Goods consumption after the United States, and was up 8% at comparable exchange rates. Japan benefited from positive local consumption and the acceleration of Chinese spending as the yuan gradually strengthened against the yen throughout 2017.

Mainland China was the second fastest growing key country in 2017, up 18% at comparable exchange rates, representing 8% of the global personal Luxury Goods market. Mainland China confirmed its recovery, with an acceleration of the repatriation of local spending, notably driven by renewed consumer confidence and supportive government policies. Spending by locals in their domestic

market now represents 22% of total spending by Chinese nationals, up 2 percentage points compared to last year. Hong Kong and Macau swung back to growth.

In Rest of Asia, South Korea was positive as regards to local spending but did less well on the tourist side due to some Chinese tour travel ban.

The rest of the world – including the Middle East, Africa and Australia – represented 5% of the personal Luxury Goods market, with €13 billion in revenue in 2017. In the Middle East, the market was flat, hit by economic uncertainty.

product categories

The global personal Luxury Goods market is analysed in five main product categories as shown below:

Worldwide personal Luxury Goods market: breakdown by category (2017e)

	Market value 2017e *(in € billions)*	Reported YoY change	% of total market
Accessories	82	+7%	31%
Apparel	61	+3%	23%
Hard luxury	56	+5%	22%
Perfume and cosmetics	54	+4%	21%
Other	9	-10%	3%
TOTAL	**262**	**+5%**	**100%**

Accessories

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

In 2017, accessories represented 31% of the total personal Luxury Goods market with total revenue of €82 billion.

The two main sub-categories were:

a) Leather goods, with estimated revenue of €48 billion in 2017. This sub-category grew at a rate of 7% between 2016 and 2017 (on a reported basis), driven by the outperformance of bags which grew both in volumes and prices. Kering operates in leather goods mainly through the Gucci and Bottega Veneta brands, as well as the Saint Laurent, Balenciaga, Alexander McQueen and Stella McCartney brands;

b) Shoes, with estimated 2017 revenue of €18 billion, with 10% growth year-on-year as reported. The current trend of the market is the "luxury streetwear" phenomenon, with the sneakers market now accounting for €3.5 billion. Kering operates in this product category with most of the larger brands, including Gucci, Bottega Veneta, Saint Laurent, Balenciaga, Alexander McQueen and Stella McCartney, which offer shoes as part of their product assortment.

The eyewear category represented 5% of the total personal Luxury Goods market in 2017 and was worth an estimated €12 billion, up 4% in reported terms. Almost all group brands offer some eyewear in their product assortment, under a licence model. At the end of 2014, Kering decided to internalise this business, setting up Kering Eyewear, which is in charge of designing, developing and distributing the brands' eyewear collections.

Apparel

This category includes ready-to-wear for both women and men, and is equally spread between the two. It represented 23% of the total personal Luxury Goods market in 2017, totalling an estimated €61 billion, up 3% versus 2016. Men's ready-to-wear was driven by fashion daywear and casualwear (i.e., outerwear, denim and t-shirt) while formalwear growth decelerated. In women's ready-to-wear, brands have responded to the athleisure trend with more active-wear alternatives as well as resurgence of sport lines.

All Kering "soft luxury" brands operate in this product category, especially Gucci, Saint Laurent, Balenciaga, Stella McCartney, Alexander McQueen, Bottega Veneta and Christopher Kane, in addition to Brioni for menswear only.

Hard luxury

The hard luxury category generated revenue of €56 billion in 2017, representing 22% of the total personal Luxury Goods market, and was up 5% between 2016 and 2017 as reported. This category mainly includes watches and jewelry, representing €37 billion and €17 billion in 2017, respectively. In 2017, there was a polarised performance across the two main sub-categories, with watches up 3% and jewelry up 10% year-on-year as reported. High and mid-end watches were the top performers with precious and entry lines giving a boost to the market, while jewelry was driven by mid-prices and the entry offer, with high jewelry slowing down, resulting in a dispersed performance.

Kering operates in this category across different price points with Gucci Timepieces, Girard-Perregaux, Ulysse Nardin and Boucheron for watches, and Boucheron, Pomellato, Dodo and Qeelin for jewelry.

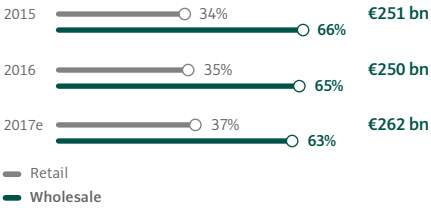
Perfume and cosmetics

The perfume and cosmetics category represented 21% of the total personal Luxury Goods market in 2017 and was worth an estimated €54 billion.

Kering operates in this product category through royalty licensing agreements between its main brands and leading industry players such as L'Oréal, Coty and Interparfums to develop and sell fragrances and cosmetics.

distribution channels

Worldwide personal Luxury Goods market: breakdown by distribution channel (2015-2017e)



Retail channel

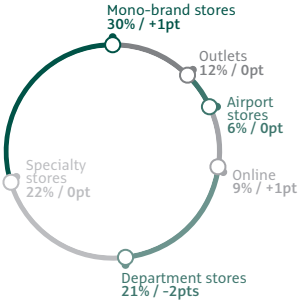
A strong directly operated store network is important for the success of a luxury brand as it allows greater control over the consumer shopping experience and over the product assortment, merchandising and customer service. In 2017, the retail channel accounted for sales amounting to 37% of the total global personal Luxury Goods market.

In the case of Kering Luxury brands, the share of retail sales is far higher (75%), reflecting both the maturity of some of the brands and the Group's strategic commitment to grow its directly operated network. This also reflects the Kering brands' product mix, as the higher share of leather goods and accessories typically translates into a more prominent share of retail sales in the channel mix.

Wholesale channel

The wholesale channel typically includes department stores, independent high-end multi-brand stores and franchise stores, and accounted for approximately 63% of the total global personal Luxury Goods market in 2017. This channel can thus be multi-brand or mono-brand. The share of wholesale sales is typically higher in ready-to-wear and hard luxury, and is also more important than retail in the channel mix for brands that stand at an earlier stage of maturity.

Distribution channels can also be split into six sales formats. Some of these formats may be operated through retail or wholesale.



/pts: Market share change (2017e vs 2016).

E-commerce

Online sales of Luxury Goods reached a new record of around €23 billion in 2017 (up 24% at comparable exchange rates), representing about 9% of total global personal Luxury Goods sales. This includes sales made through brand websites, e-tailers and retailers.com. Online is the fastest growing channel globally, with Asia and Europe being the main growth engines of a traditionally US-centric market, driven by a younger cohort of generation Y and generation Z consumers. Within online, brands and e-tailers are outperforming. Brands are accelerating their development of online activities, expanding both the geographical reach and the assortment offered on their e-stores, while e-tailers are seeing strong momentum due to their customer proposition – an integrated offer of appealing content and strong e-commerce execution.

Kering brands are present online and propose e-commerce, either operated fully internally, as is the case for Gucci, or through a joint venture.

Kering brands are also distributed online by selected partners.

market outlook

For 2018, Bain and Altagamma forecast overall growth of 4% to 5% excluding currency effects for the personal Luxury Goods market.

Key trends for 2018 include:

- a renewal in Chinese global spending, with local sales in Mainland China growing alongside international sales;
- concerns over US consumer confidence, with uncertainty over political reforms casting a shadow over the strong economic performance that should be further enhanced by the anticipated benefits from the recent tax reform;
- European market driven by local consumption, with tourist spending that could be hurt by the strengthening of the euro going forward.

By 2020, the market is expected to reach €295-305 billion, at a compound annual growth rate (CAGR) of 4-5% from 2018, driven by:

- emerging countries: in addition to Southeast Asian countries (Indonesia, Thailand, etc.), Brazil, Australia, Africa and India are expected to be increasingly key to the growth of the global personal Luxury Goods market;
- emerging consumers: a booming upper-middle class especially benefiting the "accessible" luxury segment, particularly in China. In fact, according to McKinsey, by 2022, the Chinese upper-middle class is expected to account for 54% of urban households and 56% of urban private consumption (up from 14% and 20% in 2012 respectively);
- generations Y and Z: estimated to have fuelled c.85% of the market growth in 2017, they are expected to account for 45% of the market by 2025;
- the development of distribution channels such as discount outlets, travel retail and e-commerce. The latter is expected to grow at an annual average rate of 15% over the 2016-2020 period and account for 25% of total personal Luxury Goods sales by 2025;
- an increase in high-spending consumer classes such as high-net-worth individuals (HNWIs);
- the development of new high-end products and services;
- the potential of the American market due to the under-penetration of European luxury brands in the region.

luxury activities

2017 key figures

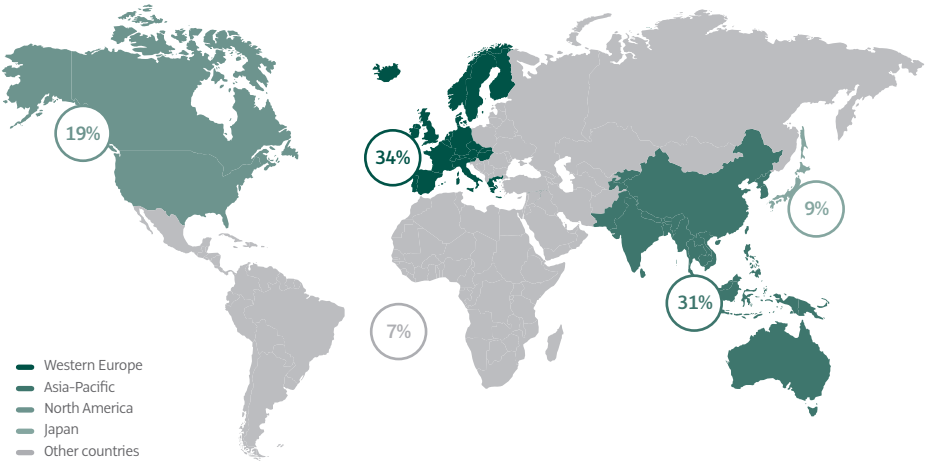
€10,796 million
in revenue

Revenue (in € millions)

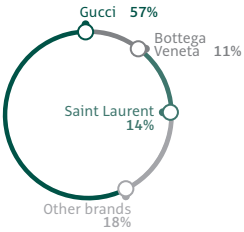
2016	8,469
2017	**10,796**

breakdown of revenue

By region

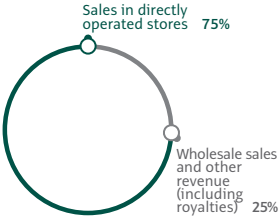


By brand



By product category

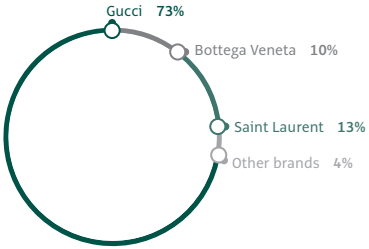
By distribution channel



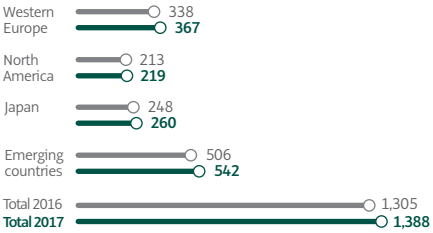
€2,911 million
in recurring operating income

Recurring operating income
(in € millions)

Breakdown of recurring
operating income by brand



1,388
directly operated stores



23,423
average number of employees
(full time equivalent)

GUCCI

2017 key figures

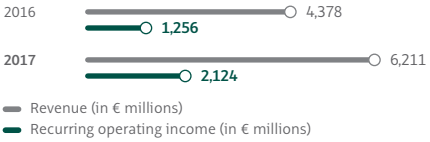
€6,211 million
in revenue

€2,124 million
in recurring operating income

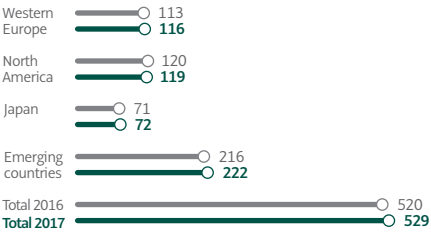
11,543
average number of employees
(full time equivalent)

529
directly operated stores

Revenue and recurring operating income

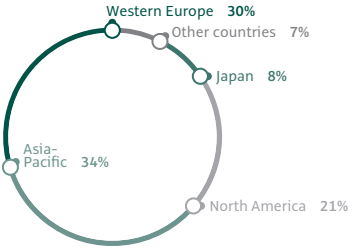


Number of directly operated stores by region



breakdown of revenue

By region



By distribution channel

By product category

business concept

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

At the beginning of 2015, Gucci embarked on a new chapter in its history, under the direction of a new management team led by President and CEO Marco Bizzarri and Creative Director Alessandro Michele. Their new contemporary vision for the brand rapidly re-established its reputation as one of the world's most influential luxury fashion brands.

Eclectic, romantic, and above all contemporary, Gucci invented a wholly modern approach to fashion and, in doing so, successfully redefined luxury for the 21st century. The new aesthetic vision, combined with a progressive business leadership, has led to outstanding performances across all categories and regions, confirming the establishment of a unique and compelling brand positioning and narrative that is engaging with a wide luxury customer base across various nationalities and demographics.

The driving force behind Gucci's reinvention is to be found in a new, contemporary corporate culture of employee empowerment and open communication, built on key values, which feed into the whole organisation through the empowerment of innovation and risk taking, a sense of responsibility and respect, an appreciation for diversity and inclusion, and excellence in execution.

Gucci products continue to represent the pinnacle of Italian craftsmanship and are unsurpassed in terms of their quality and attention to detail. They are sold exclusively through a network of 529 directly operated boutiques, a directly operated online store (in 30 markets), a limited number of franchises and selected department and specialty stores.

At the end of the year, Gucci retail sales represented approximately 85% of the brand's total revenue.

competitive environment

Gucci is one of the few luxury brands with truly worldwide operations, alongside Hermès, Christian Dior, Chanel, Louis Vuitton and Prada. Gucci confirms its leadership position as one of the world's leading luxury fashion brands both in terms of revenue and profitability.

strategy

Innovation, continuous experimentation and ground-breaking creativity: The strategic vision conceived by CEO Marco Bizzarri identified the need for a reinvented image and positioning for Gucci, more in tune with today's world and more relevant and appealing for both long-time and emerging luxury customers.

The successful implementation of this strategy stems from the coherent and consistent application of Alessandro Michele's creative narrative across all the brand's touchpoints, with a particular emphasis on digital platforms.

The brand underpinned its position as the industry leader through its proven ability to challenge the status quo by breaking the traditional rules of the fashion system: unified fashion shows, cross-season collections, no markdown policy, narrative advertising, and pioneering open source creative collaborations represent just a few examples.

As a consequence, Gucci is delivering outstanding growth, materially above the industry average, as a result of organic growth achieved by the continued optimisation and excellence of its business model, rather than relying on the expansion of its retail footprint or category extension.

In terms of products, all categories have now been fully transitioned to the new brand aesthetic, while optimising the offer in terms of number of product models, price clusters and store network distribution. The new collections are structured to sustain organic growth by ensuring a well-balanced mix between carry over and newness and maximising the assortment efficiency.

From a distribution perspective, Gucci is continuing to refine its existing network, driving organic growth and profitability. This is being achieved by the progressive alignment of the store network with the new brand aesthetic thanks to the roll-out of a new store concept, but also through the implementation of a comprehensive retail excellence programme aimed at improving customer experience and increasing sales density across the network. Online sales continue to grow at a very strong pace, supported by the unique approach of the renovated Gucci.com website, combining e-commerce (also recently launched in China) with brand narrative.

2017 highlights and outlook for 2018

In 2015, Gucci focused entirely on re-establishing the brand's credentials as a fashion authority, inspired by the new aesthetic of Creative Director Alessandro Michele. In the following two years, the company challenged itself to innovate and reinvent the way of being a leader in the fashion industry today, doing things differently both in terms of running the business and creatively speaking, putting the emphasis on a unique combination of creativity and innovation, a compelling and consistent brand narrative and an empowered corporate culture.

The impressive revenue growth registered throughout the quarters in 2017, driven by full-price sales, across all product categories, regions and distribution channels, is a testimony to the impact of the new vision.

In terms of products, the leather goods and shoes offer has been built around new iconic pillars as the main business base, and on innovation and continuous experimentation by exploring new territories in terms of functionalities and market trends to sustain Gucci's leadership in the fashion industry. Meanwhile, the ready-to-wear collections have been developed to further establish Gucci's positioning as a fashion authority, while ensuring consistency and continuity season after season to sustain the business, retain and gain customers.

Significant investments have been committed to the supply chain with a focus on preserving manufacturing know-how and innovation, vertical integration and lead time reduction. The opening of the new centre of excellence for leather goods and shoes, the Gucci ArtLab, planned for the beginning of 2018, will represent the pillar of the new industrial platform.

The omni-channel structure, implemented in early 2015, accelerated the integration across channels through innovative and agile technologies, bringing further value and emotion to the customer journey.

For the second year in a row, Gucci led the "Digital IQ Index®: Fashion", testifying to its robust investments in translating core brand associations to digital channels. The brand has again been recognised as a leader in e-commerce sales across models, channels and territories, while preserving Gucci's different luxury point of view.

In line with Kering's long-lasting commitment, in the second half of the year Gucci launched its "Culture of Purpose" ten-year sustainability plan with a series of specific initiatives, including its decision to go fur-free, under the three pillars of the Environment, Humanity and New Models.

The natural and organic evolution of Creative Director Alessandro Michele's original aesthetic vision, which during the year also saw the launch of Gucci Décor, received a series of accolades, including a nomination in Time's "100 Most Influential People" and the award by WWD as the "Newsmaker of the Year". Marco Bizzarri's achievements were also recognised with a series of prestigious awards, including the WWD Honour for "CEO Creative Leadership" and the British Fashion Council's 2017 "International Business Leader" award (for the second year in a row).

In 2018, with all categories successfully aligned with the brand's new aesthetic, and customers across all regions fully embracing the new vision, the strategic priority of Gucci's management is to leverage all key growth drivers to unleash the full potential of the brand. Continuing alignment of the whole store network in the new brand aesthetic, further increases in sales density and the progressive roll-out of Gucci.com across the remaining regions without e-commerce, will be among the key drivers of sustainable growth for next year and the years to come.

BOTTEGA VENETA

2017 key figures

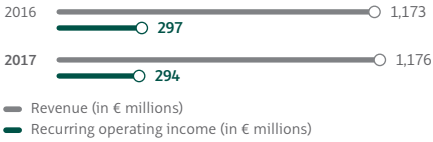
€1,176 million
in revenue

€294 million
in recurring operating income

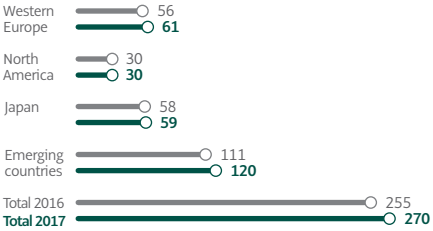
3,381
average number of employees
(full time equivalent)

270
directly operated stores

Revenue and recurring operating income

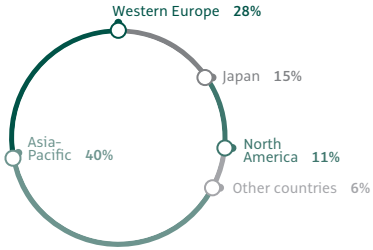


Number of directly operated stores by region



breakdown of revenue

By region



By distribution channel

By product category

business concept

Founded in 1966 in the Veneto Region of Italy, Bottega Veneta began as a leather goods House. The brand became well-known through its signature *intrecciato*, a distinctive, woven leather design developed by its artisans with luxury and understated elegance in mind. *Intrecciato* is eminently adaptable, reinterpreted each season in different colours and materials. Bottega Veneta led the way in introducing soft, deconstructed handbags – in contrast with the rigid, structured leather goods that originated with the French school – and quickly became well recognised and appreciated in the market. Bottega Veneta has evolved over the years from a leather goods House into an absolute luxury lifestyle brand by expanding its product range, while respecting both the desires of its clientele and the aesthetic sensibility of the brand. The brand's famous motto, "When your own initials are enough," is now applied to a range of products for women and men, including leather goods (bags, small leather goods and a full luggage collection), ready-to-wear, shoes, jewelry, furniture and more.

Over the years, the brand has also engaged in collaborations with partners who have brought their know-how and commitment to quality and craftsmanship to some of its product categories, namely Kering Eyewear for frames and sunglasses, and as part of both licence agreements (Coty for fragrances) and supply partnerships (Poltrona Frau for seating and KPM for porcelain).

Bottega Veneta's products are sold through a distribution network of directly operated stores, complemented by exclusive franchise stores, selected department and specialty stores worldwide. In addition, Bottega Veneta's products are now available through the brand's online store in 66 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. It is a rare example of an absolute luxury lifestyle brand that never compromises on the quality of its products while always providing an unsurpassed level of service to clients. This places Bottega Veneta at the top of the luxury pyramid, and puts it in competition with a limited number of other brands.

strategy

Bottega Veneta's current strategy, implemented under the creative direction of Tomas Maier and the business leadership of CEO Claus-Dietrich Lahrs, who came on board in October 2016, aims at reinforcing its position as an exclusive luxury lifestyle brand, while targeting a younger audience as well as local clients in all markets. Business and creativity will continue to work together as an essential part of Bottega Veneta's growth path, as they have done in the past.

Historically, the brand's core business has been leather goods characterised by the use of the highest quality materials and attention to detail (these accounted for 85% of sales in 2017). A wider range of products appealing to an international clientele of men and women has gradually been integrated. These are all made with emphasis on contemporary functionality and timeless yet innovative design, but also with a touch of the surreal as well as a sophisticated sense of colour that is unique to the brand.

The brand's exclusivity extends to its distribution network. Through its worldwide expansion, Bottega Veneta has consolidated its presence in emerging markets, without compromising investments in mature markets, particularly the United States, as well as Europe, where the brand's story began and where its craftsmanship is rooted.

The strategy crafted by Claus-Dietrich Lahrs addresses four main areas: the product, communication strategy, distribution and how to place the customer at the centre of all of these activities.

Bottega Veneta's product is going through a phase of revitalisation. While the *intrecciato* is a crucial part of the brand DNA, new non-*intrecciato* styles have been introduced, appealing to younger generations while maintaining the brand's essential qualities.

The company's communication has benefited from an expanded internal team as well as the newly established collaboration with the creative agency Baron & Baron. Greater investment has been made in the digital platform to ensure strong communication with a 360° approach and to speak more efficiently and clearly to customers – both new and existing – across different moments of discovery of the brand.

Moreover, the company is proceeding with an important revamping of the store network to nurture exclusivity by refreshing key locations across markets.

2017 highlights and outlook for 2018

Despite some challenges, the determined execution of the brand's strategy, consistent with its exclusive positioning, showed some promising yet early results towards a new path of growth.

Leather goods, a key category for the brand, have been revived thanks to a fresh offer in terms of shapes and functions of full *intrecciato* products, as well as innovation of new seasonal items that further enrich and provide an alternative to the *intrecciato* offer, with seasonal variations and craftsmanship. The product mix is evolving to offer a broader range of styles that are more relevant to the younger customer without sacrificing the high-level of quality and design that define the brand. Shoes, especially women's, performed particularly well during the year. The brand is strongly investing to widen the range of shoes as well as of ready-to-wear. This year also saw the introduction of the perfume *Pour Homme*, three new scents in the *Parco Palladiano* collection and the new women's fragrance *Eau de Velours*.

In terms of distribution, throughout 2017, Bottega Veneta focused on consolidating its existing retail network and continuing its efforts to enhance boutiques through both refurbishments and expansions to ensure the best possible experience. It also pursued selective store openings, bringing its total network up to 270 at the end of the year. The store openings were evenly balanced between emerging and mature markets. Investments in the distribution network aim to strengthen and rejuvenate the existing store network in key markets such as Europe and Asia Pacific.

The brand celebrated the reopening of its Korea Galleria boutique in Seoul as well as the opening in Beijing China World consolidating its presence in China where it has been in the market since 2007. Bottega Veneta also opened a newly refurbished flagship boutique at The Landmark shopping mall in Hong Kong. The concept of the store is centred upon the idea of using light and space to create a sense of intimacy and sophistication as well as a thoroughly luxurious shopping experience.

Confirming its commitment to ensuring the future of Italian craftsmanship and artisanal tradition of the Veneto region, Bottega Veneta partnered again with University IUAV of Venice to offer a three-month post-graduate level course in advanced handbag design and accessories development for 12 students.

The Spring/Summer 2018 fashion show in September displayed an exciting evolution of the brand's runway. Presented in a new venue, Milan's Palazzo Archinto, the colourful, forward-looking collection was very well received by the industry.

In November, the unique immersive experience of "The Hand of the Artisan" was organised at London's Chiswick House, a neo-Palladian villa influenced by the work of Venetian architect Andrea Palladio whose work is a perennial source of inspiration for Tomas Maier. The event, which focused on telling the story of Bottega Veneta's heritage, craftsmanship and innovation in a compelling way, was the first of its kind for the brand.

In 2018, the brand will continue building on its reputation for excellence. It will capitalise on its achievements and positioning supported by strategic retail openings worldwide. The existing retail network will be reinforced by further investment. In February, Bottega Veneta will open its long-awaited third Maison in New York on Madison Avenue. It will be the brand's biggest retail space in the world, and will introduce the innovative new retail concept of the *Apartment*, a dedicated floor for the brand's furniture and home collections designed to look like a living space. To mark the momentous occasion, Bottega Veneta will show its Fall/Winter 2018 men's and women's collections during New York Fashion Week – a special one-time event that will drive awareness of the brand for new customers and communicate its fresh energy to existing customers in the American market. Moreover, the next Maison will open in late 2018 in the Ginza neighbourhood of Tokyo, a very desirable location that will allow to enhance service for its sophisticated and dedicated Asian clients. Other investments in Europe and the Middle East include the opening of the new flagship in the Dubai Mall.

In terms of products, 2018 marks the return to the brand's DNA but heightened with a fresh, contemporary attitude. There will be a quest for newness and innovation across all categories, including the home collection that will be presented during Milan's Salone del Mobile in April.

2018 will represent a new phase for Bottega Veneta. The brand will continue to cultivate its redefined strategy based on innovation in the product range and 360° communication as well as a revamped store network. The aim is to offer freshness to existing clients but also to speak to younger clients, providing them with an engaging omni-channel experience.

SAINT LAURENT

2017 key figures

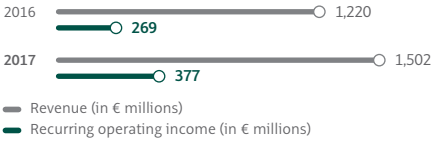
€1,502 million
in revenue

€377 million
in recurring operating income

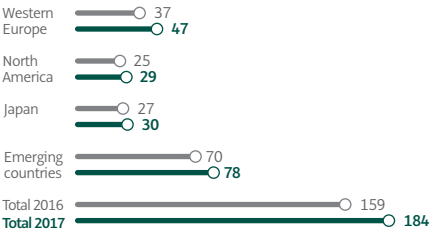
2,594
average number of employees
(full time equivalent)

184
directly operated stores

Revenue and recurring operating income

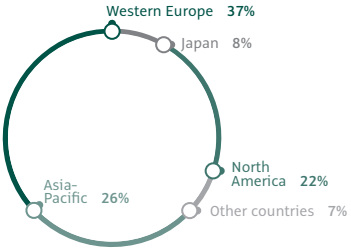


Number of directly operated stores by region



breakdown of revenue

By region



By distribution channel

By product category

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, Yves Saint Laurent revolutionised modern fashion in 1966 with 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, jewelry, scarves, ties and eyewear. Production is mainly 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, fragrances and cosmetics.

In April 2016, the House of Yves Saint Laurent announced the appointment of Anthony Vaccarello as Creative Director. His modern, pure aesthetic, which impeccably balances elements of provocative femininity and sharp masculinity in his silhouettes, is the perfect fit for the House.

As of December 31, 2017, the Saint Laurent retail network consisted of 184 directly operated boutiques, which together generated 69% of the total revenue for the year and included flagship stores in Paris, London, New York, Hong Kong, Shanghai, Beijing, Tokyo, Miami and Los Angeles.

The House is also present in selected multi-brand and department stores worldwide.

At the end of 2017, the Saint Laurent business was very well balanced in terms of both geographic markets and product categories, with leather goods and shoes accounting for 72% of business and ready-to-wear representing 19% of total revenue.

competitive environment

Since its inception, Saint Laurent has held enormous influence both inside and outside the fashion industry. Over 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 high-end exclusive luxury brands and occupies a leading position in ready-to-wear, fashion and leather goods sectors. Saint Laurent's status as a leading fashion House is fully established and recognised, with a very distinctive identity and strong codes that are perfectly identified and made relevant to our time.

strategy

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

In April 2016, Saint Laurent announced the appointment of Anthony Vaccarello as Creative Director, whose mastery of tailoring techniques and influences are remarkably in line with the House style. With a great understanding of the brand's core values such as youth, capacity to bring couture to the street and ability to create a style that resonates in the modern times, he has strongly empowered a highly desirable "couture-cool" vision, which has been very well received both by the historical customer base and by new clients worldwide.

The execution of the strategy will continue to focus on a well-balanced growth between product categories and distribution channels, a best-in-class retail and customer experience and a unique desirability of both iconic lines and novelty.

A brand is made by people and a key focus of Saint Laurent is to relentlessly work on building an innovative and sustainable future, by retaining and hiring the best talents, promoting gender equality and developing a sustainable way of doing business, while preserving heritage craft and exploring new business models. With this strategy firmly in place, Saint Laurent is confident in its continuing evolution as a highly desirable 21st-century brand with a strong and unique DNA, made authentic by its distinctive history in the world of couture and fashion.

2017 highlights and outlook for 2018

Under the leadership of Francesca Bellettini, the company's CEO, 2017 was another year of expansion for Saint Laurent.

Thanks to the implementation of a highly consistent strategy in terms of products, distribution and communication, the brand has built solid foundations for its development and is ready to pursue its evolution and to keep enhancing the fashion leadership of Saint Laurent in the market.

On September 26, 2017, during the Fashion Week in Paris, Anthony Vaccarello presented his third collection (Summer 2018) on the Trocadero, in front of the Eiffel Tower. The show was acclaimed as a sophisticated tribute to Paris, to the atelier and to the *savoir-faire*.

During the year, the brand's sales were fuelled by strong growth across all main product categories.

Saint Laurent also made 2017 another year of investment, enhancing its retail network with selective store openings worldwide, in both emerging and mature markets, and key refurbishments and relocations. Throughout the year, the brand opened 25 (net) directly operated stores worldwide, including Florence, Amsterdam, Munich, Boston, Las Vegas and Chongqing.

In a world where high-tech is key to evolution and growth, Yves Saint Laurent's e-commerce business, as part of the overall cross-channel strategy, was particularly dynamic during the year.

On October 25, Saint Laurent launched the fourth version of YSL.com. The redesign modernises the website and creates a more immersive experience while improving e-commerce functionality.

Some of the new features include a newsfeed section, product sheet improvements, adherence to the requirements to meet the American Disabilities Act, integrated Google maps in the store locator and new shipping currencies.

As of December 2017, Saint Laurent was present online in more than 50 countries worldwide including the US, all major countries in Europe, South Korea and Hong Kong.

Also as part of its omni-channel development, Saint Laurent announced that it will be the first brand to benefit from Farfetch's enhanced e-commerce platform in Greater China, following the partnership set up between Farfetch and JD.com.

In an increasingly competitive environment, the success of luxury brands is more than ever based on their ability to offer an exceptional, coherent experience across all distribution channels, including online (services, ergonomics, etc.), and to maintain a privileged relationship with customers. Therefore, it is today more necessary than ever to embrace a clear digital strategy and build a consistent and strong social media presence to establish a solid online visibility, by developing owned channels (website revamping, social editorial strategy), while reinforcing earned/shared media and creating relevant content.

Since his appointment, Anthony Vaccarello has launched 12 new advertising campaigns for the House, clearly affirming his sharp, 360° vision for Saint Laurent.

Social media initiatives met with strong success as social platforms were fully integrated into global communications practices and strategies. As of December 2017, Yves Saint Laurent had more than 2.8 million fans on Facebook and was one of the most popular luxury brands on Twitter with over 4 million followers. Since June 2016, moreover, the House implemented a new Instagram strategy, fast over-reaching its first 3-million follower mark.

In line with its current strategy, Saint Laurent will continue to expand its retail distribution network in 2018, opening stores in more than 20 locations around the world, and to reinforce its online presence, at the same time to keep focusing on building an excellent experience for its clients in every touchpoint with the brand.

other brands

2017 key figures

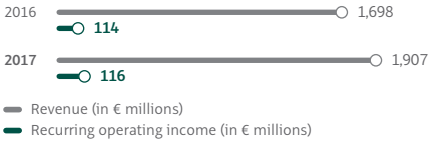
€1,907 million
in revenue

€116 million
in recurring operating income

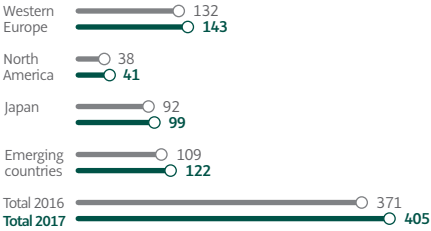
5,905
average number of employees
(full time equivalent)

405
directly operated stores

Revenue and recurring operating income

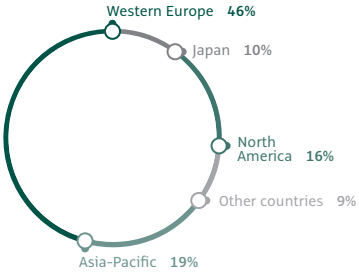


Number of directly operated stores by region



breakdown of revenue

By region



By distribution channel

By product category

ALEXANDER MCQUEEN

Founded in 1992 by Lee Alexander McQueen, the Alexander McQueen brand quickly gained a reputation for conceptual design and forged a strong brand identity, which led to a partnership with Kering in 2001. Since 2010, the brand has been fully owned by Kering.

Alexander McQueen is renowned for its unbridled creativity grounded in craftsmanship and the brand today has become synonymous with modern British couture. In December 2016, the Alexander McQueen brand has been awarded the "British Brand of the Year" by the British Fashion Council.

Since her appointment in 2010 as Creative Director, Sarah Burton has produced critically acclaimed collections with a focus on handcraft and artisanal techniques. Her ability to marry the design codes of the House with lightness and her own feminine touch has brought a new and personal aesthetic that is being established as the blueprint for the future.

While the main product categories are women's ready-to-wear and leather goods, the brand's strength lies in its presence across all categories. Silks, menswear and shoes have enjoyed growth in recent years. After the successful launch, in partnership with Coty, of the inaugural fragrance from Alexander McQueen in 2016, a new fragrance for Women, *Eau Blanche*, was launched in 2017.

The Alexander McQueen brand has a total network of 56 directly operated stores worldwide across all regions. In 2017, there were 11 net openings including the relocation of its flagship in Hong Kong (Harbour City).

The Alexander McQueen brand is currently sold in over 50 countries in more than 450 doors, working with key partners including Saks and Neiman Marcus in the US, Harrods and Selfridges in the UK and Lane Crawford in Asia. The brand continues to open shop-in-shops to strengthen its brand image and business.

The company has also successfully developed McQ, which was re-launched as an in-house brand in 2011 and quickly established itself in the popular contemporary market. The McQ brand is currently distributed in many countries, primarily as a wholesale business internationally with a total of more than 500 doors. Franchises represent as well an important part of McQ's business. At the end of 2017, McQ had 23 franchise stores located in Asia and in the Middle East.

Alexander McQueen and McQ collections are sold online in most countries, with e-commerce becoming an important vehicle for both brands to engage clients and to develop business.

In addition, the Alexander McQueen brand is particularly active on social media, with over 5 million followers on Instagram and approximately 1.8 million followers on Twitter and Facebook at the end of the year. The brand is also strengthening its presence on the Chinese social media, such as Weibo and WeChat.

In this regard, during the year, Alexander McQueen's social media channels were integrated into the larger brand communications strategy and fully aligned on key themes and stories.

In 2018, Alexander McQueen will further enhance its retail network with the relocation of its flagships in London (Old Bond Street) and Los Angeles (Rodeo Drive). The company will also move to its new headquarters in the centre of London's Clerkenwell district, bringing both brands under one roof and starting a new chapter.

BALENCIAGA

Started in 1917 and founded in 1919 by Cristóbal Balenciaga, the Balenciaga brand was established in Paris in 1936, where it defined many of the greatest movements in fashion from the 1930s to the 1960s. Balenciaga's exquisite technique, masterful cut and constant fabric innovation has helped it to carve out a special place in the hearts and minds of its customers and followers.

In the 1990s and early 2000s, the brand experienced a re-birth and saw an extension of its product universe to a broader range of products, focusing particularly 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 significantly expanded its retail network, helping to bolster brand awareness around the globe.

While the brand's identity is firmly anchored in 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 that open up Balenciaga's style to a wider public.

In fragrances, the brand has established a solid licence partnership with Coty Prestige and has released some successful perfumes: *Balenciaga Paris*, *L'Essence* and *Florabotanica*. Since the end of 2013, a similar partnership with Marcolin has been developed in eyewear.

Demna Gvasalia was appointed Artistic Director of Balenciaga in October 2015. His mastery of techniques, expertise and fashion knowledge, combined with his innovative approach, make him a powerful force in today's creative world. As Artistic Director, Demna Gvasalia is writing a new chapter in Balenciaga's history and consolidating the House's status as a ready-to-wear authority. Demna Gvasalia has embraced Balenciaga's core values and is developing them in harmony with today's global changes.

Over the past years, Balenciaga has been consolidating its directly operated store network worldwide. Today Balenciaga has a well-developed retail network of 121 stores in both mature markets (Western Europe, US and Japan) and Asia (Greater China and South Korea). Balenciaga is also distributed through franchisees and leading multi-brand stores.

In 2017, Balenciaga pursued its retail expansion strategy with seven net openings, including its first flagship on the famous Avenue Montaigne in Paris, its first store in NYC uptown, on Madison Avenue as well as the takeover of two franchise stores in Singapore. During the year, several stores were renovated in line with the new concept, developed by Demna Gvasalia. Additionally, the brand extended its retail presence in upscale department stores, with the opening of new shop-in-shops.

The further establishment of the Balenciaga.com website also played a key role in 2017. A new version of the site, launched in February with initial outstanding results, and the customer experience are perfectly in line with the brand's audience and their shopping preferences. The online store is now part of Balenciaga's top-performing directly operated stores and traffic is increasing strongly, reflecting the fast-growing interest in the brand. Today there are nine local versions of Balenciaga.com, in different languages, including Chinese, Korean and Russian. The Balenciaga website is e-commerce enabled in over 95 countries, including Middle East countries, South Korea, China and Hong Kong.

On social media, as of December 2017, Balenciaga had more than 1.2 million fans on Facebook and is increasingly popular on Instagram with over 4.6 million followers.

In 2018, the brand will continue to benefit from the momentum generated by the new creative vision and the new product launches. While franchises and selective distribution will remain important contributors to the brand's activity, retail and e-commerce development will continue to be the priority. In particular, new store openings are planned for the year in strategic locations both in mature markets as well as in Asia. In the roadmap for 2018, the brand also plans to further develop its Men's collection, with dedicated spaces in the new stores, as well as continue to enlarge its online product offer and services, which will be part of the overall cross-channel retail strategy.

BOUCHERON
PARIS

Founded in Paris in 1858 by Frédéric Boucheron, the eponymous Maison was built up by four generations of the founder's direct descendants and soon acquired fame for its expertise in precious stones and its *savoir-faire* in creating innovative jewelry and watches. The jeweler moved to Place Vendôme in 1893, becoming the first of the jewelry and watch brands to open a boutique in this iconic location. For 160 years, Boucheron has been synonymous with excellence in high jewelry, jewelry, and watchmaking.

Today, Boucheron creates and markets high jewelry, jewelry and watches through 41 directly operated stores across the world, including its flagship Place Vendôme, franchise boutiques and department stores. It also has a selective network of additional points of sale in exclusive multi-brand stores.

The brand is focusing its expansion through its retail and franchise network in key locations worldwide. During the year, the Maison opened a new boutique in Japan, in Nagoya (Midland Square), and a new directly operated store in Moscow, 120 years after the first opening in the country; while the existing Geneva boutique and Printemps Haussmann corner underwent a complete refurbishment.

In 2017, Boucheron started to roll out its new store concept, conceived in collaboration with the agency Le Coadic-Scotto. The new spaces showcase Maison Boucheron's 160 years of history, its expertise in high jewelry and its spirit of innovation. Based on the concept of a family home, the design of the retail boutiques is inspired by the classically Parisian architecture of the historical *Hôtel Particulier*. This redesign process also involves the emblematic Hôtel de Nocé, located at 26 Place Vendôme. The building, which has been the Maison's most emblematic boutique since 1893, hosts the creative studio and the workshops. Led by Michel Goutal, Chief Architect for Historical Monuments and under the supervision of Kering, this very ambitious project of refurbishment aims at highlighting the architecture and original volumes of the building. During the renovation, Boucheron still offers a high-quality service to its customers in Paris, with two temporary stores: a 60-sqm pop-up store inside the same building and an intimate apartment located on Place Vendôme, available by appointment.

The House's new high jewelry collection, *Hiver Impérial*, was launched in 2017 as a contemporary expression of its legacy. Designed by the creative studio and created in Boucheron's workshop, the collection is inspired by the aura of the Far East's vast stretches of snow-covered land. The collection of 88 pieces was revealed in July in Paris in the Laennec church of the former Laennec hospital, converted into a snowy landscape, as a tribute to the Imperial Russian winters. The collection was then presented in Cannes, London, Taiwan, Tokyo and Moscow. During the year, Boucheron's iconic line, *Serpent Bohème*, was extended with the worldwide launch of new references, using coloured stones such as amethyst, citrine, onyx, white mother-of-pearl and lapis lazuli. The *Quatre* jewelry collection and *Animaux de Collection* continued to perform very well as iconic pillar lines of the brand in terms of both image and sales contribution. To celebrate the 70th anniversary of the iconic watch *Reflet*, Boucheron has developed new bracelet colours and an online configurator to help the clients to choose amongst 70 different options.

In 2017, Boucheron started to significantly increase its media investments worldwide, with a strong focus on digital. In the meantime, the Maison reinforced its presence on social platforms such as Instagram, Facebook, WeChat and Weibo. In terms of image, Boucheron launched a new advertising campaign concept worldwide reflecting at once its status of first jeweler of the Place Vendôme and the boldness of its creative spirit.

In 2018, Boucheron will celebrate its 160th anniversary. Amongst the multiple worldwide celebrations, the year will start with a two-week public exhibition "Vendôrama", which will take place at La Monnaie de Paris from January 12 to January 28. In July, the Maison will unveil its annual high jewelry collection, which required several years of development and research. Finally, Boucheron will celebrate the reopening of its historical Place Vendôme flagship in September, after more than a year of full renovation.

For 2018, Boucheron aims at pursuing its major retail network renovation plan, with the rollout of its new store concept, and to open new directly operated stores in strategic areas, such as the Middle East and Asia Pacific, with Mainland China being the priority of this strategic deployment. In this respect, Boucheron is building up a dedicated team in Hong Kong and plans to open several directly operated and pop-up stores in Beijing and Shanghai throughout the year.

Brioni

Brioni was founded in Rome in 1945 by Italian tailor Nazareno Fonticoli and entrepreneur Gaetano Savini. Revolutionary since the beginning, Brioni was in 1952 the first men's luxury House to stage a fashion show and to introduce bright colours and new fabrics to its tailoring collections, moving the boundaries and interpretations of traditional menswear.

Over the years, Brioni strengthened its global reputation, obtaining notable recognition in the US, where it was named the most prestigious men's luxury fashion brand by the Luxury Institute of New York in 2007 and 2011.

Part of Kering since 2012, Brioni develops and manufactures sartorial ready-to-wear, leather goods, shoes, eyewear and fragrances, in addition to the exclusive bespoke service.

All the brand's products are manufactured in Italy and meticulously handcrafted by expert artisans. The majority of the production is made in-house at the Brioni's ateliers in Penne, a small town in the Abruzzo region, with a rich, longstanding tailoring tradition. The art of Brioni products comes from genuine workmanship and *savoir-faire* that is preserved at the Scuola di Alta Sartoria tailoring school, founded by the brand in 1985 to perpetuate its sartorial expertise and train new generations of tailors.

Wholesale still represents an important distribution channel but, in the most recent years, Brioni has mainly focused on optimising and consolidating this distribution and franchise network. At the same time, the brand has reinforced its retail presence, with selective openings worldwide.

Brioni's retail strategy includes the launch of its new store concept, in collaboration with David Chipperfield Architects studio, characterised by open spaces with a Roman touch, thanks to a mix of travertine floors and marble columns.

At the end of 2017, Brioni had 47 directly operated stores, mainly located in Western Europe and, to a lesser extent, in North America, Japan and Asia.

During the year, Brioni was very active on digital and social media and its popularity increased significantly on the major networks, such as Instagram, Twitter and Facebook, reflecting a growing connection and engagement with the younger generations.

In April 2017, Fabrizio Malverdi joined Brioni as CEO and in June 2017, Nina-Maria Nitsche was appointed Creative Director with the responsibility for the House's collections and image.

For 2018 and beyond, the new management's strategy aims at accelerating the brand's international expansion, particularly in Asia and in the United States, as well as leveraging Brioni's long tradition of Italian tailoring, to anchor the brand as a leading player in the world of luxury menswear.

CHRISTOPHER KANE

Founded in 2006, Christopher Kane is a brand widely renowned for its daring, innovative ready-to-wear styles and accessories. After having completing his Master of Arts (MA) in Fashion Design at Central Saint Martins College, Christopher Kane started his own label, in partnership with his older sister, Tammy Kane. In 2013, Kering acquired 51% of the company.

Christopher Kane has received several industry recognitions in recent years, including the highly acclaimed "Womenswear Designer of the Year" from the British Fashion Council (BFC) in 2013. In 2017, Christopher Kane has been nominated again by the BFC for the "British Womenswear Designer of the Year" award.

On the distribution side, the company went through an important optimisation process of its network during the year. Christopher Kane's collections are currently distributed in over 20 countries across more than 90 wholesale points of sale.

Christopher Kane's first retail store, on Mount Street in Mayfair, London, which opened three years ago, represents a strong statement of the brand's image and identity and helps to increase brand awareness. In addition, the store provides significant leverage for strategic partnerships with third parties.

In 2017, the brand's e-commerce site, launched in June 2016, showed encouraging initial results in terms of clients' engagement and development of the online business.

In 2018, the brand aims at further strengthening its wholesale presence in markets with strong potential, such as the Middle East and Russia. Suitable licence opportunities will also be exploited as complements to Christopher Kane's core business.

GP
GIRARD-PERREGAUX
HAUTE HORLOGERIE SUISSE DEPUIS 1791

JR
JEANRICHARD
1681

Girard-Perregaux is one of the oldest high-end watch manufacturers. Founded in 1791, the company is headquartered in La-Chaux-de-Fonds, Switzerland.

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.

Combining a passion for state-of-the-art *Haute Horlogerie* and a relentless quest for precision, Girard-Perregaux is one of the few Swiss watchmakers that designs and manufactures its own movements and cases in-house.

Girard-Perregaux has been part of the Kering group since 2011.

In terms of products, 2017 has been the year of the "revelation" of the new *Laureato*. After 42 years, Girard-Perregaux has revealed a new interpretation of one of its iconic watches. This sport-chic and contemporary product has been reinvented in three different sizes, with four different movements and a panel of materials and finishes to establish it as the new icon of the brand's collection. More than 30 references have been presented to the public and have received very positive reactions from professional and final clients worldwide.

In terms of communication, the first half of 2017 has been fully dedicated to the launch of the *Laureato*. Several roadshows to present the watch, its history and its recent evolution have been organised in key cities worldwide, including Los Angeles, New York, Paris, Zurich, Beijing, Singapore and Dubai.

Haute Horlogerie continues to be the brand's emblematic segment. In 2017, Girard-Perregaux pursued its tradition of complication by introducing a complication on the *Tri-Axial Masterpiece* that enroots Girard-Perregaux in its high watchmaking tradition.

In addition, within the *Bridges* collection, the *Neo-Bridges* has been introduced, the first *Bridges* watch without a tourbillon. This represents a complication watch for the first time in a more accessible price range.

In terms of distribution, Girard-Perregaux is currently present in over 60 countries through independent points of sale, prestigious department stores and specialist boutiques.

The watches are also sold through a franchise network of eight mono-brand franchise stores located primarily in Asia and Europe.

In 2017, the brand re-organised its distribution network by creating its own subsidiaries in the major markets, such as Germany, Spain, Portugal, France, Eastern Europe, the US and Japan. Thanks to this approach, the distribution network is now better adapted to a global strategy, as the company deals directly with the retailers to manage product selection and training.

In addition, Girard-Perregaux opened a limited number of points of sale within the major key retailers in Western Europe.

For 2018, in terms of products, the brand will continue to reinforce its core collection, *Laureato*, by adding mid-complication watches. The brand also plans to enrich the *Bridges* line with classic reinterpretations of icons.

In terms of distribution, Girard-Perregaux plans to capitalise on the recent re-organisation of its distribution network. In this respect, the brand plans to deploy its new training system, to ensure brand knowledge and visibility with the key retailers worldwide.

Also based in La-Chaux-de-Fonds, JEANRICHARD sells its collections through independent points of sale and specialist multi-brand boutiques. Its main markets are Mainland China, Japan, France and the UK.

Pomellato

DoDo

Synonymous with creativity and character in the international jewelry scene, Pomellato was established in Milan in 1967, and was the first to introduce the prêt-à-porter philosophy to the conservative world of jewelry.

Pomellato's creations – unique in their blend of colourful stones, Milanese design, stone cutting techniques and setting know-how – are immediately recognisable and have built a consistent, iconic style over the years. Jewels are crafted by the expert hands of goldsmiths at Casa Pomellato, the brand's headquarters, who transform the spirit of the brand into outstanding creations.

The *Nudo*, *Capri*, *Tango*, *Sabbia*, *Victoria* and *M'ama non m'ama* collections are Pomellato's product pillars and fully embody the message of the brand that is "the first global luxury Italian fashion fine jeweler, unconventional, colorful. The New Precious".

Nudo, launched in 2001, confirms its outstanding status as the brand ambassador ring, with new colours and sizes introduced in 2017.

In February 2017, Pomellato launched a new global advertising campaign, shot by the undisputed maestro of realism Peter Lindbergh, who portrayed a gallery of strong-willed, independent women of all ages and from all walks of life. The campaign introduced #PomellatoForWomen, a 360° communication platform encompassing digital, social media, public relations and events and aimed at celebrating the wonderful diversities and the truthful authenticity of womanhood.

In 2017, Pomellato celebrated its 50th anniversary with the launch of two new collections, *Ritratto* and *Iconica*.

Ritratto reveals the pioneering spirit of the brand in the use of bold and colourful stones with an unmistakable Milanese design, whilst *Iconica* is a tribute to the goldsmithing tradition of the brand. Both collections were presented to the international press during Milan Fashion Week in February and September 2017 respectively.

A special limited edition of *Ritratto* 50th anniversary pieces – for the first time using unique mineral gems – was launched during Paris haute couture week.

Following its strategic international expansion, the Pomellato brand currently has a distribution network that includes 40 directly operated stores, 21 franchise boutiques and approximately 550 wholesale points of sale.

In 2018, Pomellato's strategy will focus on boosting awareness, reaching new audiences and building an ever more relevant product offer architecture. Communication strategy will be focused on new young and digital ambassadors. In particular, a powerful digital and print communication campaign will be launched, featuring the famous Italian blogger and influencer, Chiara Ferragni, which is expected to have a strong impact on the brand visibility worldwide.

Pomellato's retail strategy will mainly focus on the relocation of key European directly operated stores and on the development of other markets, mainly Asia and Japan, while the wholesale expansions will mainly focus on the Latin American and EMEA markets.

Dodo is an Italian brand with international appeal, created in 1995 as the first jewelry line to combine a decorative function with a message, precious and easy to wear.

In 2017, Dodo introduced a new collection strategy by launching five drops throughout the year. Each drop had its own theme in terms of product and communication. Dodo has continued its digital media strategy in support of the drops, and has started to see strong results, in particular with the growth of its online sales. With each drop, Dodo has further capitalised on its unique blend of valued artisan workmanship and creative Italian design to alternate reinterpreted iconic charms and innovative products such as the *Dodo Tags*, which were designed to reach a younger and more contemporary audience.

The Dodo distribution network currently includes 22 directly operated stores, 17 franchise boutiques and over 450 wholesale partners.

Dodo's brand strategy for 2018 will focus on modernising its distinctive positioning, as well as boosting its brand awareness, product strategy and communication, with a view of widening its audience on the core Italian market and expanding in some new international markets.

qeelin

Created in 2004 by designer Dennis Chan, Qeelin has embraced the evocative myths of the East, creating lavish fine jewelry that is rich in symbolism. In each collection, iconic designs, carefully selected materials and exceptional craftsmanship deliver a combination of playfulness and enchanting oriental beauty.

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

Since Qeelin's acquisition by Kering in December 2012, the brand has accelerated its growth, through both retail (including the online business) and wholesale channels.

2017 was another year of expansion for Qeelin's retail and wholesale distribution network.

Although China remains the core market, with the opening of three directly operated stores in Chongqing, Xiamen and Beijing during the year, Qeelin also reinforced its international presence. The brand started a successful collaboration with Lotte, on the Korean Duty Free market, as well as with Galeries Lafayette Haussmann in Paris, where the opening of a shop-in-shop in 2017 further confirmed the tight links, since the brand's inception, between Qeelin and the French market.

At the end of 2017, Qeelin counted 26 stores worldwide, of which 19 directly operated boutiques and 7 franchise stores.

In 2017, Qeelin also significantly emphasised its digital communication with its yearlong #beqeelinbeyourself social media campaign, featuring actresses, singers, models and key opinion leaders from around the world, styled in versatile Qeelin jewelry.

In terms of products, during the Fall 2017, a new collection – *Xin Yen* – has been launched, designed in form and spirit after the fortune cookie and expressing the playfulness and Chinese symbolism associated with the brand.

In 2018, Qeelin will continue to invest in its expansion, primarily focusing on the Chinese market with the acceleration of its store development and the reinforcement of its online activities.

STELLA McCARTNEY

Stella McCartney launched her own fashion House in partnership with Kering in 2001. Known for the strong ethical values that permeate her collections, Stella McCartney is the leading "green" luxury brand. In fact, the company does not use and has never used leather, precious skins, feathers or fur in any of its products. Furthermore, it takes responsibility for operating a sustainable business and monitoring its supply chain, which respects the planet as well as people, animals and plants. In this regard, since 2016, Stella McCartney decided to officially present its Environmental Profit and Loss (EP&L) account on a yearly basis.

Stella's commitment to sustainability culminated with the "Special Recognition Award For Innovation" that she received at the British Fashion Council's annual Fashion Awards on December 4th, 2017, for her commitment to sustainable fashion, material innovation and for utilising her influence to create a positive environmental impact on the industry.

Since the brand's foundation, ready-to-wear represents Stella McCartney's core business, although throughout its life, the company has been successfully developing and extending its portfolio to include other product categories such as bags, which became a very important part of Stella McCartney business, shoes, kids and, since 2016, men's categories: ready-to-wear and shoes.

Product diversification has also been allowed by successful collaborations such as the design of sport apparel with Adidas and lingerie with Bendon. The brand has also developed eyewear and perfume lines through licence agreements.

Since the brand's establishment, Stella McCartney products have been primarily sold throughout its wholesale channel, which currently counts more than 600 doors worldwide.

The company has also selectively developed its retail channel worldwide and most recently it has concentrated on consolidating the organic growth of its existing retail network, with only a few openings. In 2017 in particular, the brand opened two flagship stores in two top cities (Paris and New York) in very high-traffic prime locations, as well as two free-standing stores in Florence and Marbella and some shop-in-shops in Japan.

At the end of 2017, Stella McCartney retail network included 52 directly operated stores worldwide.

In recent years, a very important and growing role has been played by e-commerce, which helped to enhance and reinforce market penetration in terms of both image and revenue. Stella McCartney's online presence today is well developed worldwide and represents a significant part of its retail revenue.

Social and media activities continue to contribute greatly to the expansion of the brand and at the end of 2017, Stella McCartney counted 4.4 million followers on Instagram, over 1 million followers on Twitter, and 0.9 million followers on Facebook. This social presence is instrumental in engaging with clients, Millennials in particular, allowing them to stay strongly connected with Stella's world.

In 2018, the brand's priority will be to continue strengthening its product offering, fostering its retail operations and organisation to pursue its selective retail expansion. The brand will also consolidate its omni-channel approach to further increase the proximity of the brand to its clients with a particular focus on Millennials. In addition, Stella McCartney aims to expand brand awareness, particularly in China and in other Asian countries.

ULYSSE NARDIN
SINCE 1846 LE LOCLE - SUISSE

Founded by Ulysse Nardin in 1846, the watchmaking House, with strong legacy from the nautical world, joined Kering in November 2014.

Building on its strong identity and expertise in the high-end segment of marine chronometers and complication timepieces, Ulysse Nardin continues to introduce cutting-edge technologies and state-of-the-art materials, including silicon and other innovative materials. Ulysse Nardin is one of the few Swiss watchmakers to have in-house production capacity for high-precision movement components, particularly the regulating organs.

Ulysse Nardin's product offer has been consolidated around four key pillars: The Marine, the Diver, the Classic and the Freak.

Product launches in the year included the *Marine Regatta*, which won the "Best Sports Watch" prize at the Grand Prix de l'Horlogerie de Genève. This watch was developed in collaboration with the Artemis Racing team for the 35th America's Cup.

Exhibiting for the very first time at the Salon International de la Haute Horlogerie in Geneva, Ulysse Nardin presented, within the *Marine* collection, the *Tourbillon White Grand Feu* enamel dial, the annual calendar chronograph and the *Grand Deck* in rose gold.

Later in the year, the *Marine Torpilleur* and the *Marine Torpilleur Military* were also introduced and became best sellers at once.

Marketing investments during the year were primarily focused on implementing a new advertising campaign featuring a breaking wave and on further improving the new website.

Ulysse Nardin's current distribution network includes 15 mono-brand boutiques (including one directly operated store) and over 500 selected points of sale around the world. Major markets are the US, Russia and China.

In September 2017, Patrick Pruniaux has been appointed CEO of Ulysse Nardin, with the goal to accelerate the international expansion of the brand, thanks to his outstanding expertise and knowledge of the industry.

In 2018, the brand plans to develop new *Haute Horlogerie* timepieces while maintaining the strong core collections, building the success both on volume and value.

The distribution network will be upgraded during the year with the roll-out of a new visual merchandising display within the new shop-in-shops and corners. Commercial partnerships, influencers' endorsements, intense public relations and highly targeted digital actions will amplify the brand's values and engage end consumers.

Ulysse Nardin's ambition is to increase brand desirability through strong storytelling and nurture conversion through improved shopping experience.

worldwide sport & lifestyle market overview

This section contains information derived from the "Passport Apparel & Footwear" compiled by Euromonitor International, an independent market research firm, and updated in July 2017. This represents a change compared to previous years, where data were sourced from the NPD annual "Global Sport Market Report". This change was motivated by two factors: (i) Euromonitor has a wider geographical footprint and therefore more precise data, and (ii) its data are focused on the two main categories in which Kering Sport & Lifestyle brands operate, namely apparel and footwear. Accordingly, the market sizes and changes presented this year exclude equipment and bicycles, which were included in previous years' market overview.

The estimates of the size of the global sport market are based on Euromonitor's methodology, as follows: at national level, in 80 countries, using a "bottom-up" approach including desk research, store checks and trade surveys; at regional and global level using a "top-down" approach, where the 125 countries not covered at national level are mathematically modelled.

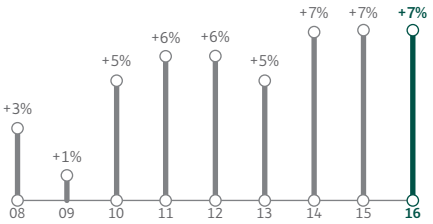
Note that (i) all growth rates are expressed in reported terms (unless stated otherwise); (ii) the designation "Sport & Lifestyle" (SLS) refers to all types of sports from running and hiking to snowboarding; (iii) the sporting goods market, as reported by Euromonitor, includes two major categories: apparel and footwear, and three sub-segments for each category: performance, sports-inspired and outdoor.

market overview: size, trends and main growth drivers

According to Euromonitor, the global Sport & Lifestyle (apparel and footwear) market generated revenue of €253 billion in 2016, representing a 6.5% increase at comparable exchange rates compared to 2015.

As a region, Asia is the second market behind the Americas, while Europe is the third worldwide market.

Worldwide Sport & Lifestyle growth rate at comparable exchange rates (2008-2016)



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

- demographic trends and increase in world GDP;
- increase in sports participation and growing awareness among the population of the positive effects 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, sector 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 increase market penetration and brand awareness;
- retail expansion: while wholesale distribution remains the most important distribution channel for sporting goods, industry players are also developing their network of directly operated stores and online offering capabilities.

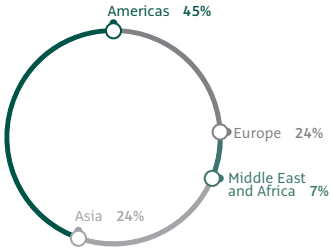
competitive environment

The Sport & Lifestyle market is a mass, global market. PUMA is currently one of the leading sporting goods brands, the market being led by Nike and Adidas. Several players, specialised either in one specific category, or initially targeting a specific region, such as Under Armour, New Balance and Lululemon Athletica, are also active in this market.

In Kering's Sport & Lifestyle activities, Volcom addresses a more niche market, i.e., action sports and outdoor, competing with brands such as Boardriders (formerly Quiksilver), Vans and Billabong.

regional overview

Worldwide Sport & Lifestyle market: breakdown by region (2016)



The ten largest countries in terms of global revenue in 2016 are as follows (revenue by geography and not by nationality):

2016 rank	Country	Size *(in € billions)*	Reported year-on-year change 2016/2015	% of total market
1	United States	92	+6%	36%
2	China	26	+12%	10%
3	Japan	12	+4%	5%
4	Germany	10	+3%	4%
5	United Kingdom	8	+9%	3%
6	France	7	+3%	3%
7	Italy	6	-1%	2%
8	Brazil	6	-7%	2%
9	South Korea	6	+3%	2%
10	India	5	+22%	2%

In 2016, the United States and China remained the two largest markets, accounting for 36% and 10% of the global market respectively.

In 2016, in the United States, the Sport & Lifestyle market growth (up 6%) was driven by sports footwear, up 8%, with sports apparel also dynamic with a 5% increase.

The trend was even more marked in China, with footwear growing by 16%, twice as fast as apparel (up 8%), with both categories now each accounting for half of the market.

Growth in Western Europe was also driven by footwear, up 5%, while apparel rose by 3%. France and Germany benefited from a strong footwear market (growth of 6% to 8%), while the United Kingdom's performance was broad-based and Italy decelerated in both categories.

Within the ten largest countries, India saw the fastest growth at 22%, driven by both categories (apparel up 19%; footwear up 25%).

product categories

According to Euromonitor, the global sporting goods market can be divided into two main product categories – footwear and apparel – which correspond to the key product areas in which Kering Sport & Lifestyle brands operate. These two categories can each be split into three sub-segments – performance, sports-inspired and outdoor.

In 2016, both categories grew, with footwear (up 8.7%) the prime contributor to global sportswear market growth; apparel is still the largest category and grew at a rate of 5.2%. Apparel accounted for €154 billion, while footwear accounted for €99 billion.

Worldwide Sport & Lifestyle market: breakdown by category (in 2016)

	Market Value *(in € billions)*	Reported year-on-year change 2016/2015	% of total market
Footwear	99	+8.7%	39%
o/w performance	45	+5.8%	18%
o/w sports-inspired	40	+8.9%	16%
o/w outdoor	14	+9.5%	5%
Apparel	154	+5.2%	61%
o/w performance	70	+4.1%	28%
o/w sports-inspired	59	+4.9%	23%
o/w outdoor	25	+5.9%	10%
TOTAL	**253**	**+6.5%**	**100%**

distribution channels

The Sport & Lifestyle industry predominantly operates through the wholesale channel. Key distributors of sporting goods brands include retailers such as Dick's Sporting Goods and Foot Locker in the United States, and Decathlon in Europe. In the United States, action sports and outdoor brands are primarily distributed at Zumiez and PacSun, along with other independent multi-brand accounts.

Sporting goods brands are also looking to upgrade the shopping experience through dedicated partnerships with the key retailers, notably by creating shop-in-shops and joint-venture agreements.

Along with wholesale distribution, most sporting goods brands, including PUMA, have selectively developed directly operated store operations (which represent approximately 20% to 30% of the sales mix across most brands) and are consistently looking to enhance over time the retail experience within their own stores.

E-commerce is also gaining momentum, yet still accounts for a fraction of total sales. Euromonitor estimated that in 2016, global online sales accounted for 13% of total sporting goods market sales. However, in the United States, e-commerce penetration is higher (17%) and offers positive prospects for industry players.

market outlook

In the long term, Euromonitor forecasts a compound annual growth rate (CAGR) of 4% from 2016 to 2021. The Sport & Lifestyle market sales are therefore expected to exceed €308 billion by 2021, assuming continued positive global GDP growth. The longer-term growth rate in the Sport & Lifestyle market is expected to remain closely tied to the more general trend in discretionary consumer spending across the world.

According to Euromonitor, two trends will equally contribute to long-term growth:

- consumer trends: the ongoing health and fitness trends and recurring major sporting events, which will inspire and motivate consumers to purchase athletic gear or at least fan attire, are likely to be the main drivers of growth. Connected exercise is also expected to be key;
- sports trends: within major sports, urbanisation will specifically foster running, basketball and fitness activities. Paradoxically, urbanisation should also nurture a return in demand for outdoor activities and brands.

sport & lifestyle activities

2017 key figures

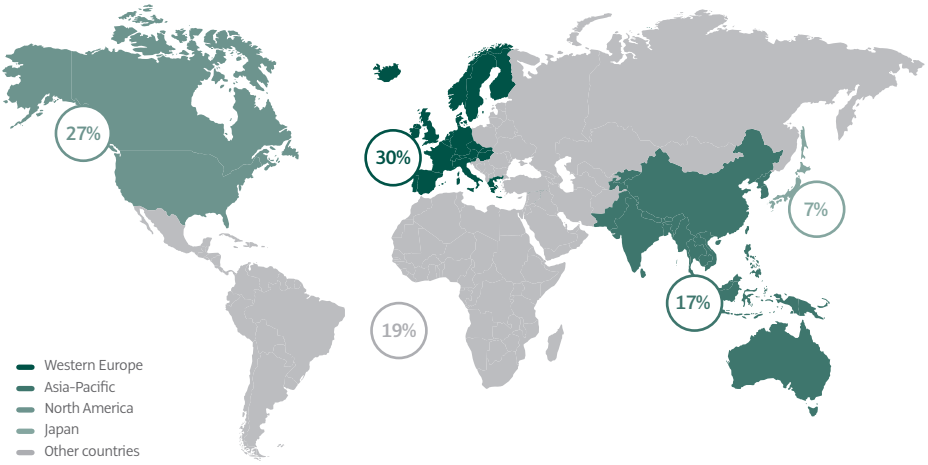
€4,382 million
in revenue

Revenue (in € millions)

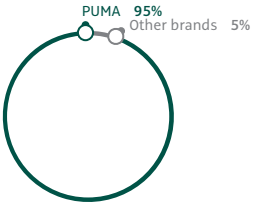
2016	3,884
2017	**4,382**

breakdown of revenue

By region



By brand



By product category

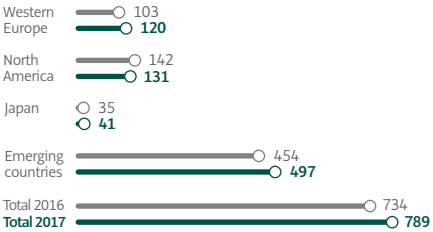
By distribution channel

€244 million
in recurring operating income

Recurring operating income (in € millions)

12,144
average number of employees (full time equivalent)

789
directly operated stores



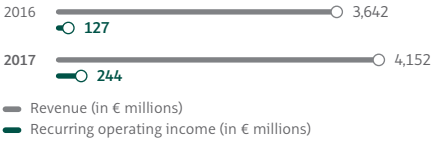
2017 key figures

€4,152 million
in revenue

€244 million
in recurring operating income

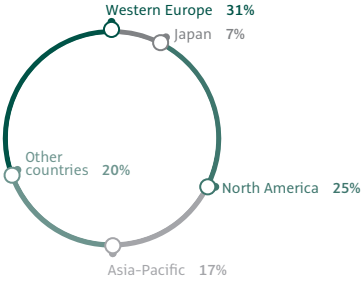
11,389
average number of employees
(full time equivalent)

Revenue and recurring operating income



breakdown of revenue

By region



By distribution channel

By product category

business concept

Designing, developing, selling and marketing footwear, apparel and accessories, PUMA is one of the world's leading sports brands. For 70 years, PUMA has been producing the most innovative products for the fastest athletes on the planet. The brand has established a reputation for fast and innovative product designs in its Performance categories such as Football, Running and Training, Golf, and Motorsports. In addition, PUMA offers a range of innovative sports-inspired Lifestyle products as well as classic silhouettes. With these "Sportstyle" designs, PUMA reaches out to women and men alike who seek authentic style rooted in sports.

The PUMA group owns the PUMA and COBRA Golf brands as well as the affiliate company Dobotex. With its headquarters in Herzogenaurach, Germany, the group distributes its products to more than 120 countries and employs more than 11,000 people (full time equivalent) worldwide.

Since 2013, PUMA's mission has been to be the "Fastest Sports Brand in the World", which not only reflects its brand positioning of being "Forever Faster", but also serves as the guiding principle for the company, which is expressed through all its actions and decisions. PUMA's objective is to be fast in bringing new products to the market, fast in reacting to new trends, fast in decision-making and fast in solving problems for its partners.

market

The global sporting goods industry continued to grow again in 2017. Several factors contributed to this development including an overall increase in consumer spending based on rising wages as well as a greater participation in sports around the world, particularly by women. Another major driver was the fusion of sports and fashion – an increased usage of sports-inspired clothes and shoes in consumers' everyday wardrobe – which is expected to gain further traction in the coming years.

Besides a few exceptions, retailers around the world reported growing sales and healthy business activity. The e-commerce channel continued to grow especially rapidly worldwide, with China and India being particularly strong.

strategy

Over the recent years, PUMA has been executing a turnaround strategy focused on five priorities: increased brand heat, a competitive product range, a leading offer for women, improved distribution quality, and organisational speed. Improving financial results, better sell-through and positive feedback from our retail partners around the world confirm that PUMA is on the right track.

PUMA's brand draws strength and credibility from its heritage in sports that associates the brand with some of the greatest sports legends: Pelé, Maradona, Tommie Smith, Boris Becker, Lothar Matthäus, Linford Christie, and many more. Today PUMA continues to strengthen its position as a sports brand through partnerships with some of the most elite ambassadors: the world's fastest man and athletic legend Usain Bolt, star striker Antoine Griezmann, golf stars Lexi Thompson and Rickie Fowler, Arsenal Football Club, Borussia Dortmund, as well as the Jamaican and Cuban Olympic Federations. PUMA has also developed a unique way of working with cultural and fashion icons to connect with young trend-setting audiences. This has made PUMA one of the hottest sports and fashion brands for young consumers. The partnership that PUMA entered into with Rihanna in 2014 defined a new way for cultural influencers and brands to interact. In recent times, PUMA has capitalised on this success and partnered with other global stars such as the model, actress and activist Cara Delevingne, the artists The Weeknd and Big Sean and most recently Lewis Hamilton and Selena Gomez.

Also on the product side, PUMA looks back at a unique history full of innovations, designs and products that continue to influence the sports and sports lifestyle industries to date. This includes the *Brush Spikes* shoe (1968), the lightest ever football shoe (*EvoSpeed SL*, 2015), but also the first ever fashion designer collaboration (*PUMA X Jil Sander*, 1997). One of PUMA's greatest design icons, the *Suede* will celebrate 50 years in 2018. Today, PUMA continues to sharpen its design principles and introduces some of the industry's most eye-catching, but also commercial styles such as the *Fierce*, the *Creeper*, the *TSUGI* and the *Basket Heart*, some of its bestsellers in 2017. For PUMA, innovation is at the heart of product design. The brand's proprietary midsole material *IGNITE* achieves a higher energy return for runners. The individual lacing system *NETFIT* as well as *Jamming*, the first ever midsole made of freely moving eTPU-beads, are two of the most recent examples.

Women are a priority for PUMA. Not only are women increasingly participating in athletic activities worldwide, but they are also trendsetters in taking inspiration from athletic wear for their everyday wardrobe. Building on PUMA's fashion credibility and sports authenticity, as well as a profound understanding of the modern female athletic consumer, PUMA has positioned its offer for women "where the gym meets the runway". The women's business has further strengthened the brand in 2017 and clearly outgrown other product segments. With its overproportionate market share amongst women, PUMA is uniquely positioned to capitalise on this growing segment within the global sportswear market. In 2017, PUMA returned with its "DO YOU" campaign – featuring Cara Delevingne, the dancers of the New York City Ballet and many other inspirational women – strengthening its commitment to inspire women everywhere to stay true to themselves. With the *Phenom*, launched with Selena Gomez towards the end of the year, PUMA laid the foundation for another women's footwear bestseller for 2018.

PUMA has continuously improved the quality of its distribution and expanded its presence in key Sports Performance and Sportstyle accounts around the world. It remains dedicated to strengthening its relationships with key retailers by being a reliable partner for them and by maximising the brand's contribution to their business. It is a clear objective for the group that retail partners make good money with PUMA's products. Improved sell-through has been helping PUMA gain more shelf space in retail stores in 2017. Furthermore, PUMA continued to upgrade its owned-and-operated retail store network with further openings and refurbishments. The brand also worked on the relaunch of its e-commerce presence PUMA.com into a more modern and mobile-friendly format, which went live initially in Europe in June 2016.

Operationally, the group continued to make progress in key areas including further enhancements of PUMA's International Trading Organisation, which manages global order and invoice flows centrally, the roll-out of new product development tools, further standardisation of ERP systems and improvements to the overall IT infrastructure.

Social, economic and environmental sustainability remains a core value for PUMA. In 2017, PUMA expanded its strategic partnership with the *Better Work Program* of the International Finance Corporation (IFC) and the International Labor Organization (ILO). The program, the aim of which is to limit audit fatigue and promote long-term solutions to problems surrounding fair labour standards, now involves 76 active PUMA suppliers in Vietnam, Cambodia, Indonesia and Bangladesh.

PUMA's partnership with the IFC was further enhanced with the start of the implementation phase of the *Vietnam Improvement Program* (VIP), which aims at improving energy efficiency and the use of renewable energy in the apparel and footwear supply chain. Several major industry peers joined the VIP program together with PUMA, sending a unified message to often shared suppliers to start working on reducing their impact on climate change.

With the hard work, the dedication to the brand and the focus on its strategic priorities starting to show positive results, the group renews its commitment to becoming the Fastest Sports Brand in the World and to continuing on the path of steady profitable growth.

2017 highlights and outlook for 2018

2017 was an exciting year across all business units, marked by successes both in sports and business.

In the Teamsport category, many trophies were won by the brand's sponsored teams and players, while innovative products and technologies hit the shelves. The 2016/17 football season ended with PUMA grabbing some of the world's most prestigious football trophies: while BVB Borussia Dortmund won the German DFB Cup, Arsenal FC claimed the FA Cup, Mexico's Chivas won the 2017 Liga MX Clausura title and Argentina's iconic team Independiente celebrated the victory of the Copa Sudamericana. Another highlight was the Chivas women's team, which added an important trophy to its collection by winning the Mexican championship. PUMA's roster of individual players also stood out: Arsenal's Olivier Giroud won the FIFA best goal award, while Sergio Agüero broke the goal scoring record for Manchester City. With the introduction of completely new football footwear franchises *PUMA ONE* and *PUMA Future,* the brand has further reinforced its status as an uncompromising Sport Performance brand.

In the Running category, PUMA unveiled its revolutionary *NETFIT* footwear range, whose unique customisable lacing system offers infinite performance and style options in one shoe. A major highlight for the brand was the 2017 IAAF World Championships, which also marked the end of Usain Bolt's active career. Other PUMA athletes also shone during the competition such as Pierre-Ambroise Bosse, who won the gold medal in the 800 metres. In November, PUMA launched its "24/7" campaign with Lewis Hamilton, redefining the brand's performance philosophy at a time when workouts are no longer restricted to the gym.

PUMA elevated its sports-inspired streetwear game in 2017, with innovative footwear silhouettes debuting throughout the year under the "Run the Streets" campaign. *IGNITE Limitless* introduced at the beginning of the year was an instant hit and ranked as one of the top-selling styles in many of the key sneaker doors. The all-new *TSUGI* range later pushed PUMA design to the next level with a fresh progressive look amped up with new technologies, while the highly anticipated debut *PUMA X XO* collection dropped this Autumn-Winter in collaboration with The Weeknd.

Once again, the *FENTY PUMA by Rihanna* collections were celebrated by the global fashion crowd. During Paris Fashion Week, PUMA's women's Creative Director presented her *Fenty University* collection for Autumn-Winter '17 at the Bibliothèque Nationale de France. For her Spring-Summer '18 collection, she returned to New York Fashion Week with dominating force, introducing her latest daredevil styles at the majestic Park Armory.

PUMA dominated the F1 season with its partnered teams Mercedes-AMG Petronas, Scuderia Ferrari and Red Bull Racing coming in at the top three places in the Constructors' Championship while Lewis Hamilton was crowned F1 champion for the fourth time in his career. PUMA also set new standards in terms of innovation and design, unveiling the award-winning *Evoknit Driver Pro*, the first super-light and fully knitted racing shoe in history with the look and feel of a sock.

2017 was also a successful year for PUMA's golf business, which continued to deliver stylish, performance-ready golf apparel, footwear and accessories to the market, while COBRA Golf introduced technology-rich, game-changing equipment. A real breakthrough was the launch of *KING F7* & *F7+*, smart drivers with an embedded sensor, allowing golfers to automatically track the distance and accuracy of each drive. Rickie Fowler landed a record-breaking win at the 2017 Hero World Challenge with his new *KING F8+* driver in the bag, while Lexi Thompson won two LPGA tournaments along with the Vare Trophy for best scoring average on the tour.

Looking ahead to 2018, the year promises to be another important step for the repositioning of PUMA as the Fastest Sports Brand in the World and offers great opportunities to further tap the potential of partnerships with top athletes and brand ambassadors around the world.

The year 2018 will also mark two important anniversaries: 70 years of PUMA and 50 years of its iconic *Suede* sneaker. The latter will be celebrated through unique drops representing the varied cultures of which the iconic sneaker has been a significant part such as music, fashion, street and pop culture.

On the Sports Performance side, the focus will be on the 2018 FIFA World Cup in Russia, where PUMA will be represented by the teams of Switzerland, Uruguay and Senegal, along with its roster of sponsored players. In club football, 2018 will also be an exciting year for the brand, as two internationally renowned teams will officially join the PUMA team: Olympique de Marseille and Borussia Mönchengladbach, who will strengthen the brand's position in the French Ligue 1 and the German Bundesliga, respectively.

other brands

2017 key figures

€230 million
in revenue

755
average number of employees
(full time equivalent)

Revenue
(in € millions)

Founded in 1991, Volcom was created on the belief that we were all born to chase what we are true to. Built on liberation, innovation and experimentation, the brand is rooted in the surf, skate, snow, art, and music cultures with style that reaches far beyond. Volcom provides lifestyle-enhancing apparel, outwear, accessories and footwear to people who share their passion, and supports anyone who relentlessly pursues their passion and lives for those intoxicating moments when they feel more than alive.

Despite a difficult retail environment in North America, negatively impacting Volcom's wholesale channel, the brand continued to strengthen its position with key partners while focusing its marketing efforts to effectively reach Millennial and Gen Z consumers through its ground-breaking #thisfirst campaign in 2017.

Volcom continued to improve itself operationally through the globalisation of its organisation where necessary and by driving efficiencies in its supply chain, therefore delivering further cost optimisation.

For its direct-to-consumer channels, Volcom has experienced strong growth and has strengthened its store portfolio in key markets in the US, Europe and Asia Pacific. During 2017, Volcom opened its first flagship store in Paris, France. Volcom also redesigned the user experience and replatformed its e-commerce site as it is a key focus of its expansion plans in the future.

Volcom is constantly expanding and reinforcing its brand mantra of "True To This" through strategic budget reallocation into marketing initiatives that deliver the highest return on investment. These include sponsorship of world-class athletes, musicians such as Run The Jewels, grassroots events, key cities activations, and targeted content marketing initiatives with an overarching emphasis on engaging storytelling that resonates with the Gen Z and Millennial consumers.

Volcom continues to diversify its relevance by highlighting its legacy in board sport, music and art, while simultaneously using new innovative campaigns like the highly successful #thisfirst, which authentically resonated well beyond its core audience. Additionally, in 2017, the brand opened the "Volcom Garden", in Austin, Texas. The first of its kind, this year-around concept is home to a full time art gallery, live music venue, skateboarding halfpipe and a retail boutique focused on enhancing brand affinity through experiential creative expression.

kering eyewear

KERING
EYEWEAR

Launched by Kering and a group of managers led by Roberto Vedovotto in 2014, Kering Eyewear was created to develop in-house eyewear expertise for the Group's Luxury and Sport & Lifestyle brands.

Eyewear is a strategic product category and the rationale behind the creation of Kering Eyewear was to help the Kering brands fulfil their growth potential in this business segment while leveraging on the unique appeal of each of them.

As the leading luxury company in eyewear, Kering Eyewear built an innovative business model, able to anticipate and embrace all challenges in the eyewear industry, which is relevant and growing significantly.

To establish eyewear as a core category, fully aligned with each brand's strategy and positioning, Kering decided to internalise the entire value chain for its eyewear activities, creating a significant step-change in the industry. Kering Eyewear directly manages, thanks to a strong pool of talents and skills, the design and product development, the supply chain, the brand, commercial and distribution strategies, as well as sales and marketing, thus allowing for tight control over the whole value chain.

Kering Eyewear's first collection was unveiled on June 30, 2015, for 11 Kering brands: Bottega Veneta, Saint Laurent, Alexander McQueen, Stella McCartney, McQ, Boucheron, Pomellato, Brioni, Tomas Maier, Christopher Kane and PUMA. Since then, more brands have been added to its portfolio, starting with Gucci, with a first collection presented in October 2016.

As a further key milestone in Kering Eyewear's growth, in March 2017, the Kering and Richemont Groups announced that they had entered into a partnership agreement for the development of the Maison Cartier eyewear category.

Through this partnership, Maison Cartier and Kering Eyewear brought their operations together, enhancing Kering Eyewear's outstanding portfolio of brands and creating a stronger platform for the development, manufacturing and worldwide distribution of the Maison Cartier Eyewear collection. Furthermore, Richemont became a shareholder of Kering Eyewear.

As of October 2017, thanks to the addition of Altuzarra and Azzedine Alaïa, Kering Eyewear designs, develops and distributes a complete and extremely well-balanced portfolio of 15 brands today.

Thanks to its direct control over the whole value chain, Kering Eyewear is accelerating the development of all the brands in its portfolio, leveraging on the stronger ones and exploiting the potential of smaller ones.

Kering Eyewear relies on a faster decision-making process and on strong collaboration with the brands across functions to create synergies and generate incremental business in shared channels, such as the brands' boutiques, travel retail, department stores, multi-brand fashion specialists and e-tailers.

First, Kering Eyewear is working closely with the Creative Directors of each brand to create eyewear collections consistent with the DNA of the brands, with a strong focus on innovation in terms of both design and materials, ensuring the highest quality and being true to customers and final consumers.

As a result, the development and marketing of the eyewear collections are now fully in line with the fashion House calendars and a number of creative developments have been exclusive to the brands' fashion shows. Together with design, a strong focus is also given to sustainability and material research and development. In July 2017, Kering Eyewear started a collaboration with Bio-on, an Italian company that develops and researches renewable materials, specifically bioplastics, to create the first 100% biodegradable frame.

From a manufacturing standpoint, Kering Eyewear's strategy is based on the flexibility to produce with only the best manufacturers in the world and to select production capabilities globally, guaranteeing product excellence and the highest quality standards in the whole industry. The company has managed to establish strong partnerships with a select number of carefully chosen producers mainly in Italy, France, Japan and the Far East.

In the deal with Maison Cartier, the Manufacture Cartier Lunettes plant, located in Sucy-en-Brie, France, was included and contributed to Kering Eyewear. It is equipped with best-in-class technologies and machinery and with undisputable, superior competences in solid gold, precious stones, horn and wood manufacturing.

Communication, as well as marketing, is coherent with brand strategies generating strong synergies among advertising purchasing, event organisation, celebrity seeding, public relations, communication and media access.

Over the last two years, Kering Eyewear has managed to build a strong distribution network serving over 10,000 customers worldwide in around 100 countries, directly operating in more than 20 markets through 10 subsidiaries (France, UK, Germany, Spain, US, Hong Kong, Japan, Singapore, Taiwan and China) and through a network of carefully selected distributors in all other countries.

The widespread distribution, together with a highly qualitative commercial approach, provides the brands with a robust market coverage, consistent with their positioning and desired visibility.

This innovative management model will give rise to significant value creation, reinforcing the performance of the well-established brands and exploiting the untapped potential of the emerging ones.

Establishing itself as the most relevant player in the high-end eyewear market will continue to be the main ambition for Kering Eyewear.

chapter 3
sustainability

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1. sustainability at kering

1.1. a long-standing commitment

For 20 years, Kering has pursued and expanded its Sustainability strategy, with the following key milestones:

1996
- Group's first Ethics Charter.

2001
- Creation of the *SolidarCité* association, promoting education and integration 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).

2006
- Definition of the Group's Corporate Social Responsibility commitments.

2007
- Creation of a Group Corporate Social Responsibility Department, represented on the Executive Committee and reporting directly to the Chairman.
- Definition of seven strategic priorities for the Group with respect to CSR for 2008-2010.

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*, co-produced by EuropaCorp and Elzévir Films, and financed primarily by PPR.

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 Group in Europe.

2011
- Launch of PPR HOME, a new initiative and organisation dedicated to sustainability.
- Publication of the very first Environmental Profit & Loss Account (EP&L) by PUMA.
- Formalisation of the strategic "Gender Equality in Leadership" programme.

2012
- Formalisation and publication of ambitious sustainability targets to be achieved by the Group's brands by 2016.
- Creation of a Sustainability Committee within the Board of Directors.

2013
- Kering is listed on the Dow Jones Sustainability World and Europe Indices (DJSI World and Europe) and qualifies for the Climate Disclosure Leadership Index (CDLI) in France.
- Creation of the Materials Innovation Lab (MIL).
- PPR Corporate Foundation for Women's Dignity and Rights becomes the Kering Corporate Foundation, with the slogan "Stop violence. Improve women's lives".
- Kering joins BTeam.

2014
- Extension of the EP&L process to cover the entire Group.
- Signature by Kering of a five-year strategic partnership with the London College of Fashion's Centre for Sustainable Fashion to promote more sustainable and innovative design practices in the fashion industry and among its future practitioners.
- Kering named industry leader of the DJSI (Dow Jones Sustainability Indices) within the Textile, Apparel & Luxury Goods sector.

2015
- Kering for the first time publishes the results of its Environmental Profit & Loss account (EP&L) and shares its methodology.
- Over 300 million Internet users potentially informed by the Kering Foundation's annual campaign to raise awareness about the fight to end violence against women.

2016
- Publication of the final report on Kering's 2012-2016 sustainability targets.
- Preparation of the sustainability strategy for the next 10 years: Kering is crafting tomorrow's luxury.
- Kering is the first luxury group to have its carbon objectives validated by the Science Based Targets initiative.
- Establishment of a global parental policy for all Group employees.

After a year largely devoted to laying down the Group's future sustainability strategy in 2016, Kering began 2017 by publishing its new roadmap for 2025, at the end of January. The roadmap rests on three pillars:

1. an environmental pillar (Care): continue to develop the business within our planetary boundaries[1] based on two major drivers: the EP&L approach and Kering's standards for responsible sourcing and sustainable production processes, with the objective of reducing the Group's EP&L by at least 40% by 2025 and being a leader in animal welfare;
2. a social pillar (Collaborate): promote well-being at work and the protection of employees inside and outside the Group, develop talent and preserve craftmanship skills while supporting communities that perpetuate them;
3. an innovation pillar (Create): create new opportunities and new business models through innovation at all stages of our value chain: design, product development, production, customer relations, service offerings, using sustainability to create value.

Following the publication of the roadmap, Kering and its brands embarked on or pressed ahead with various projects for the effective implementation of the strategy: developing innovation partnerships for more sustainable raw materials and processing methods, participating in the development of standards of excellence in supply and production applicable across the Group, strengthening Human Resources programmes to promote talent within the Group and boost the commitment of all, furthering their work on respect for human rights in supply chains, and drafting a charter on working relations and the well-being of fashion models. Kering's 2017 ranking at the top of the DJSI for the Luxury Goods sector has motivated its teams to continue and to intensify their efforts to craft tomorrow's luxury.

(1) The concept of planetary boundaries defines the environmental limits within which humanity can safely operate, thus avoiding abrupt and unpredictable environmental change.

1.2. 2017 highlights

Kering develops and publishes standards on its supply chain and production

Drawing on a long process of research, consultation and sharing with the Group's brands and numerous external stakeholders, the Kering standards of excellence set out the sourcing and manufacturing processes applicable to all of the Group's brands and their suppliers. These standards provide essential information and guidelines geared towards reducing the Group's environmental footprint and achieving the 2025 reduction objectives (primary targets include a 40% reduction in the EP&L on all indicators, a 50% reduction in Scope 1 and 2 emissions and a 40% reduction in Scope 3 emissions from the Group's transport activities and energy consumption).

The aim of the standards is to implement a comprehensive approach based on five main pillars: environmental impact, social impact, animal welfare, traceability and the use of chemicals. In a continuous progress process, they have two levels of achievement: minimum requirements and best practices to be achieved by 2025. They serve as a guide for verifying supplier compliance with Kering's requirements.

In the open source approach that has prevailed at Kering since the launch of its EP&L initiative, and reflecting its desire to combine the efforts of all stakeholders to invent a more sustainable economy, the Kering Standards will be made public and posted on the Group's website in 2018.

Plug & Play, an innovative partnership for more sustainable luxury

Kering is the first founding partner of the Plug & Play-Fashion for Good accelerator, aimed at increasing the pace at which innovation is integrated into the luxury and apparel sectors, taking sustainability criteria into account. The idea is to use the partnership to identify innovative start-ups and support them in their development. Kering hopes to use the accelerator to stimulate disruptive innovation, transform its traditional manufacturing processes and encourage the widespread adoption of sustainable practices. The launch of the new accelerator comes in the wake of the announcement of a new chapter of the Group's sustainability strategy, and above all its third pillar, innovation.

True to its commitment to transparency and open sourcing, Kering published the results of its 2016 EP&L (Environmental Profit and Loss Account) in 2017

The results of the Group's 2016 EP&L were released in 2017. They confirm the strategic choices and priorities adopted to reduce Kering's environmental footprint: out of a total of €858 million, Tiers 4 and 3 of the Group's supply chain – the raw material production and initial processing stages – accounted for 72% of the 2016 EP&L impacts. This underscores if need be the fact that adopting standards of excellence in terms of supply (types of materials, but also sourcing location, animal husbandry, farming and extraction processes used, etc.) and manufacturing processes is critical.

The increase in the EP&L results (€858 million in 2016 vs €750 million in 2015) came largely on the back of exceptional growth in the Group's earnings (on higher volumes), but should above all be seen in the light of growth in revenue: over five years (2012-2016), EP&L intensity eased by 10% (bringing it down from €77 to €69 per thousand euros of revenue), thereby illustrating the first benefits of the actions undertaken by the Group to reduce its environmental footprint.

Kering and LVMH sign a new charter on working relations with fashion models and their well-being

Aware of their trend-setting role in the sector, in 2017 Kering and LVMH decided to join forces and establish a new charter governing working relations with models that will be implemented by all Kering and LVMH brands. Respect for the dignity of women and men is a core value for both Groups, and the well-being of the models they employ has especial importance. The new charter promotes high standards of integrity, responsibility and respect towards people, and lays down four major commitments: brands of both groups commit (i) to work only with models holding a valid medical certificate attesting to their good health and their ability to work and issued within the previous six months; (ii) to ban size 32 for women and size 42 for men; (iii) not to recruit models below the age of 16 for shows or photo shoots; and (iv) to adopt specific rules for models aged between 16 and 18 (working hours, escort, accommodation). The charter came into force as soon as it was published, in September 2017.

The Kering Foundation takes its commitment to ending violence against women further with the sixth edition of the White Ribbon For Women campaign and, in partnership with Make.org, launches the "*Stop aux Violences Faites aux Femmes*" consultation

More than 2.1 billion people were potentially reached by the sixth edition of the White Ribbon For Women campaign on 25 November, with the hashtag #ICouldHaveBeen to encourage everyone to play their part in fighting violence against women. This year, the Foundation targeted Generation Z, and above all young men, with the aim of bringing about profound and lasting cultural change. 52% of the people who participated in the campaign with a post bearing the hashtag #ICouldHaveBeen were aged between 18 and 25. At the same time, in addition to its awareness campaigns and advocation of concrete actions, the Kering Foundation became a founding partner of the *Stop aux Violences Faites aux Femmes* coalition launched by Make.org on November 25, 2017. The initiative brings together people, large companies and organisations working to fight violence against women with a view to developing and implementing ten concrete solutions within three years. The pilot project, launched in France, will be deployed internationally in 2018 (Belgium, Switzerland, Italy and the United Kingdom).

Kering strengthens its policies for promoting and supporting the Group's talent

Enabling everyone to achieve their potential, express their creativity and take charge of their development has been a constant concern of Kering's Human Resources policies for many years.

Accordingly, in 2017, the Group added new initiatives to existing schemes: the "Recommend a friend" programme allows Kering to recruit talent based on the recommendations of its best ambassadors – its employees – who now receive a bonus when someone they sponsor is recruited. In the same vein, the internal mobility programme has been reinforced and now offers even more opportunities for people to grow within the Group by moving from one brand, function or region to another.

At the same time, the Group's commitment to promoting female talent continues. A notable example of this was Kering's sponsorship of the 2017 edition of the EVE programme, which is designed to promote "enlightened" leadership by leveraging both individuals and organisations. Kering has been rewarded for its broad commitment to female talent by its inclusion in the Bloomberg Gender-Equality Index.

Kering unveils Kering Planet, a new website dedicated to its 2025 sustainability strategy, accessible to all Kering employees

A web platform providing a venue via which all Kering employees worldwide can contribute to the Group's sustainability strategy, Kering Planet was conceived as a forum for exchange and enrichment with two objectives: the site allows everyone to learn more about the Group's sustainability, its commitments and its results, but it also and above all gives all users the chance to play a part in Kering's sustainable development strategy and increase individual commitment in the service of more sustainable luxury. Designed to promote the pillars of the 2025 strategy through games, contests and online challenges, Kering Planet enables everyone to play an active role in integrating sustainability into the Group's businesses.

Kering once again ranked the most sustainable company in the luxury industry by the Dow Jones Sustainability Indices (DJSI)

For the third consecutive year, Kering was ranked among the industry leaders of the Dow Jones Sustainability Index (DJSI), the gold standard for corporate sustainability, winning the top spot in the Textile, Apparel & Luxury Goods sector. Kering received the best score for its environmental and social performance following a comprehensive assessment comprising 23 criteria and a comparison with sector peers. The results also reflect the targets laid down in the Group's new 2025 sustainability strategy.

1.3. Vision and strategic challenges

Vision

Kering firmly believes that sustainable business is smart business, and that modern and bold luxury must be synonymous with standards of creation and production respectful of the environment and committed to generating positive impacts for society. It is this commitment to sustainability, in its social and environmental dimensions, that drives the Group's strategy in this area and is a source of inspiration and innovation. Sustainability creates value and competitive advantage in the medium and long term, for it enables Kering to lead with new business models and innovative practices, whilst often reducing costs. It is also a motivating factor for the Group's employees, helping to attract and retain the best talent. Sustainability is an integral part of the strategy of the Group and its brands. Kering serves as a catalyst, encouraging them to develop increasingly innovative, appealing and sustainable products, aiming in this way to craft tomorrow's luxury. Through the Kering Foundation, Kering is also firmly committed to combating violence against women. With the help of its employees, the Foundation supports local NGOs, distributes grants to social entrepreneurs and organises awareness campaigns.

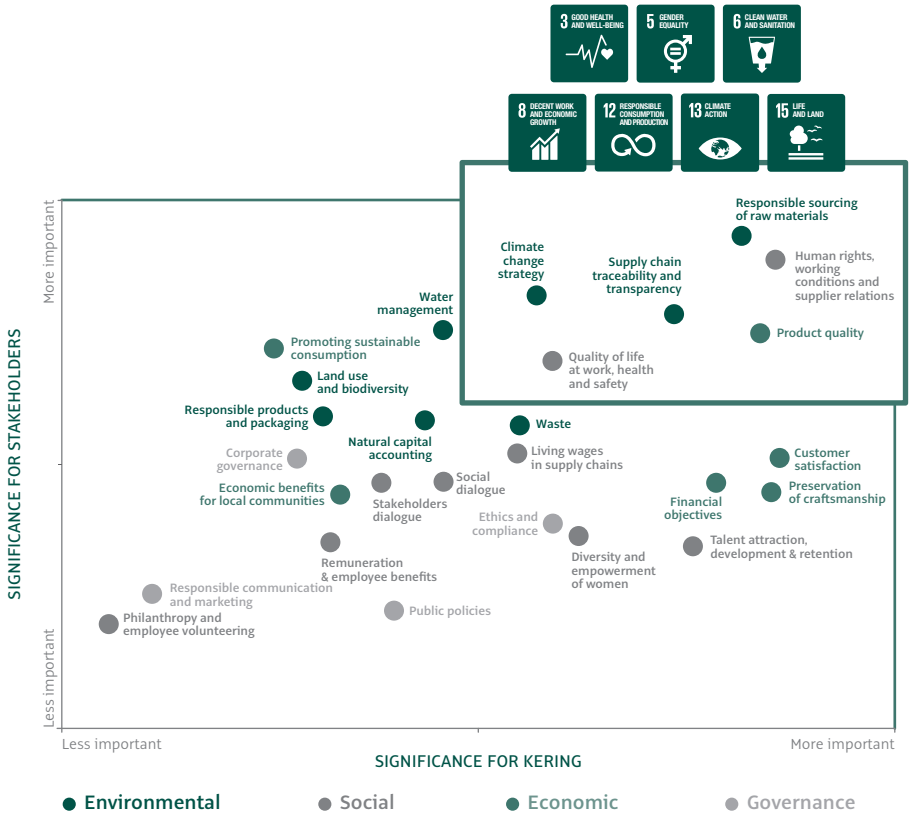
Materiality: target priority challenges

The materiality principle, which is at the heart of the Kering sustainability approach, like the EP&L, allows Kering to focus on activities with the most significant impacts. This approach allows Kering to identify the key challenges matching its vision (based on their economic, environmental and social impacts), and also to grasp the related governance issues and the assessment made by the Company's key stakeholders.

Developed in 2013 and fine-tuned in 2014 through consultation with a wide range of internal and external stakeholders, the approach highlights six strategic challenges that were central to discussions on the development of Kering's 2025 strategy: responsible sourcing, product quality, transparency and traceability, respect for human rights, working conditions and quality of professional life, and climate change strategy.

These priority challenges also align the Group with the United Nations' new framework as defined in the 17 Sustainable Development Goals (SDG), which are now a common reference in the structuring of sustainability approaches, for the private sector as well as for governments, civil society and citizens, thereby recognising the indispensable involvement of stakeholders throughout society in the service of the common good. More specifically, while it is possible for Kering to contribute directly or indirectly in variable proportions to each of the 17 SDGs, there are nevertheless 7 SDGs for which the Group can make a stronger mark than elsewhere: SDG#3 (good health and well-being), #5 (gender equality), #6 (clean water and sanitation), #8 (decent work and economic growth), #12 (responsible consumption and production), #13 (climate action) and #15 (life on land).

MATERIALITY MATRIX



Strategy and objectives

Having established a set of ambitious objectives that guided the Group in environmental and social matters over the 2012-2016 period and whose results were made public in 2016, Kering laid down and published its 2025 sustainability strategy in January 2017. The strategy rests on three pillars:

CARE for the planet	√ Use resources within the "planetary boundaries", with a science-based approach in order to reduce carbon emissions from Kering's business activities by 50% in Scope 1, 2 and 3 [1] of the Greenhouse Gas Protocol by 2025.
	√ Further address all supply chain environmental impacts with the goal of reducing Kering's Environmental Profit and Loss (EP&L) account by at least 40%, including the remaining carbon emissions, [2] and going beyond that to also include water use, water and air pollution, waste production and land use.
	√ Create a "Supplier Sustainability Index" and ensure Kering's high standards for raw materials and processes are implemented by suppliers at 100% by 2025, which also raises the bar on traceability, animal welfare, chemical use and social welfare.
	√ Promote sustainable design and minimise the environmental impact of a product at every stage, from sourcing and manufacturing to transportation and consumer use, and create an open-sourced tool to assess products based on Kering's standards.
	√ Establish a Materials Innovation Lab (MIL) focused on watches and jewelry, following on from the success of Kering's MIL for fabrics and textiles in offering access to sustainable alternatives.
	√ Expand offsetting commitments to include a new "insetting" approach in order to ensure that actions across the supply chain contribute toward protecting biodiversity and developing local communities.
COLLABORATE with people	√ Support the continuation of craftsmanship traditions and the communities that support them.
	√ Extend focus across the supply chain and improve community livelihoods where raw materials are sourced.
	√ Develop an industry-leading performance metric system that will measure achievement of the UN Sustainable Development Goals.
	√ Leverage current partnerships with leading universities and continue to develop collaborations to identify sustainability solutions.
	√ Amplify forward-thinking employment practices, including the global parental policy launched on January 1, 2017, a well-being at work policy in 2018, and an employee benefits policy by 2020.
	√ Achieve gender parity in all positions and business lines and at all hierarchical levels of the Group.
	√ Establish sponsorship and mentoring programmes, and develop innovative career paths for all employees.
	√ Aim to be the preferred employer in the luxury sector.
CREATE new business models	√ Invest in disruptive innovations that can transform conventional processes in luxury, and influence the industry.
	√ Develop new and sustainable solutions for sourcing raw materials, including exploring biotech and promoting a circular economy through turning recycled textiles into new clothing.
	√ Scale up an internal purchasing platform to provide access to high-quality, sustainable raw materials.
	√ Stimulate and enable innovation to translate vision into action through strong internal governance.
	√ Establish a Young Leaders Advisory Group for inspired ideas.

(1) Emissions from upstream transport and distribution, business air travel and fuel- and energy-related emissions in Scope 3.
(2) All Scope 3 emissions from purchased goods and services all the way back to raw materials at Tier 4.

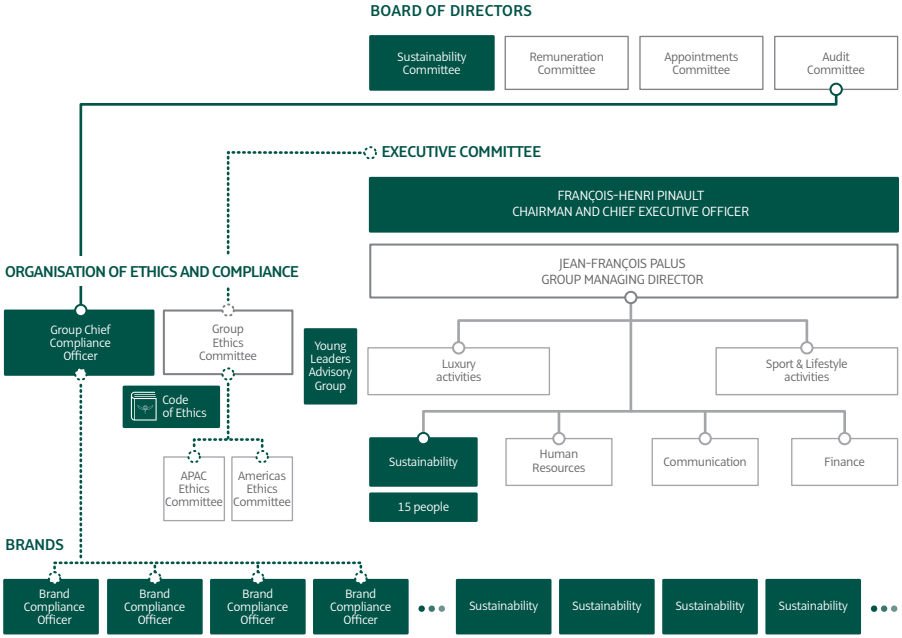
2017 saw the organisation of "year 1 review" meetings devoted to the follow-up of the first actions taken in 2017 by each of the brands, attended by the CEO, the sustainability teams and other relevant departments (design, production, purchasing, logistics, etc.), as well as the Group Chief Sustainability Officer. They served to review on-going projects, goals for the months and years ahead – not to mention the first results obtained – and to closely monitor the roadmaps laid out by each brand, thus ensuring efforts to achieve Kering's 2025 ambitions are tightly coordinated. An overall assessment was also presented at the Kering Executive Committee meeting in December 2017.

Governance and organisation

Kering's Sustainability Department defines the Group's sustainability strategy and policies, and supports the Group's brands by operating as a resource platform and sounding board, with a view to setting out and building on the initiatives taken individually by each brand. More than 15 specialists, who report 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 by systematically looking for potential synergies and continuous improvement. A dedicated team has also been established within Kering Group Operations, the entity tasked with managing supply chain, logistics and industrial operations on behalf of the Group's Luxury brands. In addition, each brand has at least one Sustainability Lead and for the larger brands, entire sustainability teams. As a result, Kering's sustainability team numbers more than 60 people.

As concerns governance, a Sustainability Committee, established in 2012 at Board level, provides advice on and guides the Group's sustainability strategy. Comprising four Directors (François-Henri Pinault, Jean-François Palus, Daniela Riccardi and Sapna Sood), the Committee met twice in 2017. A first meeting in March allowed all Committee members to revisit the fundamentals of Kering's 2025 sustainability strategy, validated in 2016, to review actions taken in early 2017 to communicate the strategy internally and externally, and lastly to identify the flagship projects of the Group and its brands and to see them in the light of the new strategy. A second meeting in November served to review the first year of implementation of the 2025 strategy and to examine the first results and achievements on each of its three pillars.

The Group is also establishing a Young Leaders Advisory Group to craft an innovative and creative approach in the development of more sustainable solutions and advocate a critical review of the action plans implemented by the Group and its Luxury brands, regardless of the intended field (product design, supplier collaboration, innovative business models, service offerings, etc.). Made up of Millennials (in reference to the name given to the generation born between 1980 and 2000), chosen from inside and outside the Group, the new body will have the dual purpose of making proposals and accelerating change to ensure a more sustainable future. The finishing touches will be made in 2018, 2017 having been devoted to setting out its purpose, laying down the outlines of the work to be entrusted to it and defining the appropriate profiles for its members.



Brand Compliance Officer (BCO) network by brand

Teams committed to sustainability within each brand (45 people)

1.4. recognition and inclusion in sri(1) indices

In 2017, Kering was once again recognised as a leader in its sector by the principal non-financial ratings agencies and rankings.

- **DJSI (Dow Jones Sustainability Indices)**: In 2017, Kering was ranked at the top of the Textile, Apparel & Luxury Goods sector. Named industry leader, Kering has now featured in the prestigious DJSI World and Europe indices for four consecutive years. Created in 1999 by S&P Dow Jones Indices in conjunction with RobecoSAM, these indices distinguish, out of a panel of 2,500 companies representing the largest market capitalisations, 10% of companies in each industry with the best performance in terms of sustainability.
- **CDP**: in 2017, Kering moved into the CDP's A List. Of nearly 2,500 companies assessed, only 112 found their way into the prestigious A List after the CDP's rigorous analysis. Kering takes its place among the 5% of international companies deemed the most efficient in terms of reducing greenhouse gas emissions and climate risks, and contributing to low-carbon business models. Moreover, Kering reached the Leadership A- level in recognition of its efforts to limit deforestation risk associated with the use of leather and wood-derived fabrics, and Management B level for the management of its water footprint.
- **Global 100**: for the third consecutive year, Kering featured in the Global 100 ranking of the 100 most sustainable companies worldwide. This ranking, created by *Corporate Knights* magazine in 2005, is unveiled at the World Economic Forum in Davos each year. Kering also led the Textile, Apparel and Luxury Goods sector in this ranking.
- **Other SRI indices**: Kering was included in the main benchmark indices: FTSE4Good, Euronext Vigeo Eurozone 120 Ethibel Sustainability Index Excellence, MSCI Global Sustainability Indexes, Oekom Prime, etc.

(1) Socially Responsible Investment.

Index	2015 score	2016 score	2017 score
DJSI	Industry leader 83/100	Silver class 83/100	Industry leader 85/100
CDP Carbon	99 B	A-	A
CDP Water	B	B	B
CDP Forest	NS	A- (leather) B (wood)	A- (leather) A- (wood)
Global 100	43/100	80/100	47/100

NS: Not scored.

1.5. key figures

- 44,055 employees as of December 31, 2017, 58.08% of whom are women;
- 90.55% of employees on permanent contracts;
- 50.7% of Group managers are women;
- 11.36% of permanent employees work part-time;
- 35.2 years is the average age of permanent employees;
- 5.7 years is the average length of service of permanent employees;
- 507 workers with disabilities;
- 504,349 hours of training, or 29,010 employees trained;
- 13,337 permanent employees hired;
- 399,985 tonnes of CO_2 attributable to energy consumption (37.5%) and transport (62.5%);
- 32.4% of electricity consumed is generated using renewable resources;
- Kering published its 2016 EP&L and has developed a mobile application to raise awareness among as many people as possible (My EP&L);
- 10% reduction in the intensity of the Group's environmental impacts (€ EP&L/€ revenue) between 2012 and 2016;
- 2,912 social audits carried out among the Group's suppliers;
- over 2.1 billion people potentially reached by the Kering Foundation's annual White Ribbon For Women campaign to raise awareness about violence against women.

2. supporting our employees

Our employees are central to our vision, business and inspiration.

Kering's mission is to help its employees reach their potential and express their creativity by developing their skills and performance in the most imaginative way possible. The Group provides its brands with the support necessary for their growth, promoting the sharing of and access to best practices, and encouraging the development of talent for the benefit of all brands. Kering encourages internal mobility, the pooling of expertise and the creation of synergies.

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

Kering's HR policy continues to cultivate human and cultural diversity so as to give the Group an economic and competitive advantage. It is designed to offer each employee development opportunities permitting them to contribute to achieving the Group's strategic priorities.

In 2017, Kering continued to pursue the HR priorities identified in its 2025 sustainability strategy: develop talent, preserve craftsmanship, and promote well-being at work and employee commitment.

The year was also more specifically devoted to implementing ways to better develop talent and give each employee a vision of the Group through comprehensive, innovative and inclusive policies, resources and tools. On top of concrete initiatives designed to promote the development of talent, programmes fostering diversity, gender equality and well-being at work are also encouraged. Launched on January 1, 2017, the global parental policy means that all Group employees, regardless of their personal circumstances or geographical location, enjoy the same advantages in terms of parental leave.

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

2.1.1. Breakdown of the workforce (2)

The total workforce as of December 31, 2017 was 44,055, an increase of 10% or 4,003 employees.

Changes stemmed primarily from a marked increase in business, particularly for certain Group brands, as well as from the establishment of growing brands in new markets, the integration of new entities (Manufacture Cartier Lunettes) and the reinforcement of the Group's support functions.

Breakdown of the workforce as of December 31, 2017 and December 31, 2016 (Men/Women Managers & Men/Women Non-Managers) by region (3)

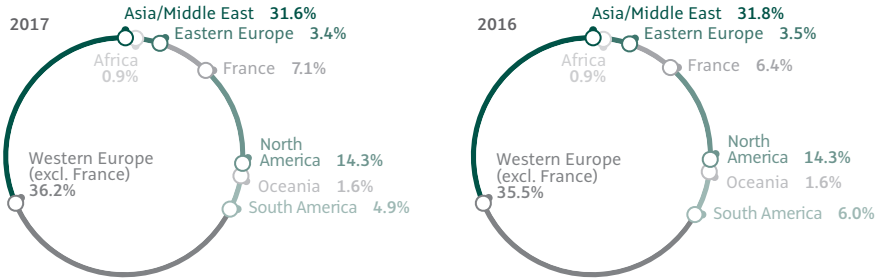
	Managers				Non-Managers			
	Women		Men		Women		Men	
	2017	2016	2017	2016	2017	2016	2017	2016
Africa	30	30	42	41	179	159	151	142
Asia/Middle East	1,226	1,129	1,078	1,004	7,525	6,971	4,102	3,625
Eastern Europe	117	105	78	70	663	629	619	583
France	533	633	404	382	1,376	986	806	560
North America	721	660	581	554	2,722	2,442	2,279	2,086
Oceania	63	55	62	39	371	332	189	212
South America	137	131	189	204	669	725	1,180	1,353
Western Europe (excluding France)	1,015	953	1,302	1,267	8,241	7,319	5,405	4,671
TOTAL	**3,842**	**3,696**	**3,736**	**3,561**	**21,746**	**19,563**	**14,731**	**13,232**

(1) For each social indicator presented, 2017 data have been restated to take into account the change in the Group's scope of consolidation in 2017. Furthermore, the rate of coverage calculated as a percentage of the Group's workforce as of December 31, 2017 is 100% for all indicators, with the exception of the number of workers with disabilities, which is 83.1% (excluding the United Kingdom and the United States).

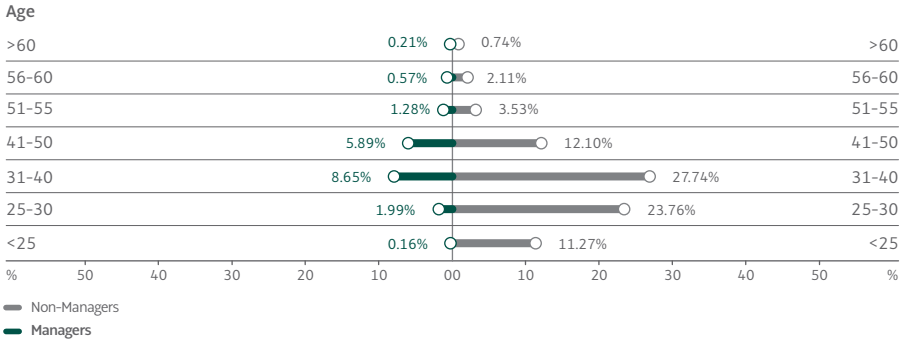
(2) Only the workforce breakdown as of December 31, 2017 for Men/Women Managers and Non-Managers by region and the age structure include data on the employees of Manufacture Cartier Lunettes, which was integrated by Kering Eyewear, and therefore by the Group, in 2017. Kering Eyewear MCL had 182 employees as of December 31, 2017.

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

CHANGE IN THE REGIONAL BREAKDOWN OF THE WORKFORCE AS OF DECEMBER 31, 2017 AND DECEMBER 31, 2016



AGE STRUCTURE OF THE PERMANENT WORKFORCE: MANAGERS & NON-MANAGERS, 2017



2.1.2. Establishing a long-term hiring policy through international partnerships and with the help of staff ambassadors

Recruiting the best talent by encouraging diversity, training young people in craft skills, and integrating and developing talent are central to Kering's HR strategy.

Forging strategic partnerships

To this end, Kering continues its policy of international partnerships with prestigious business and design schools worldwide.

In 2017, Kering continued its strategic partnership with the Centre for Sustainable Fashion (CSF) at the London College of Fashion, which it set up in 2014. The aim of the partnership is to support the role of sustainability in the fashion of the future. A specific curriculum has been developed, combining theory and practice. Open to students from a range of disciplines at the London College of Fashion, the four-month Empowering Imagination programme enables students to obtain an in-depth understanding of the issues relating to sustainability in the fashion industry with the help of experts from Kering, CSF and the wider fashion industry.

Kering and CSF also organise a competition, open to all third-year and master's students of the London College of Fashion, in which students are invited to propose creative and viable solutions to a problem put forward by two Kering group brands. The competition provides a unique opportunity to recognise and reward the most remarkable student projects in the field of sustainable innovation. In 2017, four winners were selected out of 100 projects entered for the Kering Award for Sustainable Fashion. The winning students each received a €10,000 award to support their project and/or the offer of an internship at Gucci or Stella McCartney.

Once a year, the partnership set up in 2012 between Kering and Parsons School of Design organises the Empowering Imagination competition. Open to final-year students on Parsons' Bachelor of Fine Arts programme, the competition offers students the opportunity to win an internship at one of Kering's brands.

The Group also provides opportunities for young talent through other partnerships with organisations such as *Vogue Italia* or with the Royal College of Art through Brioni, which organises suit-making contests and an internship programme. Lastly, the Group and its brands work to develop ties with numerous institutions, building on the close relationships developed by Kering's entire HR community worldwide, including the *Institut Français de la Mode*, *Istituto Marangoni*, *Politecnico di Milano*, Bocconi University, *Instituto Polimoda*, *Istituto Europeo di Design*, *Accademia Costume & Moda* of Rome, Tsinghua University and Hong Kong Polytechnic University.

Over the past four years (2013–2017), Boucheron has supported an entire class of future jewelers through a partnership set up with the *École Privée Bijouterie Joaillerie de Paris* (BJOP). The graduation ceremony took place at Kering's head office in July 2017.

Finally, many of the Group's brands support craft organisations and offer training programmes. They have established a number of professional organisations that help to ensure the survival of some very demanding and unique skills, and support long-term employment in the regions where these crafts originated.

For instance, Brioni's *Scuola di Alta Sartoria* provides a challenging three-year course followed by a one-year apprenticeship at its workshops to teach the Brioni method. More than a hundred tailors have graduated from this school and are now working for Brioni, either in its workshops or boutiques.

In 2006, Bottega Veneta created the *Scuola dei Maestri Pellettieri* with the aim of training a new generation of craftspeople to guarantee the continuity of its cultural heritage and excellent craftsmanship. Located in the *Montebello Vicentino* workshop, the school serves as a permanent training centre for brand employees and apprentices alike, allowing them to immerse themselves in the craftsmanship and values of the brand.

In 2017, Kering strengthened the partnership created in 2010 with HEC Paris School of Management's Luxury Chair. The Luxury Certificate is a unique programme that aims to help future leaders learn how best to handle luxury brand management challenges. It includes basic courses, more in-depth theme-based teaching, a series of practical seminars led by leaders or members of the Executive Committees of Kering and its brands, as well as visits to stores and workshops, and finally a team consulting project on a topic set by Kering, culminating in a presentation before a panel consisting of the certificate's academic co-directors and Kering managers.

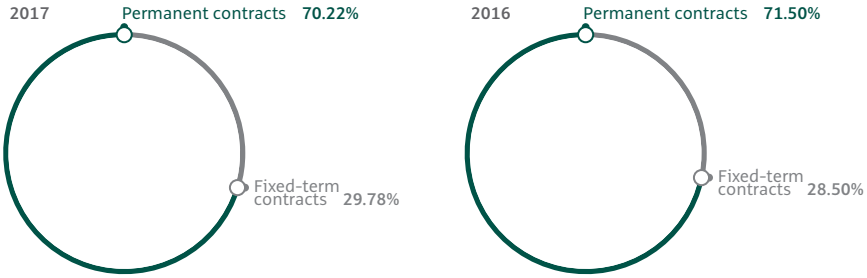
This partnership allows Kering to play a role in the training of future high-level talent from diverse backgrounds, and to identify any talent with the potential to join the Group and its brands. In 2017, 38 students from 15 different nationalities took part in the programme.

Recruiting the best professionals

In addition to partnerships with schools, the Group encourages its employees to recommend fresh talent to the Group and its brands through a co-option programme set up in May 2017.

The aim is to recruit new talent and enable employees to participate in the Group's development, through a "recommend a friend" function set up on the employment vacancies section of the Group's intranet and accessible both via desktop and mobile phone.

BREAKDOWN OF FIXED-TERM AND PERMANENT CONTRACTS AMONG NEW HIRES

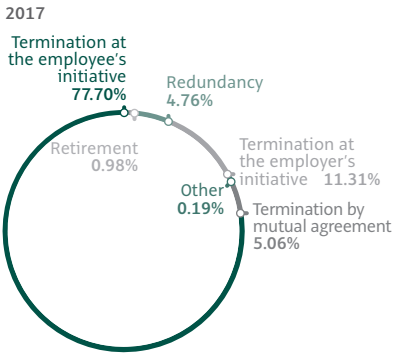


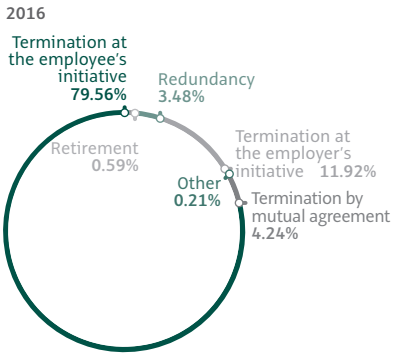
Of the 13,337 permanent employees hired in 2017, 57.5% were women and 90.7% were non-managers.

The Kering group also had a monthly average of 1,797 temporary employees across all its brands in 2017.

BREAKDOWN OF PERMANENT EMPLOYEE DEPARTURES BY CATEGORY

Departures of permanent employees, on all grounds, totalled 10,491 in 2017, of which 8,151 at the employee's initiative (77.7% of departures) and 1,187 dismissals (11.3% of departures).





2.1.3. Supporting organisational changes in a responsible manner

In 2017, Kering continued its policy of supporting and redeploying employees, striving to help employees find other positions within the Group.

In France, this policy has led to the establishment of the Social Development Coordination, a body of brand HR managers led by Kering's Human Resources Department, which is tasked with proposing individual redeployment solutions. It aims to assist employees when an organisational change (such as a store transfer or closure) is liable to have an impact on jobs. An official redeployment guide has been drawn up for employees of all brands, outlining recent legal developments, describing the various steps to be taken for internal redeployment and providing the relevant forms to be completed.

In all countries and for all brands, when departures are being considered following reorganisations, the efforts made to find employees another position go beyond what is required by law, and priority is given to voluntary mobility measures.

2.2. remuneration and employee benefits

- Total Group payroll in 2017: €1.86 billion;
- €74.634 million in employer contributions from the brands in Metropolitan France in 2017.

Kering's remuneration policy

Remuneration is a key component that managers can use to reward the commitment as well as the individual and collective performances of their teams.

The various components of the pay structure and their management are based on guidelines set by the Group. Accordingly, all employees belonging to a sales team or exercising a role with a certain level of responsibility receive a variable component on top of their fixed wage. As a result, almost 90% of the Group's employees receive variable remuneration subject to the achievement of individual and/or collective objectives.

Efforts are made to ensure that the amount of fixed wages received by each employee is both fair internally and competitive within the market. It is reviewed annually on the proposal of line managers.

Pay rises are granted in accordance with the level of the wage already achieved in comparison with peers and/or the external market, factoring in performance over a sufficiently long period of time and the potential for development. They are determined independently of any consideration whatsoever of gender or age.

The individual share of variable pay is determined and managed as part of annual performance appraisals. Objectives are set and discussed with the line manager, as is the assessment of the level of achievement.

Executive pay

The remuneration of the Leadership Group comprising the Group's 250 senior executives is monitored by the Group's Human Resources Department, with the aim of ensuring internal consistency and competitiveness in light of industry practice.

The remuneration structure for senior executives (portions allocated as base pay and as short- and long-term variable remuneration) is defined by the Group. It varies in accordance with the level of responsibility assigned to the role.

The short-term variable remuneration (annual bonus) policy aims to reward senior executives for meeting objectives – in part financial and in part individual – set in line with the strategy of the Group and the brands. Financial performance is assessed on the basis of two indicators, one dedicated to measuring profitability (EBIT) and the other to assessing the quality of the free cash flow of the Group and the brands. Moreover, some individual objectives set for senior executives are also related to the achievement of team management and Group sustainability objectives.

The long-term profit-sharing policy was revised in 2017 to reflect the Group's value creation targets to a greater extent. The purpose is twofold: to reward executive teams for their performance over time and for their loyalty.

The long-term profit-sharing scheme is now exclusively based on Kering Monetary Units and monetary units linked to the brands, which reflect the increase in the value of the different entities over time. The two types of monetary unit (Kering and brand) are equally weighted in the long-term profit-sharing components of each executive's remuneration. The amounts granted are linked to the beneficiary's level of responsibility within the Group.

At the end of a three-year vesting period starting from the year that the monetary units were granted, executives have the opportunity to exchange their monetary units during two cash-in-windows per year over each of the subsequent two years.

As regards the remuneration of Directors and executive corporate officers, the Board of Directors complied with the say-on-pay requirements set out in the revised AFEP-MEDEF Code in its proposals to the Annual General Meeting of April 27, 2017.

Employee benefits within the Group

In addition to monetary remuneration, the Kering group has always placed much importance on offering its employees healthcare, disability/life and pension benefits. In addition to the coverage provided by law, virtually all employees therefore enjoy supplementary insurance through the various schemes put in place by the Group's brands.

For some years, some brands (Gucci, Bottega Veneta and Pomellato in Italy, as well as PUMA) have offered more comprehensive benefit schemes allowing employees to balance their work and personal lives. Such schemes often take the form of an offer of education, recreation, transport or family support. These popular schemes are constantly changing to better meet employees' expectations.

On January 1, 2017, Kering established a comprehensive parental policy that guarantees all parents in the Group, regardless of their personal circumstances or geographical location, 14 weeks' paid maternity or adoption leave and 5 days' paid paternity leave.

Profit-sharing, incentive and employee savings agreements

In accordance with national legislation, almost all of the Group's employees in France benefit from profit-sharing and incentive schemes governed by agreements specific to their legal entity. Tax and payroll deductions may apply to the amounts derived from these schemes in accordance with the applicable regulations.

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

Kering's Code of Ethics, the foundation for ethics within the Group and for all employees

Set out since 1996 in the Group's first Ethics Charter, Kering's ethical principles apply to 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. It fits 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 Organization, OECD Guidelines for Multinational Enterprises, United Nations Convention on the Rights of the Child, United Nations Global Compact) and demonstrates how the Group continually strengthens its commitments and the systems in place to ensure compliance. Sustainability for Kering is not attainable without the Code of Ethics, which is used as the sole set of standards implemented by all throughout the Group, regardless of their level of responsibility, position or location. The Code of Ethics is available in the 12 most widely spoken languages in the Group on the Group's intranet, and on Kering's website for readers outside the Group.

An ethics organisation reinforced in late 2013 and again in 2015

Initially based on a single body (the Ethics and Corporate Social Responsibility Committee-ECSRC, set up in 2005), the ethics organisation has since late 2013 drawn on the work of three Ethics Committees, a Group committee and two regional committees (Asia Pacific and the Americas), thereby dovetailing with the Group's policy of delegating responsibility with the aim of establishing bodies that can act effectively in the light of actual operating conditions, within a shared reference framework applied throughout the Group.

Each of the three Committees is made up of representatives from Kering and the Group's brands to ensure greater diversity. Employees can call on these Committees 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 if they wish to submit a complaint to the Committee regarding potential non-compliance with one of the principles of the Code for examination.

An ethics hotline has also been set up 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.

The Compliance structure, established in 2015 and led by a Group Chief Compliance Officer (CCO) backed up by an international network of Brand Compliance Officers (BCO) appointed by the CEOs of each brand, assists and guides employees at all levels of the Group to ensure compliance with prevailing legal requirements, including anti-bribery and competition requirements. The compliance programme procedures were developed in 2016 and are subject to regular updates to take into account new legislation coming into force:

- approval of the anti-corruption policy and associated procedures: gifts, hospitality, entertainment and travel procedure, donations and sponsorship procedure, procedure for participation in professional associations, conflicts of interest procedure, third-party due diligence procedure, due diligence procedure for mergers and acquisitions, procedure relating to countries subject to sanctions;
- approval of competition law policies in force and related procedures: competition law policy for Europe, competition law policy for the APAC region, competition law policy for the Americas region, procedure for participation in professional bodies.

In addition, the Group launched two online training courses (available in nine languages) in 2017, one covering competition law and the other focused on corruption.

Training employees on ethics and asking the right questions when dealing with situations and dilemmas they may face at work

A training programme on ethics and the related Code was established for all Group employees worldwide and implemented throughout Kering in 2014.

Available in nine languages, it sets out the ethical ground rules in place at Kering, and presents case studies and ethical dilemmas that help employees ask themselves the right questions. It is updated annually, and covers all the principles upheld by the Group's Code of Ethics, with a specific module on corruption. The topics covered in 2014 included corruption, fraud, conflicts of interest and the confidentiality of information on social media. In 2015, the programme covered topics related to diversity, corruption, respect for human rights and protection of the environment. In 2016, the training was deployed over a shorter six-week period, in order to increase its impact and improve monitoring. It focused on corruption, conduct in the workplace, responsible sourcing of raw materials, traceability, and compliance with business confidentiality. It was backed up by a broad multi-language communication campaign on the Group's intranet. In 2017, emphasis was once again put on corruption, respect for others and conduct in the workplace and the effect of climate change on the sourcing of raw materials. 90% of Group employees worldwide completed the training.

35 requests in 2017

In 2017, Kering's three Ethics Committees handled 35 complaints. These complaints were brought to the attention of the Committees either directly or through the ethics hotline.

For each complaint, an inquiry involving both sides was conducted or is currently in progress, under the responsibility of the Committee contacted. Five violations of the Code have been identified to date and were followed up with the appropriate corrective action. A large number of cases were still under investigation at the end of 2017, with the different Ethics Committees having been contacted in November or December. The other inquiries did not show a failure to comply with the Code of Ethics; rather, they generally revealed management issues.

2.4. development of skills and talents

Developing skills and talents is at the heart of Kering's HR policy.

The policy focuses on two main areas:

- setting up talent committees at Group level with all the brands to share knowledge of talent and enhance mobility;
- establishing Group programmes and tools for the brands, especially in terms of training, with the continued deployment of the Kering Learning Hub in 2017.

2.4.1. Managing and supporting talent, and fostering mobility and professional development within the Group

Kering has set itself the priority of better identifying and developing talent, and has for this purpose established processes and tools geared towards helping employees constantly expand their career prospects and strengthen their skills through mobility and career opportunities.

Identifying and developing the talent of all, supporting future leaders and organising succession plans

Talent is identified through the performance appraisal process and talent reviews.

For all Group Leaders and Corporate teams, the worldwide digital People Performance and Development process initiated in 2015 was designed not only for the annual performance appraisal, but also to foster managerial dialogue throughout the year.

To complement this Group approach, the brands have set up their own systems for their employees. These systems follow the very same logic and serve the same objectives.

Once talents have been identified, the aim is to get to know them better and to draw up the necessary succession plans and support initiatives in terms of the organisation and its development. Group Talent Committees bringing together all the brands' Human Resources Directors were set up in 2016. They meet at regular intervals and provide a venue for sharing, with a common vocabulary, the pool of talent existing within the Group and the brands. They serve to lay down development plans and build succession plans across the Group to ensure the effectiveness of the organisation.

The brands have also developed specific programmes for Retail talent in particular. Saint Laurent has developed succession plans offering positions with trial status to help identify the best talent and assist people as they take up their new jobs.

Promoting mobility and careers within the Group and its brands

Professional mobility is a pivotal means to help develop skills, offer career prospects and give everyone the opportunity to grow within the Group.

Since its launch in July 2013, the internal mobility platform on the 360° Group intranet has been central to the mobility system. Its aim is to allow employees to view job opportunities, published by each brand within the Group. All the brands are present on the platform and post job offers to provide greater visibility for their organisation and possibilities for career development. This internal mobility programme was continued this year with the launch of a mobile version of the platform, which aims to improve the digital experience of internal candidates. In 2017, the Group provided teaching materials to explain the mobility procedure, continued to post new vacancies and ran regular communication campaigns targeting all employees. These measures will continue in 2018.

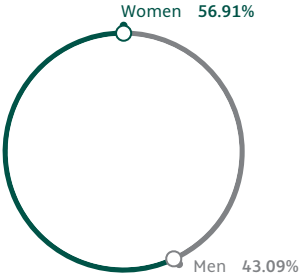
2.4.2. Developing a structured training policy for all employees

In 2017, the Kering group devoted a budget of €24.91 million to employee training, corresponding to 1.34% of the total Group payroll. On this basis, 504,349 hours of training (excluding safety training) were provided across the Kering group brands in 2017, and 29,010 employees took at least one training course. Two out of three employees received training in 2017, representing an increase on 2016.

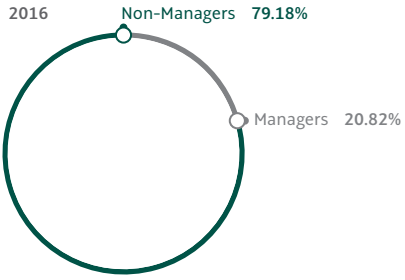
Women accounted for 56.9% of the workforce trained in 2017 (excluding safety training). Furthermore, 80.3% of employees trained in 2017 were non-managers.

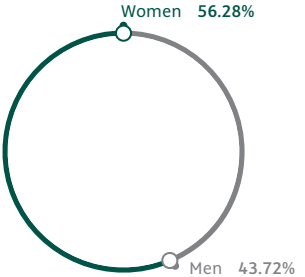
In light of the brands' new operations and Kering's new projects, the significant increase in the number of people trained and the number of training hours illustrates the Group's desire to give employees the means to develop and to assist new staff members.

TRAINING (EXCLUDING HEALTH AND SAFETY), PERMANENT AND FIXED-TERM CONTRACTS



In 2017, 29,010 people received training, or 66.11% of the workforce





In 2016, 23,468 people received training, or 58.59% of the workforce

The Kering Learning Community, the Group's steering body for training

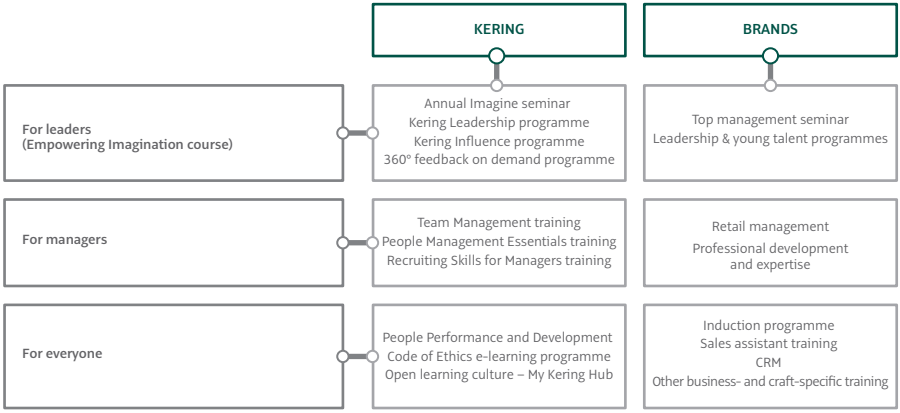
Group programmes each year bring together talent from all the brands, regions and functions. Each brand also develops an offer tailored to its specific challenges.

As part of this process, the Kering Learning Community brings together various Directors and Learning & Development managers from the brands, regions and Kering Corporate to develop and share a common framework for the inter-brand co-development of a training offer that is both decentralised and coherent.

The regions contribute to adapting this offer to the local needs of each geographical area.

Within this common framework, three key priorities have been developed for the Group:

1. the Empowering Imagination course, a development programme that aims to share the values and ambitions of the brands and the Kering group for talent occupying key functions or called upon to take responsibility;
2. the managerial training offer, a multi-brand training offering designed to support the development of employees taking up managerial responsibilities;
3. an open learning culture, to encourage more people to be actors in their own development.



At the same time, the dissemination and transmission of "business" skills and know-how and functional expertise are organised by entities specialised in each area, such as the Retail Academy which provides training for store-based employees.

Empowering Imagination course

The objective of this course is to support the development of the Group's talent. It offers opportunities for sharing the culture and strategy of the brands and the Kering group as a whole. It also allows participants to develop their professional network between brands, functions and regions, forging a sense of belonging to the Group.

The talent reviews conducted annually by the brands and the Group serve to identify future participants in major international programmes (Kering Leadership and Kering Influence). Close attention is paid to the diversity of the groups formed (cultural, functional, geographic, gender, brand, etc.).

Kering Leadership

Composed of three four-day modules held over 12 months, the Kering Leadership programme each year brings together approximately 25 leaders in a multicultural context.

The class of 2017 consisted of eight different nationalities from 12 brands and Group entities.

The first module, We are Kering, which gets the programme rolling, is an important moment of understanding and exchange about the Group's vision, challenges and transformation projects through dialogue sessions with members of Kering's Executive Committee and the heads of the various brands.

The second module is organised in partnership with the Columbia Business School in New York. It seeks to foster improved leadership practice through teaching by renowned professors, talks by entrepreneurs from the digital economy and the organisation of co-development workshops drawing on each participant's experience. It also features a significant individual dimension with each participant completing a 360° feedback course before embarking on the leadership development programme.

For the first time in 2017, the Kering Leadership programme was rounded off with a third module at Fashion for Good, an incubator which seeks to develop start-ups that are committed to sustainable fashion. The module involves joint development sessions between Kering talent and entrepreneurs.

Kering Influence

Starting in 2015, the Group has developed a new international programme known as Kering Influence, targeting young leaders in the Group. This training, which comes in the wake of Kering Leadership, is a first step in the development of leadership. Each participant takes away a personal understanding of his or her own style of leadership. Peer coaching and role play are used to foster communication and leadership influence practice.

360° feedback "on demand"

The 360° feedback system is designed above all for executives facing a new professional challenge, such as taking up a new strategic function.

Using information on the perception of participants' skills obtained from several sources (supervisors, colleagues, employees, customers, etc.), the approach serves to enhance development potential. Each leader has a one-on-one coaching session to analyse the results and define an action plan for personal and professional development.

This type of individual development mechanism is often also backed up by collective development programmes such as Kering Leadership. The objective is both to customise as far as possible what each participant takes away from the course, but also to foster a culture of development feedback between experienced participants. A further 50 employees benefited from the programme in 2017.

The multi-brand managerial training offer

The Learning Community was started in 2016 with the aim of strengthening the management training offer in the regions (Asia Pacific, the Americas, Europe and the Middle East), so as to offer a training course marking the various stages in each manager's individual development.

The first step was to identify the key common management needs and test the pooling of some regional courses meeting those needs.

Open learning culture: Kering Learning Hub

Together with the main development courses, Kering wishes to encourage each employee to be an actor in his or her own development, and to enable as many people as possible to receive training. Various initiatives taken by the brands and the Group have resulted in a range of diverse development resources, such as open access digital training modules and a learning forum in the form of themed workshops. In 2017, Bottega Veneta and Saint Laurent deployed the Kering Learning Hub worldwide with versions of the site and content tailored to the image, collections and expertise of each brand.

All Kering Corporate employees worldwide thus benefited from accessible and educational modules ahead of their annual performance and development appraisals.

2.5. promotion of diversity

It is a commitment that goes beyond social responsibility, rooted in the Group's belief that diversity is a source of creativity and innovation, and as such of economic performance.

As part of its 2025 strategy, Kering is promoting diversity and gender equality through a series of concrete commitments, which include achieving gender parity in all the Group's functions and introducing a mentoring programme for women at the international level.

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

In early 2015, the Executive Management of Kering and the European Works Council signed their first European Empowering Talent agreement. It provides a forceful and comprehensive reassertion of Kering's commitment to equal opportunities.

This long-standing commitment has been acknowledged by the Thomson Reuters Diversity & Inclusion Index (D&I), which ranked the Group 22nd out of 4,255 international listed companies in 2017. This index assesses the performance of listed companies on 24 environmental, social and governance indicators, among which diversity, inclusion and talent development occupy a prominent place. Kering also partners the *Parlement du Féminin*, which was held for the first time in December 2017, at the *Opéra-Comique* in Paris. This event, which is organised by the *Parlement des Entrepreneurs d'Avenir* together with *FeminiBio* magazine, aims to bring together all those who support a more equal society, either actively or passively.

2.5.1. Establishing a culture of gender equality within the Group

While Kering addresses the issue of diversity in all its aspects, particular emphasis is 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 on how to promote the presence and progression of women in business and, more generally, in society.

The same year, Kering launched the Leadership & Gender Diversity programme, which aims to stem the loss of female talent at all levels of management, and more generally to establish a culture of equality within the Group. This strategic programme focuses on three key priorities:

1. ensuring transparency and equal opportunity throughout men's and women's careers, thanks to HR policies and processes that treat all employees fairly;
2. promoting the advancement of talented women in the Group through special development programmes;
3. having managers take an active role in this commitment to gender equality during their day-to-day team management, particularly regarding the issue of work-life balance.

In 2017, with 51% women among its managers, 29% among Executive Committee members and 64% among its Directors, Kering was one of the CAC 40 companies with the highest proportion of women in senior management positions.

The Group thus rose to 10th place in the 2017 *Féminisation des Instances Dirigeantes des Grandes Enterprises* ranking conducted annually in France by Ethics & Boards among SBF 120 companies, under the patronage of the French Ministry for Families, Children and Women's Rights.

The Group also ranked third in the LedBetter Gender Equality Index, which highlights the gender ratio of business leaders in over 2,000 brands. Lastly, in 2017 Kering was added to the Bloomberg Gender Equality Index, a new index launched that year which ranks companies on gender diversity and equality.

Efforts made to promote female talent provide an overall reflection of how committed the Group is to women, both inside and outside the Group:

- through the Kering Foundation which combats violence against women by supporting projects led by NGOs and social entrepreneurs and by raising awareness and promoting involvement among the Group's employees;
- in the film industry: as an Official Partner of the Cannes Film Festival, Kering showcases and supports the contribution of women to the film industry, both behind and in front of the camera, through its Women in Motion initiative.

Ensuring transparency and equal opportunity throughout men's and women's careers

A culture of equality cannot be built without regularly raising awareness among employees and managers.

This is why Kering launched a new internal campaign in 2017, dubbed "Every Day is Diversity Day". Through concrete examples highlighting the benefits of diversity in the workplace, the campaign aims to extend the impact of its equality at work initiatives over the long term and to maximise the value of all the initiatives put in place by the Group and its brands by promoting them to the entire workforce.

With the same purpose of promoting equality over the longer term, a suggestion box has been put in place for employees. It invites them to share ideas for measures that could be taken either at work or outside the workplace to contribute each day towards a culture of gender equality.

To coincide with International Women's Day, Kering and its brands organised a large number of initiatives aimed at raising awareness among employees. On March 8, 2017, CEOs of Kering group brands and entities, such as Boucheron and Kering Eyewear, organised a series of breakfasts to celebrate International Women's Day. Kering Chairman and CEO François-Henri Pinault hosted around 15 Group employees (men and women) for a friendly and informal discussion on the place of women in the workplace.

In March 2017, Kering continued its *Kering au féminin/masculin* (Kering in the feminine/masculine form) series of conferences by inviting all Paris-based employees to a conference on the theme of "Parenthood in the workplace: a new paradigm?" led by psychologist and psychoanalyst Sylviane Giampino.

Finally, the Kering Foundation, which combats violence against women, also worked to raise awareness among employees by involving them in many of its projects. In 2017, as part of the sixth edition of the White Ribbon For Women campaign, which took place from November 20 to 25, employees were invited to take part in a photography competition and to share their snaps via the hashtag #ICouldHaveBeen, in order to raise awareness of the risks of the violence to which women are exposed. The campaign was supported by several Creative Directors of the Group's brands, including Alessandro Michele, Stella McCartney and Christopher Kane, as well as by international Generation Z influencers.

Promoting the advancement of talented women in the Group through special development programmes

In 2013, Kering launched a pilot session of inter-brand and inter-business mentoring in France for talented women. The idea is based on a structured process lasting a year, building on an interpersonal relationship in which an experienced female manager (mentor) shares her expertise with a more junior female manager (mentee) in order to foster her professional and personal development.

Mentees and mentors alike have acclaimed this programme, which is now part of the Group's full catalogue of talent development offerings and has been rolled out internationally. Supported by the Women's Foundation, a non-profit organisation dedicated to improving the lives of women and girls in Hong Kong, Kering Asia Pacific launched in 2016 the first edition of the mentoring programme. This year, 21 talented women from the Group's various brands in Hong Kong, China and South Korea enjoyed a year's individual support from Group leaders.

The programme was launched in the United Kingdom at the end of 2016, with an external coach working with nine mentor-mentee pairs from Stella McCartney, Alexander McQueen, Bottega Veneta, Christopher Kane, PUMA and Kering Corporate UK.

For the second year, Kering also partnered with the EVE programme, sending 15 employees from various Group brands and countries to seminars in Europe and Asia. Founded in 2010 by Danone, this unique management programme, aimed at those who aspire to "enlightened" leadership, works on two levers: the individual and the organisation. It aims to build strong and inspiring individuals in sufficient numbers to enable them to bring about change in the Company.

- **Promoting a better work-life balance**

The Group and its brands are implementing actions in favour of a better organisation of professional and personal lives, benefiting both men and women.

Through the telework agreement, Kering Corporate France has taken up the challenge of making it easier to balance work and personal life. The agreement allows eligible employees who so wish, in agreement with their manager, to work from home two to four days per month. To facilitate their return to work, Kering Corporate France also allows new parents to opt for part-time work at 80% of standard working hours without any loss of pay during the month following their return from maternity, paternity or adoption leave.

Meanwhile, Bottega Veneta continued and strengthened its MAAM U pilot scheme at its Italian head office. The aim of MAAM (Maternity as a Master) is to enable women who choose to participate to maintain the link with their workplace during their maternity leave, through a dedicated digital platform.

Kering's new global parental policy is the finest testimony to its commitment in favour of work-life balance. Effective from January 1, 2017, Kering's parental policy guarantees a minimum of 14 weeks' maternity or adoption leave on full pay for all Group employees, whatever their personal circumstances or geographical location, and a minimum of 5 days' paternity or partner leave on full pay.

The new policy aims to promote a better balance between employees' professional and personal lives and to achieve equality between female and male employees, regardless of their personal circumstances, guaranteeing all Group employees worldwide the same minimum benefits on the arrival of a child.

Kering managers and HR teams take an active part in the implementation of the new policy by giving parents specific support before and after their leave, to ensure that they return to work in the best possible conditions, and that they benefit from harmonious career development over the long term.

- **Assessing the impact of our policy**

To assess the effectiveness of its action in favour of gender equality over recent years, as well as to identify new avenues of thinking for the future, the Group has chosen to engage in the GEEIS (Gender Equality European & International Standard) certification process. This label, created by Arborus, the leading support fund for gender equality at work in Europe and worldwide, is based on rigorous evaluation methodology audited by Bureau Veritas, the world leader in certification.

The Kering Corporate structures in France, Italy and the United Kingdom, as well as the Group's overall diversity policy, were reviewed in 2016 in the light of this global standard, which audits management tools, HR and managerial practices and the overall impact of gender equality policies. When receiving this label in September 2016, Kering reaffirmed its commitment to advocating a shared vision of workplace equality within the Group.

With the same aim, Stella McCartney has begun the EDGE (Economic Dividends for Gender Equality) certification process, the purpose of which is to encourage proactive equal opportunity policies in large global groups. Certification was received for three of the countries in which the brand operates, after analysis of their HR processes (remuneration, recruitment and promotion, training, work-life balance, corporate culture), namely the United Kingdom, the United States and Italy.

This certification process is to be expanded for the brands in the coming years.

2.5.2. Promoting the integration of people with disabilities

As of December 31, 2017, the Kering group employed 507 workers with disabilities (rate of coverage: 83.1% – excluding the United Kingdom and the United States).

For over 10 years, Kering has promoted the integration of people with disabilities through *Mission Handicap*, reaffirming its commitment in the European Empowering Talent agreement signed in February 2015.

To mark the International Day of Persons with Disabilities in 2017, Kering launched a Group-wide awareness-raising campaign on its 360° intranet under the heading "All different, all competent", which focused on fashion and disability. The event provided an opportunity to highlight direct links between the fashion world and the disabled world through the prism of two themes: valuing atypical model profiles in the fashion industry and making shopping easier for people with disabilities, with adapted clothing and accessories. Targeting all employees, the campaign aims to educate and change their views on disability, using dedicated communication materials (e.g., news articles, information on different types of disabilities and a guide on how to behave towards disabled customers or colleagues).

The head office and the brands also implemented awareness-raising actions to mark European Disability Employment Week. Kering worked with the Accolades association to set up an escape game at its head office to enable staff to participate in an educational experiment and foster a greater understanding of the situation of disabled people.

The Group's brands in France and Italy also continue to outsource to the sheltered sector to promote the employment of people with disabilities. In France, a guide to socially-inclusive procurement was drawn up in 2017 to raise awareness among employees. The guide contains details of more than a hundred suppliers that operate in the sheltered sector and are relevant for Kering's activities. Special service providers employing workers with disabilities are called on for such services as printing, data entry, archiving, replying to unsolicited applications, catering, preparing mailshots and gift packaging during the holiday season.

2.6. quality of life at work

Providing its employees with a quality of life ensuring the health and safety of all is a fundamental duty performed by all of Kering's brands. In 2010, a "Charter Framework on Commitments on Quality of Life at Work and Prevention of Work-Related Stress" was signed with the Kering European Works Council. In 2015, health, safety and the quality of working life were the key thrusts of Kering's commitments under the European agreement signed with the Group European Works Council on February 19, 2015.

Within this framework, the brands are adopting procedures and taking action to identify, assess, reduce and prevent the key risks associated with their activities. They are also taking initiatives designed to achieve continuous improvements in the quality of work life. Kering has in turn undertaken to develop a working environment and working relationships that ensure well-being at work, in order to promote the development of all employees and contribute to the Group's performance.

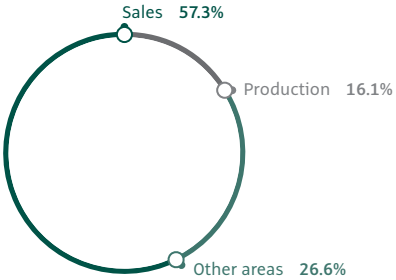
2.6.1. Health and safety in the workplace, a Group priority

In 2017, 324 lost-time accidents were recorded across all Group brands, compared with 391 in 2016. The frequency and severity rates of work accidents decreased in comparison to 2016. Awareness-raising campaigns run by several of the Group's brands were instrumental in achieving this decrease.

The types of risks match the Group's areas of activity:

- sales: risks related to handling, falls, etc.;
- production: cuts, pin/needle pricks, etc.;
- other areas (Corporate, logistics, etc.): handling, falls, etc.

EMPLOYEE PROFILES AS OF DECEMBER 31, 2017 BY AREA OF ACTIVITY (1)



Frequency and severity rate of accidents in 2017 and 2016

	2017	2016
Frequency of work-related accidents *(Number of accidents per million hours worked)*	4.40%	5.64%
Severity rate of work-related accidents *(Number of days lost per thousand hours worked)*	0.08%	0.11%

Across all the Group's brands, 12 employees were recognised as suffering from a work-related illness in 2017.

Health and safety is a priority for the Group. The brands are committed to the principle of risk prevention and work with multiple stakeholders to preserve occupational health and safety, including the Health, Safety & Working Conditions Committee, ergonomists, occupational physicians and external prevention specialists. In terms of risk prevention, 45,452 hours of safety training were provided to 10,161 Group employees in 2017, representing an increase on the previous year.

2017 was also marked by several initiatives and projects:

- the relocation of teams to new offices (e.g., IT staff moved to the Cherche Midi site in Paris, opening of the new head office for Dodo in Milan and opening of new office space in London, New York and Paris for Stella McCartney);

  Four years after the acquisition of France Croco by Kering, the 90 employees of Tannerie de Périers moved in October 2017 to a new ultra-modern facility that received the support of the local authorities and involved numerous local companies. With 40 years of experience in the tanning of exotic leathers, the tannery supplies high quality crocodile skins to the most prestigious French and Italian Luxury Goods houses, which use them to produce leather goods, in particular watch straps, bags, shoes and other accessories;
- assistance with the renovation of stores, workplaces and customer reception areas. Boucheron's historical flagship site on Place Vendôme in Paris was also refurbished. A group of around a dozen representatives of the various departments impacted (Retail, Workshops, Stones, Stock) and members of the Works Council/Health, Safety & Working Conditions Committee came together to discuss the work and look at the implications in terms of working conditions;

(1) Sales: employees working in wholesale, stores and e-commerce; production: employees working in production (workshops, tanneries, etc.); other areas: employees working in support or logistics functions.

- continued efforts towards achieving certification and formalising employee health and safety rules and procedures. Gucci and Bottega Veneta renewed their SA8000 certification for social accountability and decent working conditions, while OHSAS 18001 certification for occupational health and safety management was also renewed for Gucci's head office, LGI and three of the Group's four tanneries;
- initiatives aimed at educating employees on how to prevent work-related accidents with a view to changing behaviour, particularly at Kering's industrial units. In 2017, regular information campaigns were run at LGI in Switzerland over the course of the year with the target of improving the prevention of health-related risks. Kering Group Operations' ready-to-wear teams in Italy followed health and safety training modules based on neuroscience.

Overall lost time and sick leave (%), 2017 and 2016

	2017	2016
Overall absenteeism rate	4.12%	4.33%
Rate of absenteeism due to illness	2.07%	2.10%

The absenteeism rate decreased slightly in 2017.

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.

2.6.2. Organisation of work

Kering strives to implement an organised and collective structure, as well as methods and know-how that allow employees to work together in the interest of the Group and based on set objectives.

The average working time of the Group's full-time employees is 39.6 hours per week. In 2017, 91,230 overtime hours were recorded in France, up compared with 2016 due to the ongoing introduction of Sunday trading.

In 2017, 4,533 employees had contractual weekly working hours below the standard number in effect within their company. Staff working part time accounted for 11.4% 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 employees 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.

Beyond these legal aspects, the brands try to find and offer more flexible ways to organise working time, in order to meet their own needs as well as those of their employees as part of their policy on quality of life at work: flexitime for several brands, the introduction of a smart working pilot scheme at the Bottega Veneta head office in Italy, continued telework at the Kering head office in Paris, remote work at PUMA Germany, leave to care for sick children at Boucheron and part-time work at Pomellato.

2.6.3. Initiatives promoting quality of life at work

Quality of life at work is a major theme of the Empowering Talent agreement in Europe. Kering uses this agreement to promote the continuous improvement of quality of life at work and is rolling out a concrete action plan for well-being at work at the French head office.

The brands are also taking steps to improve quality of life at work by introducing dedicated programmes. The "Happiness at Work" programme at Stella McCartney is an international programme that highlights initiatives set up to enhance well-being at work. This programme focuses on three areas: assessing well-being in the workplace, organising events at both the head office and in stores to mark World Health Day, and bringing in outside experts and practitioners (massage, meditation, yoga, poem-reading, workshops with conference speakers, etc.).

Similarly, Pomellato Dodo initiated a wellness programme in Italy in 2017 with the aim of promoting physical, mental and emotional well-being at work by organising a special day of workshops on May 12, 2017, which was attended by more than 300 employees. The workshops focused on the following themes: stress management, nutrition, working postures and interpersonal communication skills.

At Ulysse Nardin in Switzerland, around 30 employees volunteered to work on 18 chosen projects aimed at enhancing quality of life at work, for example by reorganising communal areas, such as the library or terraces, and organising sporting (mountain biking, paddle boarding) and social (family Easter egg hunts) activities and entertainment (food truck, etc.).

In addition to these initiatives, the brands explored various other avenues, including:

- identifying psycho-social risk factors at work (e.g., Bottega Veneta and Gucci through SA8000 and OHSAS 18001 certification, the Kering head office with the assistance of IAPR, the French institute of psychological support and resources, and Stella McCartney with the help of consultancy firm Yoke);

- preventing psycho-social risks and stress by bringing in healthcare professionals, such as physiotherapists, osteopaths, sophrologists and yoga/pilates/meditation teachers (at the Kering and Saint Laurent head offices, Stella McCartney, Volcom, etc.) and as of September 2017, providing social assistance services for Brioni employees through the Pescara branch of the Italian Women's Union (*Unione Donne in Italia*) with a network of psychologists, counsellors and social workers;
- promoting work-life balance (smart working, extension of the telework scheme, flexitime, etc.) and introducing the right and duty to disconnect in France as a result of legislative changes. This relates to the right of all employees to disconnect from work during non-working hours and to regulate their use of digital devices during working hours;
- fostering social connections by organising fun activities: family day organised by Brioni in Italy in November 2017, Kering *Chouette* family time at the Kering head office, sports activities organised by Ulysse Nardin, etc.

At Group level, the parental policy contributes in a comprehensive and inclusive way for all the men and women of the Group to promoting a well-being policy by setting a standard duration and payment for maternity, paternity and adoption leave. This policy helps to ensure that the Group's employees enjoy more rights to the various forms of leave than is required under national legislation and is applicable across all 61 countries of operation. It therefore represents a significant step forward in many regions of the world, particularly in the Americas and Asia. Since summer 2017, Kering Corporate offices in Asia have been equipped with breastfeeding rooms to give women the opportunity to return to work while continuing to breastfeed.

Finally, Kering has since 2016 been a member of a discussion platform initiated by the International Labour Organization (ILO) and the *École Nationale Supérieure de Sécurité Sociale Française* (French National School of Social Security, or EN3S) which brings together French-speaking companies that are committed to developing joint international social security programmes. The platform covers nine areas: medical treatment, sickness, unemployment and old age benefits, work-related accidents, and family, maternity, disability and survivor allowances. An initial guide to best practice that outlines the different steps in the process of developing and implementing an international social security programme was published in November 2017.

2.7. employee commitment

In 2017, the Kering group identified the development of employee commitment through HR initiatives and team-building events as one of its strategic priorities. Employee commitment is built through shared experiences and helps to create a common culture, thereby strengthening the feeling of belonging to an integrated Luxury company. It encompasses all employees, brands, regions and businesses and goes beyond the effects of communication to achieve true business efficiency.

The main initiatives that helped to strengthen commitment among Kering employees in 2017 included the following:

- continued efforts to improve the quality and accessibility of Group information for a larger number of staff worldwide by optimising the 360° intranet (new homepage) and deploying global communication campaigns translated into nine languages and available as downloads for employees without internet access. The most shared global communication campaigns included those focusing on Kering's three key HR themes of internal mobility, recommend a friend and the parental policy, as well as the "Culture of Integrity" campaign, and particularly the Code of Ethics training course, which was followed by 93% of employees worldwide;
- the organisation of team-building events, which are crucial for creating shared experiences and encouraging networking. A picnic was organised in the gardens of the Laennec site in Paris, which brought together 800 Paris-based staff from all brands and disciplines for a unique evening of fun and enjoyment. Employees were also united around the theme of solidarity at Solidarity Days organised in London, Hong Kong, Secaucus and Paris that will have left a lasting impression and created enduring ties.

2.8. social dialogue

The Kering group strives to ensure ongoing social dialogue specific to each of its bodies. 2017 was marked by renewed social dialogue in Europe which led to the signing of a new European Works Council agreement and the renewal of its membership.

2.8.1. Listening to and engaging with employees: Kering's first European agreement signed on February 19, 2015

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 its employees and their representatives.

In late 2014, the Human Resources Department and the Select Committee of the European Works Council (EWC) decided to negotiate a new European agreement to further the commitments already undertaken to promote diversity and quality of life at work by including them in a broader framework. Management and representatives from the EWC met for four two-day sessions between September and December 2014 to discuss and sign Kering's European agreement on behalf of the EWC.

The goal of the Empowering Talent agreement signed on February 19, 2015 is to underscore the priorities of Kering's HR policy for all employees. The agreement sets out the Group's commitments in three key areas, namely to develop a working environment and working relationships that improve quality of life at work, to promote diversity and foster the emergence of a culture of diversity and inclusion, and, lastly, to expand opportunities for all employees to boost their professional development.

The agreement is monitored on an annual basis and the initiatives taken thereunder were reviewed this year at the EWC meeting in Paris on November 29, 2017.

The commitments have also been adopted within each Group brand. In 2017, 154 collective agreements were concluded within the Group. They mainly covered pay and benefits (wages, variable remuneration, profit-sharing and incentives, etc.), working hours and the organisation of working time (telework, flexitime, generational agreements, temporary work, donating leave, the right to disconnect, etc.), but also video surveillance in the workplace.

In 2017, the brands in France negotiated with the unions the terms governing the implementation of work on Sundays with a view to allowing more stores to open without neglecting the wishes of employees and their ability to organise their time.

Meanwhile, the number of working hours of industrial action totalled 747 in 2017, down from 16,223 in 2016. This sharp decrease largely reflects the stabilisation of the situation at one of the Group's brands, which was in a phase of upheaval, as well as generally fewer protests in Italy.

2.8.2. 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 principal purpose of the EWC is to become a key intermediary in the development of social dialogue between European countries with differing realities and social practices.

The EWC is a cross-border institution and operates alongside existing national employee representative bodies in accordance with specific prerogatives. The discussions that take place within the EWC enable the employee representatives to acquire a better knowledge and understanding of the Group's organisation, strategy and main challenges.

On June 15, 2017, a new agreement was signed for an indefinite period. The membership of the EWC was renewed. Prior to taking office, all members will now receive three days of training on economic fundamentals. The members of the Select Committee will also receive a day of training on social dialogue in Europe. This training will offer members an opportunity to better grasp legal and cultural differences existing in Europe, but also put the Kering EWC agreement into perspective in terms of the underlying legal requirements.

The EWC holds two three-day plenary sessions per year with Group Management, at which it is informed of and, where applicable, consulted on cross-border issues affecting the Group's employees in a manner defined in precise terms by the new agreement signed for an indefinite period on June 15, 2017.

The EWC's latest ordinary plenary meetings took place in Paris on June 15, 2017 and November 29, 2017. The main information provided to its members included the Group's economic and financial situation, its outlook and strategy, and its cross-business projects. Meetings also looked at social issues and provided an overview of the initiatives undertaken within the scope of Kering's European agreement.

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

The Kering group Works Council

Created in 1993 and renewed most recently in 2015, the Kering group Works Council represents workers in France and operates under French law. Its members, who meet in plenary sessions once a year, are kept informed of and exchange views on the Group's strategies, economic and financial imperatives, and HR management policy. The plenary session is preceded by a preparatory meeting of members, held the day before.

The plenary session of the Group Works Council was held on May 24, 2017.

3. reducing our environmental impact

As the Care pillar of the Group's sustainability strategy, Kering's environmental approach is based on five key goals:

- aim for the highest level of environmental preservation through innovation;
- make environmental concerns central to the activity of the brands by involving all stakeholders along the entire value chain;
- go beyond mere compliance with legal environmental obligations, through a macro-environment approach such as that of the EP&L;
- drive the Group's sustainability leadership through a collaborative approach that favours the sharing of best practices, progress and results with competitors and stakeholders;
- bring a culture of innovation to both the business model and the supply chain in order to integrate new technologies that significantly reduce environmental impacts.

3.1. environmental management

Strategy and objectives

The environmental pillar of Kering's 2025 strategy defines both the goals set by the Group in terms of improving its environmental footprint and the main levers of improvement, namely sourcing and design.

- Kering has set a target of reducing its overall Environmental Profit & Loss account (EP&L) by 40% by 2025;
- this target is reinforced by a science-based approach to the Group's greenhouse gas emissions spanning both the Group's operations and its supply chain:
  - 50% reduction by 2025 in Greenhouse Gas Protocol Scope 1 and Scope 2 emissions, and in Scope 3 emissions from upstream transportation and distribution of goods, business air travel and fuel and energy consumption,
  - 40% reduction in Scope 3 emissions corresponding to bought-in products and services, consistent with the EP&L target.

Sourcing practices are key to fulfilling these commitments. These are also subject to specific targets, namely:

- 95% of key raw materials to be traceable by 2018, and 100% by 2025;
- 100% of raw materials to be Kering Standards compliant by 2025.

Lastly, innovation is central to Kering's environmental approach, and is geared above all towards integrating more sustainable materials from the creation stage. This relies on tools derived from the EP&L that provide insight into the environmental impact of a future collection, but also structures such as the Materials Innovation Lab (MIL), which offers brand design teams a pool of Sustainable and innovative materials.

In line with the Group's 2025 vision, PUMA's 10For20 strategy lays down ten key objectives addressing issues including governance, climate, responsible sourcing and human rights throughout the supply chain. Volcom has in turn focused its roadmap through to 2020 on the three key components of its brand's DNA: protecting oceans, countering climate change and contributing to a more sustainable society.

Internal organisation for environmental management

The Kering Sustainability Department comprises 15 specialists tasked with planning the operational rollout of the Group environmental strategy and helping the brands implement action plans for achieving the strategy's objectives. For this purpose, Kering develops systems such as the environmental reporting system, or EP&L, along with standards for raw materials and processes to help brands manage their environmental impact.

Group-brand coordination is ensured through a network of managers dedicated to sustainability issues, meaning that each brand has at least a Sustainability Lead. This is also the case for the Kering group Operations structure (logistics, production, development, etc.), which has 7 people dedicated to sustainability. In total, over 60 people work on implementing sustainability policy at both Group and brand level.

In addition to these dedicated positions, working groups are formed regularly to bring in other key business functions to engage in the rollout of sustainability projects. With these cross-functional teams, which usually encompass functions including finance, merchandising, sales, design, production and HR, more than 150 people meet regularly

at Gucci, Bottega Veneta, Saint Laurent, Alexander McQueen, Balenciaga, Stella McCartney, Boucheron, Girard Perregaux, Pomellato, Qeelin and Ulysse Nardin. In the same vein, PUMA has established a sustainability steering committee combining the legal, logistics, marketing, operations, sourcing, supply chain, product development, strategy, internal audit, innovation, HR, communications and general services functions. A specific Board level committee has also been established to oversee and implement the brand's sustainability strategy.

Environmental reporting is also backed up by a substantial global network of more than 400 contributors working in the Group's brands. It guarantees optimum data precision and enables the Group to monitor its environmental impact and performance very closely.

Managing the network

The Sustainability Leads and the Kering Sustainability Department meet monthly to coordinate deployment of the sustainability strategy and to share best practices developed within the Houses. 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. Kering's sustainability network, which brings together corporate and brand teams, meets physically once a year for two days of work sessions. The 2017 Sustainability Network Meeting, held at the new Gucci head office in Milan, served to take stock a year after the launch of the Group's 2025 sustainability strategy. This high point of the year also gave the sustainability network the opportunity to interact with external stakeholders invited for the occasion, to discuss key issues for the Group (animal welfare, the planet's limits, artificial intelligence, innovation, etc.), to share best practices from other sectors and to learn about disruptive approaches derived from new and digital technologies, which will shape the face of fashion in tomorrow's world.

In 2017, Kering pressed ahead with its Idea Labs, which are working groups bringing together experts and operational staff from several brands with a view to sharing knowledge, developing and structuring new ideas, and implementing practical solutions, particularly in terms of improving the Group's environmental and societal footprints. Between 10 and 30 employees met at each session of the Idea Labs in 2017 to workshop the following issues:

- the Kering Standards;
- leather;
- fur;
- gold;
- precious skins;
- viscose;
- noble wools (cashmere, mohair);
- cotton;
- energy;
- the stores' environmental impact.

Looking beyond its key raw materials, Kering also developed sustainability standards for its sites (offices and stores) in 2017, laying down performance level requirements in terms of energy, water, waste management and furniture, in the use phase as well as the construction, renovation and demolition stages. The standards also cover:

- site selection and relationships with building landlords;
- plans, design and construction;
- site management in the use phase.

These standards will enter the test phase in 2018 and will constitute a more ambitious and binding version of the Smart Sustainable Store and Smart Sustainable Office guides, which have served as a reference within the brands until now.

Informing and raising awareness among employees

The Kering 360° intranet keeps all employees worldwide up to date on sustainability news within the Group and its brands. Hosted on 360° and launched in 2017, the Kering Planet website offers employees a place for entertaining and instructive exchanges on the pillars of the 2025 strategy through games, contests and online challenges, allowing everyone to play an active role in integrating sustainability into the Group's businesses. Other spaces dedicated to themes such as chemical management, innovation, responsible fabrics and the environmental performance of buildings bring together more specialised communities.

There are also internal newsletters, such as Sustainability Monitoring, a review of national and international press coverage of the sustainability-related achievements of Kering and its brands, and Regulatory Watch, which reviews the latest news on regulations relevant to sustainability.

Store sales consultants are a prime audience for training and awareness-raising on Kering's sustainability strategy, helping them act as effective spokespeople with customers. The Sustainability in Retail guide was drafted for Kering and brand teams tasked with training staff in customer relations. It is composed of modules covering the key raw materials used by the Group, and aims to help employees (and ultimately customers) understand where and how products are made, the challenges facing the supply chain, their key impacts and the strategy implemented by Kering and the brands to meet these challenges. The guide is now available in French, English, Chinese, Italian and Japanese, and is currently being adapted and integrated into each brand's training systems.

Key dates such as World Environment Day on June 5 bring ideal opportunities for reaching a broader public. For Caring Day 2017, the Paris, Hong Kong and New York offices put on a number of sustainability-themed events (conferences, breakfast meetings, exhibitions, up-cycling workshops and an introduction to beekeeping with a practical illustration from the bee hives at 40 rue de Sèvres), giving a large audience information on the environmental issues facing the luxury sector and the solutions adopted by Kering and its brands.

The brands are also developing their own training and awareness-raising actions on environmental issues, starting with the induction pathway laid out for all new employees. Thus, all new employees follow an onboarding process to make them familiar with the brand universe and raise their awareness about its key sustainability initiatives. This is the case, for example, with Gucci, Brioni and Saint Laurent. Other brands focus more specifically on key business functions, addressing, for example, design, retail and merchandising teams to deliver key information on products and sustainability initiatives and to ensure effective reach-down of good practices, especially as regards efficient shop management. Another noteworthy development is Gucci's release of its Guidelines for Creative and Product Development Departments aimed at raising teams' awareness of the recommended raw materials and the preferred manufacturing processes for tanning and dyeing, as well as a dictionary listing innovative and renewable materials.

By way of example, Alexander McQueen organised specific workshops on eco-materials for design and merchandising teams while Balenciaga elected to focus on the Kering Standards, which are the subject of a specific training programme for the design, merchandising, development and production teams, as did PUMA, whose sourcing and development teams were given the opportunity to learn about the criteria to be applied under the Kering Standards. Stella McCartney once again held its Stella Collective training sessions, this year devoted to the issues of ethical trade and human rights. A workshop also gave employees the opportunity to learn about the new sustainable materials and fibres earmarked for the brand's future collections. Saint Laurent has in turn developed an online course platform including a sustainability module starting with a video talk by the brand's CEO. There is also a quiz for employees to test their knowledge on sustainability. Kering Eyewear also decided to measure its employees' awareness through an internal survey, with a view to gaining a better understanding of the level of the teams' knowledge and to target training programmes for key audiences. Lastly, some events are particularly conducive to spreading a sustainable corporate culture, including the beach cleaning operations organised by Volcom, the Brioni family days, where employees can invite their family to visit their workplace, and the Gucci Treedom operation, which has resulted in the planting of 500 trees to contribute to the brand's carbon offset efforts.

Certification procedures

The number of Group sites for which ISO 14001 certification is relevant is limited due to the nature of the Group's activities. Thus, certifications related to the implementation of environmental management systems are sought primarily for the sites with the greatest environmental impact, such as large logistics centres and tanneries.

In 2017, all of the Group tanneries were involved in certification processes. The Caravel, Blutonic and Luxury tanneries have been certified for several years. The Périers tannery in Normandy (France) moved to a brand new site in October 2017, for which an ISO 14001 certification process has just begun.

Some brands are upgrading their environmental certification to include ISO 14064, which is specific to the quantification and reduction of greenhouse gas (GHG) emissions.

Brand	Site name	Activity	Certifications
Kering	Bioggio platform	Distribution	ISO 14001
	Stabio platform	Distribution	ISO 14001
	Sant'Antonino platform	Distribution	ISO 14001
	Cadempino	Offices	ISO 14001
	Caravel	Tanning	ISO 14001
	Luxury Tannery	Tanning	ISO 14001
	Blutonic	Tanning	ISO 14001
Gucci	Casellina warehouse	Distribution	ISO 14001
	Casellina head office	Offices	ISO 14001
	Tigerflex	Production	ISO 14001
Bottega Veneta	Altavilla Vicentina	Distribution	ISO 14001
	Montebello Vicentino Atelier	Production	ISO 14001
			ISO 14064
	Montebello Vicentino	Offices	ISO 14001
	Milan head office	Offices	ISO 14064
Volcom	Japan warehouse	Distribution	ISO 14001

Reporting process and indicators

To accurately measure the environmental footprint of its activities, Kering has undertaken environmental reporting based on around 100 indicators every year since 2004. Representative of the environmental impacts of the Group's brands, these indicators fall into eight categories: waste production, energy consumption, water consumption, water pollution, management of environmental risks, goods transport, business travel and use of raw materials.

Since 2014, energy consumption at stores has been monitored more closely using the NUS energy invoice tracking system, which inputs month-by-month consumption figures directly into the environmental reporting system, thus avoiding data entry errors, cutting out the need for possibly inaccurate estimates, and enabling rapid reaction to shortfall from consumption targets. By the end of 2017, 662 stores had been hooked up to the NUS tracking system, an increase of 4% on the end 2016 figure. Working from the NUS data input, Kering has established a store energy performance ranking enabling brands to pinpoint the most energy-intensive sites in order to help them prioritise energy efficiency solutions.

In order to track the actual environmental performance of its operations as closely as possible, Kering's environmental reporting system is designed to cover all the Group's business units, with the aim of gathering actual data from its 1,837 sites around the globe. The methodology set out in the reporting protocol, however, allows the Group to estimate some data. To track changes reliably from one year to the next, several consolidated indicators are presented on a *pro forma* basis in this report. This method eliminates changes in scope by only taking into account sites present over two consecutive years.

A methodological note provides all necessary information regarding the environmental reporting protocol, emission factors and rules for using estimated or extrapolated data. It is available on Kering's website, under Sustainability (Stakeholders & Reporting, Memo on Kering environmental reporting methodology, 2016).

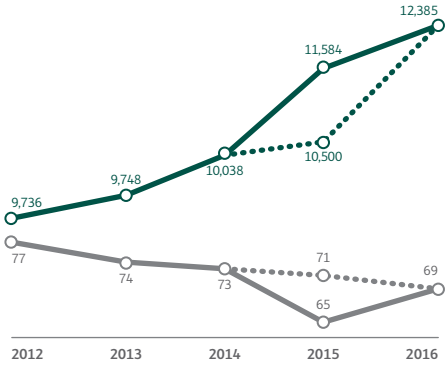
3.2. *environmental profit & loss account*

Kering began work on the development and rollout of its Environmental Profit & Loss account, or EP&L, in 2012. Since covering all of its activities in 2013, Kering has made its EP&L the cornerstone of its environmental approach, serving both to measure progress and to lay out the roadmap for the years to come in terms of sourcing strategy and choice of materials. Kering has committed to reducing its EP&L by 40% by 2025 under the Care pillar of its sustainability strategy. In 2017, besides the calculation and publication of the results of the 2016 EP&L, Kering's work addressed two major points: the development of modelling tools via an innovative web interface to further facilitate access, understanding and ultimately the practical application of the lessons learned from the EP&L in the brands' daily decisions, and the continuous improvement of its methodology, particularly through the performance of lifecycle inventories.

Results and Learnings

Kering published its 2016 EP&L results in 2017. This publication reflects a commitment to issue an annual report on the Group's performance with a view to ensuring transparency on the achievement of the Group's 2025 sustainability objectives. The EP&L report, available on the Kering.com website, sets out Kering's environmental impact, which totalled €858 million in 2016. The increase in the Group's EP&L impact (€858 million in 2016, vs €750 million in 2015) should be taken in the context of the significant increase in its revenue, which in turn implies an increase in production and as such increased purchases of materials and even the build-up of inventories, which are vital as a means of supporting the strong growth expected by the Group's brands in the coming years. The increases were focused essentially on supplies of leather, one of the raw materials with the most significant impacts on the EP&L.

Despite strong organic growth, Kering managed to perpetuate the downward trend of its EP&L intensity in proportion to its revenue thanks to unflagging efforts by the Group and its brands: EP&L intensity eased by 10% between 2012 and 2016.



Revenue (in € millions)
Revenue (at constant exchange rates)

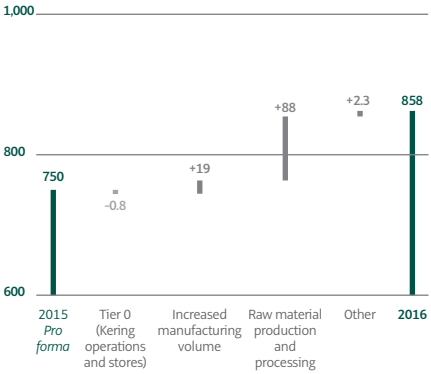
EP&L intensity (€EP&L/€K of revenue)
EP&L intensity (at constant exchange rates)

EP&L intensity: the 2015 figure of €71 EP&L per €1,000 of revenue calculated based on revenue of €10,500 million corresponding to the value adjusted for currency fluctuations, which were particularly significant in 2015.

Energy efficiency work carried out on stores and production sites over a number of years has even resulted in a slight decrease in impacts in absolute terms, which is an excellent performance in this context of strong growth.

MAIN CHANGES TO EP&L BETWEEN 2015 AND 2016

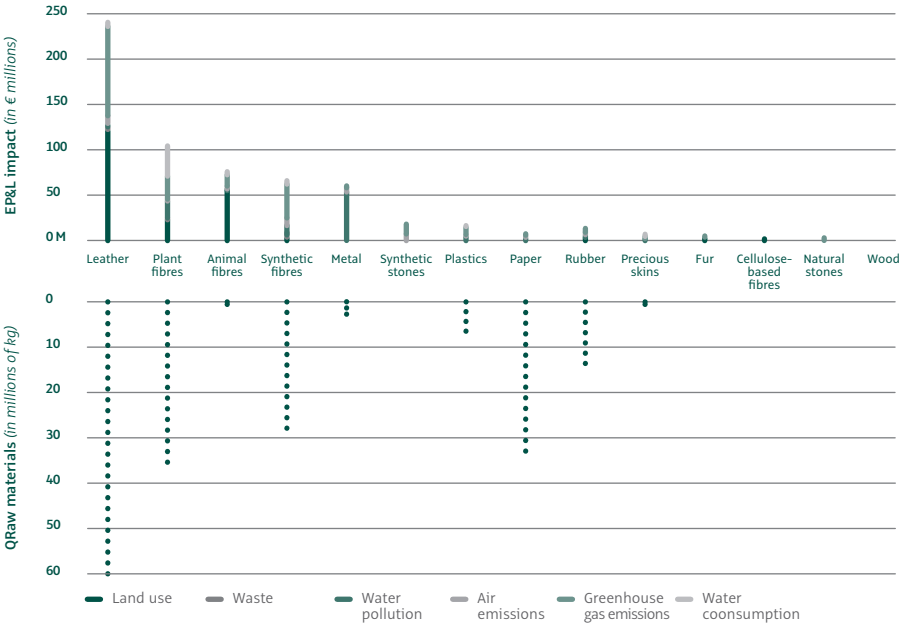
EP&L impact *(in € millions)*



As impacts related to the production and processing of raw materials are by far the most significant, Kering and its brands have continued their efforts in terms of sourcing and design.

MAPPING OF 2016 IMPACTS

The production of raw materials (Tier 4) and their initial processing (Tier 3) account for 72% of total impacts. Land use, greenhouse gas (GHG) emissions and water pollution account for nearly 75% of the Group's impacts. This mapping, virtually unchanged since 2012, shows the typical profile of the impact of Kering's activities. It confirms, if need be, the strategic thrusts of Kering's environmental policy.



The breakdown of environmental impact by raw material serves to identify the materials generating the biggest Tier 3 and Tier 4 impacts within the Group.

Leather products have a high impact on GHG emissions and change in land use, while textile fibres consume large amounts of energy and water, which explains their impact in terms of air pollution, GHG emissions and water. Moreover, the use of metals, especially precious metals, has a significant impact on water pollution because of the chemicals used in extraction and the early stages of the refining process. Impact analysis by material enables Kering to prioritise and focus efforts on the raw materials and supply chains that generate the greatest impact, even when the volumes of these materials are low.

The results and lessons learned from the EP&L were widely discussed within the Group in 2017. At the annual progress report on the Group's sustainability strategy, for instance, the Management Committees of each brand shared with Kering their action plans and the main benefits expected in terms of reducing their EP&L footprint.

A new steering tool: the EP&L enters a new era

The EP&L serves primarily as a decision-making tool providing input to the Group's sustainability projects and guiding the day-to-day choices of decision-makers, with the ultimate goal of reducing and limiting the environmental impact of both Kering and its supply chains.

Automation of the calculation process in 2016 enabled quick feedback to operating teams using the EP&L for decision making. 2017 saw us take another decisive step via the development of a modelling tool that includes dynamic viewing of EP&L results. The scenario tool, available to all brands, serves to create scenarios and compare them, thereby giving a real-time predictive visualisation of the impact of a decision or project on the brand's EP&L footprint, by varying the different parameters of the EP&L (type of raw material, country of sourcing and production, quantity, process, etc.). For example, a production team can obtain an indication in real time of the EP&L gains afforded by an energy saving project run jointly with suppliers, or a sourcing team can instantly make an estimate of the gains that would be obtained by converting a product line to organic cotton. The tool thus brings greater precision in managing the brands' EP&L impacts, a crucial factor in the Group's sustainability strategy through to 2025.

Product design is a key step that greatly influences a product's environmental impact, primarily as a result of the choice, source and quantity of the materials used. This is why Kering has developed a complementary module, now with a product-based approach rather than sourcing data, giving the design and product development teams a simple and intuitive tool to guide them towards more virtuous choices.

In 2017, all brands received training on assessing their projects' EP&L gains.

Improvement of the methodology

Kering continued to improve its EP&L methodology in 2017, notably by conducting lifecycle inventories and incorporating the criteria developed by the Kering Standards, finalised that year.

For example, Kering has fine-tuned its approach to measuring land use in sheep farming in its key sourcing countries. The study resulted in the drafting of a set of concrete recommendations geared towards improving the measurement model used by Kering, as well as farming practices themselves.

The following advances were made in line with this study in 2017:

- in its EP&L, Kering modelled the best practices implemented in the extraction of certified artisanal gold, which is used by the Group via its Kering Responsible Gold sourcing platform. Kering is also working on a new lifecycle inventory for recycled gold;
- improved field knowledge and the development of a sustainable cashmere production chain in Mongolia have enabled Kering to accurately model the environmental benefits of sustainable and certified organic cashmere. The significant improvements offered by alternative sourcing of this nature is now reflected in the EP&L findings, encouraging brands to increase the volumes of sustainable cashmere for their future collections;
- the various technical solutions permitting metal-free leather tanning have also been the focus of in-depth studies to compare their respective impacts with those of traditional chrome tanning techniques. Such studies call on the findings of surveys carried out in the Group's tanneries and take inputs and outputs into account very precisely;
- leveraging the studies conducted with Textile Exchange in 2017 on the organic cotton market, and published on the Group's website, Kering is now able to model more precisely the various sourcing mechanisms and their environmental impacts thanks to a large amount of field data;
- the findings of the comparative lifecycle analysis of cellulosic fibre sources (viscose, lyocell) undertaken by Stella McCartney have been incorporated into the EP&L methodology, allowing brands to measure the impacts associated with the use of such fibres more accurately and to move towards sourcing that is more respectful of the environment;
- specific studies on acetate and nylon used in eyeglass lenses have also been undertaken as part of the integration of Kering Eyewear's activities into the Group EP&L.

In 2017, Kering worked on updating the monetary valuation coefficients of its environmental impacts. The update reflects progress made to improve the robustness of the valuation methodology, taking into account a more granular view in regional terms for instance.

Sharing the methodology with the fashion industry and promoting natural-capital accounting

In line with its commitment on wide-scale communication and education on natural capital issues, Kering has released My EP&L, a free smartphone app developed to meet the expectations of designers, students and customers with a view to spreading key messages on products' environmental impacts. My EP&L gives users the knowledge they need to intuitively grasp the environmental impacts related to the production of the raw materials and their transformation within four product families: shoes, coats, rings and handbags. The app offers a graphic presentation of a product's environmental impact depending on the design and sourcing options selected by the user. It also allows users to compare their preferences with the best available option, thereby helping develop a better understanding of the design options that can lessen a product's environmental impact.

In 2017, the My EP&L app was made available on the Chinese WeChat social network for the Shanghai Fashion Week. At the same time, Kering held a series of workshops to share its EP&L approach with the Chinese fashion scene, giving the My EP&L app pride of place. Ten groups workshopped the design of innovative and sustainable products in the presence of Kering's Director of Sustainability Operations, Shaway Yeh, Editorial Director of Modern Media Group and founder of consulting agency yehyehyeh, and Elaine Yan Ling Ng, founder of the Fabrick Lab.

The Natural Capital Protocol, an international benchmark for the measurement of natural capital, which Kering actively helped draft in 2016, was translated into Japanese in 2017, thereby launching the promotion of systems for measuring impacts and interdependence between businesses and natural capital in Japan. Kering was a partner in this development, giving a talk about the EP&L approach at the launch event in Tokyo.

What is an EP&L?

The Environmental Profit & Loss account enables a company to evaluate its impacts on natural capital by attributing a monetary value to the consequences on population groups of the company's environmental impacts throughout its supply chain.

Kering uses the EP&L results, expressed in monetary terms, to:

- translate its environmental impacts into business language;
- compare different environmental impacts;
- compare, for any given environmental indicator, the magnitude of an impacts for different locations (particularly useful for fresh water availability, an important local issue);
- facilitate comparisons between its brands and business units.

The results should not be seen as a liability or a cost for Kering. Rather, they represent a way of assessing the cost to society of environmental changes stemming from the activities of the Group and its suppliers.

Why develop an EP&L?

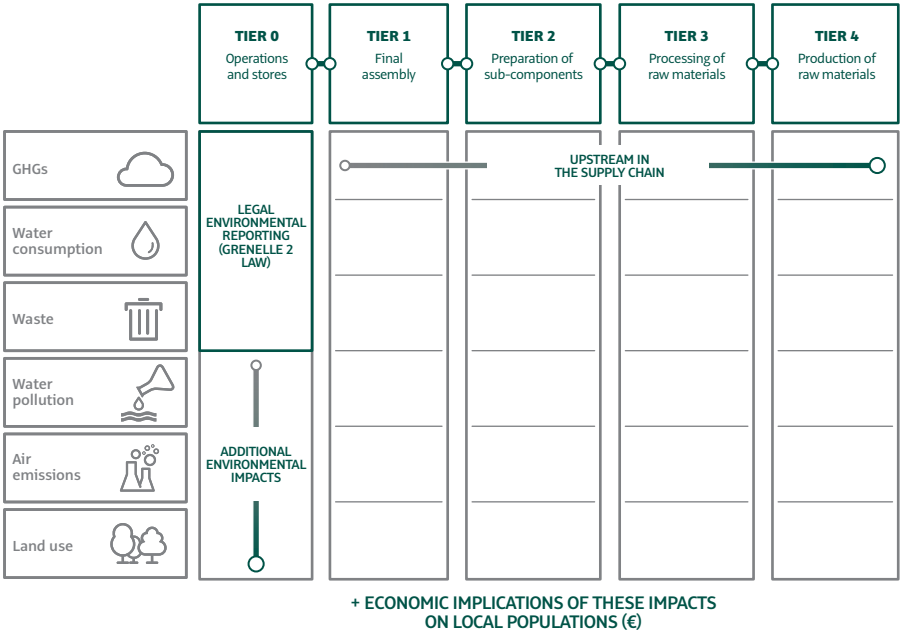
For Kering and its brands, the EP&L represents a new way of looking at its activities. It reveals areas for improvement where the Group can deploy solutions, using innovative new technologies and materials that significantly reduce the environmental impact caused by the way in which raw materials are processed and goods manufactured. It helps to show:

- where the main environmental impacts are: quantifying and valuing all environmental impacts in financial terms can help shape decisions between different types of impacts and their location, and ultimately the choice of materials and technologies;
- the variety and complexity of the Group's operations and supply chains;
- the impact of Group decisions: sharing the results and lessons learned with the Group's various departments has fostered awareness of the potential consequences a single decision can have on the other side of the planet.

Summary of the methodology

The EP&L approach goes beyond standard environmental reporting, producing a much fuller picture of the impacts of Kering's activities.

SCOPE COVERED BY THE EP&L APPROACH



Environmental change resulting from the relevant emissions or use of resources is translated into economic terms, taking into account local contexts and the effects on the welfare of local populations.

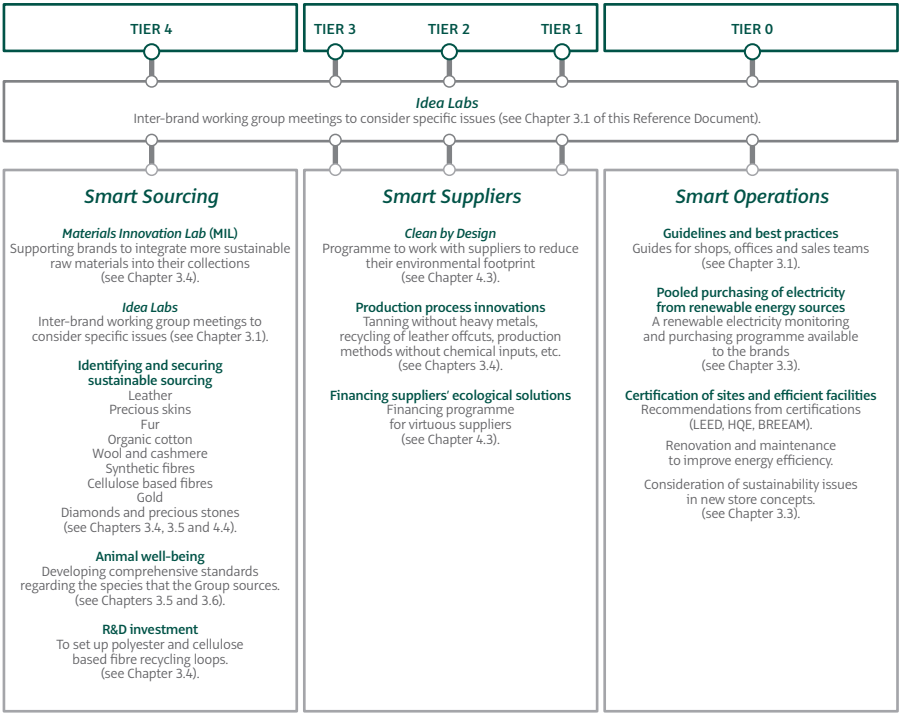
	GHGs	Water consumption	Water pollution	Land use	Air emissions	Waste
Emissions and use of resources	CO_2, N_2O, CH_4, CFCs, etc.	m^3	Specific heavy metals, nutrients, toxic compounds	Hectares of tropical, temperate, wetlands and other forests, etc.	PM2.5, PM10, NOx, SOx, VOCs, NH_3	Hazardous and non-hazardous waste
Environmental changes	Climate change	Water shortages	Water quality deterioration	Ecosystem services reduction	Increase in pollutant concentrations	Climate change, pollution and contamination
Effect on well-being (costs to society)	Health impacts, economic losses, changes to the natural environment	Malnutrition and illness	Health impacts, eutrophication, economic losses	Health impacts, economic losses, changes to the natural environment	Respiratory illnesses, agricultural losses, reduced visibility	Enjoyment of local environment impaired, decontamination costs

Kering's response

These findings corroborate the efficacy of the Group's sustainability strategy, which focuses on responsible sourcing policies and improving the environmental efficiency of its industrial processes while seeking optimum management of sites and activities:

- **implementation of the Kering Standards**: the Kering standards of excellence setting out the sourcing and manufacturing processes applicable to all of the Group's brands and their various suppliers provide essential information and guidelines geared towards reducing the Group's environmental footprint and achieving the 2025 sustainability objectives. Finalised in 2017, they have been shared widely throughout the Group and will be published externally in 2018, reflecting the focus on sharing that is central to Kering's sustainability strategy;
- **implementation of targeted projects**: the Group has prioritised its actions in response to the findings of the EP&L, in particular around:
  - the choice of materials, as regards both the actual materials and the way they are used (location, manufacturing processes, etc.),
  - production processes such as chrome-free tanning technology and improvements in suppliers' environmental performance,
  - cooperation between brands and across brand departments, through cross-functional and inter-brand work. By pooling the wealth of knowledge and expertise available across the Group, Kering generates synergies and provides a response to major issues such as the improvement of material traceability, the establishment of material purchasing platforms aligned with the Kering Standards and support for positive-impact initiatives in the value chain. This is done without compromising the confidentiality or image of individual brands;
- **the search for disruptive innovation** on raw materials and manufacturing processes to drastically reduce the EP&L by developing ground-breaking technologies (circularity, biotechnology, etc.).

A summary of key projects carried out in response to Kering's EP&L is provided below.



3.3. measurement and reduction of our carbon footprint

The 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;
- 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 is also a key tool in Kering's strategy for adapting to climate change, as demonstrated in the report analysing the consequences of climate change for the luxury industry, published jointly with BSR in 2015. The report, entitled *Climate Change: Implications and Strategies for the Luxury Fashion Sector*, aims to help industry players see where their specific vulnerabilities lie, and makes recommendations promoting the development of more resilient business models.

Evaluation of climate risk is today an integral part of Group risk management (see Chapters 4 and 5 of this Reference Document).

Key issues regarding greenhouse gas emissions arising from the Company's activities and from use of the goods and services it produces

In 2012, when adopting the EP&L approach, Kering first had to determine the scope of its business activities, as well as their upstream and downstream impacts. Comprehensive analysis at the time clearly indicated a very strong predominance of upstream impacts, especially in terms of greenhouse gas emissions:

- unlike many consumer goods, Kering brand products (leather goods, ready-to-wear, watches & jewelry, footwear and sportswear) generate little or no greenhouse gases in use;
- because of their quality, Luxury Goods have a much longer lifespan than consumer goods on average;
- lifecycle analyses available for the textile sector show a split of around 80%-20% between upstream phases (production of raw materials, transformation, assembly) and downstream phases (usage and end-of-life);
- there is as yet no reliable database characterising the product usage and disposal practices of Luxury Goods customers (frequency and type of washing, maintenance, second-hand market, etc.).

Kering has nevertheless carried out an exploratory study of one of its brands, measuring downstream emissions. It showed that downstream emissions were highest in apparel, where they account for 11% of total emissions, and that the proportion was negligible in all other product categories. Despite this, Kering has undertaken to extend the scope of its impact measurement via its EP&L approach to the use and end-of-life phases as part of its 2025 strategy, and has accordingly continued its work in this direction.

Today, Kering's EP&L goes from cradle-to-gate. And by going beyond simply measuring the greenhouse gas emissions from its operations, the Group is already well ahead of the regulations. Its upstream emissions are calculated and valued as presented in section 3.2 of this chapter, in which significant emission sources are described. It is important to note that:

- greenhouse gas (GHG) emissions from supply chains (Tiers 1 to 4) greatly outweigh those from Kering operations (Tier 0): 89% vs 11%;
- within the supply chains, GHG emissions are most pronounced at the raw material production and initial transformation stages (Tiers 4 and 3), especially with leather and textile fibres of vegetable, animal or synthetic origin;
- to set a relevant carbon footprint reduction target covering its main GHG emission sources, Kering opted to take up the framework set by the Science Based Targets Initiative. Specific 2025 goals here are:
  - 50% reduction in greenhouse gas emissions from Kering operations (whole of Greenhouse Gas Protocol Scopes 1 and 2, plus emissions arising from transport and distribution of goods, energy and fuel production, and business air travel),
  - 40% reduction in supply-chain greenhouse gas emissions (bought-in products and services under Greenhouse Gas Protocol Scope 3), consistent with the EP&L objectives.

The transport and energy emission factors taken for carbon reporting on the Group's operations (as set out hereafter) include Scope 3 items for upstream phases (extraction, refining, transport, electricity line losses, etc.).

Carbon footprint of Group operations

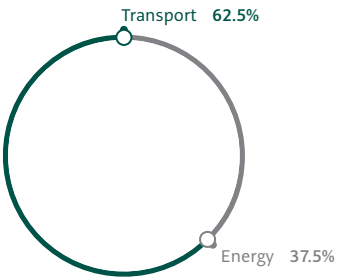
Energy consumption and the transport of goods and people are the two main sources of the Group's CO_2 emissions. Total emissions for 2017 came in at 399,985 tonnes of CO_2.

In 2016, all emission factors used for calculating the CO_2 footprint associated with energy consumption and transport were reviewed and updated in line with input from the latest available databases. Emission factors include allowance for the territories in which the Group operates, and for the energy mixes in different countries. An update will be organised every five years in accordance with the materiality of changes from one year to the next. An analytical review is nevertheless conducted annually on all emission factors so as only to identify and factor in material developments affecting them.

Details of the emission factors used are set out in the methodological note to Kering's 2017 environmental reporting on its website.

The Scope 2 emission figures relating to electricity are obtained using market-based methodology, giving specific attention to the proportion of electricity from renewable sources.

BREAKDOWN OF TOTAL TRANSPORT- AND ENERGY-RELATED CO_2 EMISSIONS IN 2017



Total: 399,985 tonnes of CO_2

The proportion of energy-related as opposed to transport-related emissions fell from 42.6% in 2016 to 37.5% in 2017. This is explained chiefly by the increase in goods transport, consistent with the increase in the Group's business volumes, and secondly by the reduction in energy-related CO_2 emissions due to increased use of renewable energy.

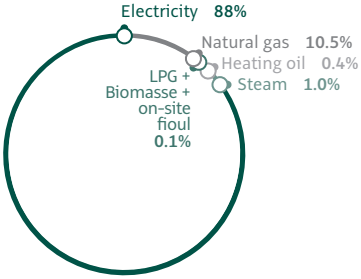
Energy consumption and related CO_2 emissions

The Group uses the energy-consumption indicators listed below to assess its energy use and 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 treatment of waste generated by electricity production).

Energy consumption and related CO_2 emissions in 2017

	Energy consumption *(MWh)*	Related CO_2 emissions *(tonnes of CO_2)*
Electricity	265,796	131,898
Natural gas	64,012	15,608
Heating oil	1,753	568
Steam	7,280	1,568
LPG	68	18
Fuel for transport and on-site handling	59	163
Biomass	842	-
TOTAL ENERGY	**339,810**	**149,823**

BREAKDOWN OF ENERGY-RELATED CO_2 EMISSIONS IN 2017



Total: 149,823 tonnes of CO_2

The Kering group's energy consumption relates mainly to the heating, lighting and air conditioning of stores, warehouses and offices. In 2017, it amounted to just under 340 GWh. Electricity is the Group's main source of power, representing 78% of total energy consumption: a relatively stable reading compared with 2016.

CO_2 emissions related to the Group's energy consumption totalled 149,823 tonnes in 2017. More than 88% of them resulted from electricity generation. This means that they are indirect emissions relating to the amount of electricity consumed, but also to its mode of generation (coal, hydrocarbon, nuclear, renewable, etc.).

***Pro forma* year-on-year change in energy consumption (MWh) and related CO_2 emissions (tonnes)**

	2017-2016 *pro forma* scope		Year-on-year change
	2017	2016	
Electricity *(MWh)*	247,181	247,233	-0.02%
of which electricity from renewable sources (MWh)	*80,129*	*71,569*	*+12.0%*
Natural gas *(MWh)*	58,712	55,165	+6.4%
Heating oil *(MWh)*	1,501	1,634	-8.2%
Steam *(MWh)*	6,692	7,110	-5.9%
LPG *(MWh)*	68	72	-6.6%
Fuel for transport and on-site handling *(MWh)*	59	52	+13.6%
Biomass *(MWh)*	842	739	+13.9%
Total energy *(MWh)*	**315,055**	**312,005**	**+1.0%**
of which energy from renewable sources (MWh)	***80,971***	***72,308***	***+12.0%***
Direct emissions (Scope 1) *(tonnes of CO_2)*	12,577	11,883	+5.8%
Indirect emissions (Scopes 2 and 3) *(tonnes of CO_2)*	128,231	131,530	-2.5%
TOTAL ENERGY-RELATED EMISSIONS *(TONNES OF CO_2)*	**140,808**	**143,413**	**-1.8%**

On a *pro forma* basis, the Group's energy consumption increased by 1% from 312 GWh in 2016 to 315 GWh in 2017. This small increase stemmed chiefly from the opening in 2016 of a very large site by one of the Group's brands (comparison of a full year in 2017 with only seven months in 2016) and the increase in the Group's business, which resulted in increased production and therefore consumption by its industrial sites. Lastly, the brands' success means that some stores have extended their surface area and opening hours. The increase was nevertheless relatively modest relative to the size of the Group's business volumes in 2017.

CO_2 emissions from energy consumption fell by 1.8% as a result of a significant transfer of conventional electricity to renewable electricity (12%), especially for the stores of two of the Group's brands. The Group's stores reduced their CO_2 emissions by 3%.

Measures to improve the energy efficiency of stores and infrastructure

In 2011, the Group's Sustainability Department and the Indirect Purchasing Department launched a partnership with NUS Consulting and all Group brands. In 2012, this vast power management project resulted in the establishment of a more accurate energy-consumption monitoring system. The brands can now access monthly consumption data for their sites on the IT platform. In 2017, 662 Group sites, excluding shop-in-shops and stores in shopping centres, were covered in Europe, the United States and Asia, up from 638 in 2016 and 496 in 2015. This represents 62% of all sites. The project also covers:

- streamlining the energy procurement process by pooling and consolidating energy consumption;
- increasing the use of renewable energy;
- centralising energy procurement management.

The project has generated tangible energy savings and reduced costs for the Group's brands.

Following the gain of BREEAM and HQE certifications in 2016 on the offices occupied by Kering and Balenciaga at 40 rue de Sèvres, the Group continued in this vein by initiating LEED certification processes on a further three buildings – Kering's new office in Milan, the proposed extension of the Novara logistics centre in Italy and the Cadempino logistics hub in Switzerland – in 2017. The LEED certification programme is based on six evaluation criteria, energy being the most important (optimising energy performance, using renewable energies, etc.).

Within the Luxury activities, seven of Gucci's stores and two of its office sites had LEED certification in 2017, while Bottega Veneta obtained LEED Platinum certification (the most demanding level) for its Montebello Vicentino workshop in Italy in 2014. Stella McCartney also holds LEED certification for one store in China and two in the United States. Inaugurated in July 2017, Saint Laurent's new shoe-making workshop in Vigonza in Italy has received LEED Gold certification. Lastly, Saint Laurent obtained LEED Platinum certification for two new stores in 2017: Ginza 6 (Tokyo, Japan) and Chadstone (Melbourne, Australia), bringing the number of Saint Laurent stores with LEED Platinum certification to five worldwide.

Again with the aim of going beyond the legal requirements, and as noted in section 3.1, Kering is working to establish Kering Standards laying down target performance levels for sustainability in its offices and stores. A working group devoted specifically to this subject was created in 2016. Known as the Energy and Facility Management Idea Lab, it met four times in 2017 to discuss issues related to the Kering Standards, with the aim of delivering a better environmental performance in the areas of property management, store planning and facilities management. These Kering Standards will enter the test phase in 2018, and will gradually supersede the existing Smart Sustainable Store and Smart Sustainable Office guides.

In addition, some of the Group's brands publish and distribute their own guides, such as Stella McCartney, which regularly updates its Green Guide and helps stores sustainably manage their energy and water consumption and their waste disposal. This publication was issued to all the brand's offices and stores in 2017.

Along similar lines, Gucci has circulated a document containing technical guidelines and recommendations on sustainable store management, aimed at the brand's regional facility managers. It is a valuable aid for the implementation of sustainable practices in store management. Gucci has also developed a document outlining sustainability rules, which it has issued to store personnel.

In turn, Alexander McQueen has also rolled out good environmental practices in the form of 10 golden rules aimed at increasing energy efficiency in its stores. An ambassador has been designated for each store in order to implement and monitor energy efficiency initiatives and to oversee the application of the 10 golden rules.

Saint Laurent continues its work to reduce the environmental impact of its stores. The implementation of good environmental management practices, in terms of both the design and running of stores, improved their energy efficiency by 40% between 2012 and 2017.

Girard-Perregaux has continued to rollout its energy conservation programme with the Swiss Energy Agency. Various measures were implemented in this area in 2017. They included training for staff on energy conservation in the workplace, the replacement of a boiler and the installation of motion detectors to reduce the time during which certain areas are lit.

Ulysse Nardin has also signed up to the Swiss Energy Agency's energy conservation programme, and met its energy consumption reduction targets several years ahead of schedule at the Locle and Chaux de Fonds sites. To monitor its energy consumption as closely as possible, Ulysse Nardin has installed remote controls via digital tablets for heating, ventilation and air conditioning on two of its sites.

Lastly, the deployment of LED technology for lighting, a source of significant energy savings (up to 90% on lighting), continues in the stores of various brands. Bottega Veneta's project on LED lighting for all its stores began in 2013. It is also up and running on its two industrial sites, Altavilla and Vicenza Malo, where all production areas, offices and common areas were fully equipped with LED lighting in 2016. Pomellato and Dodo have also fitted out seven stores with LED lighting systems. LED lighting is fitted in all new stores and sites under renovation of the Stella McCartney, Alexander McQueen, Saint Laurent, Boucheron and Balenciaga brands. This is also the case for Brioni, where 1,600 square metres of its Penne workshop and new stores in Paris, New York and Macau have been equipped with LED lighting. Also in 2017, Gucci and Qeelin pressed ahead with their investments to continue the replacement of store lighting with LED equipment.

In the Sport & Lifestyle business, Volcom continued work on replacing conventional lighting with LED systems in its stores, offices and warehouses. In addition to LED technology, Volcom US has installed a system of motion detectors to rein in excessive consumption. Similarly, PUMA's new and renovated stores use only LED technology for lighting. Among offices, the extension of the German head office will also be equipped exclusively with LED lighting. New offices under lease, such as those in Hong Kong, are also fitted out with this technology.

The proportion of renewable electricity used within the Group is growing thanks to numerous green energy contracts implemented by the brands with the Group's support. It amounted to 32.4% in 2017, compared with 28.9% in 2016 on a *pro forma* basis.

In 2017, Kering renewed its master energy agreements for all brands in Italy, as it had already done in France and the United Kingdom, to achieve the goal of consuming only electricity that is fully renewable in origin in all three countries. Electricity from renewable sources thus accounted for 91.4% of the mix in Italy (up 3 points *pro forma* on 2016), 68.3% in the United Kingdom (stable *pro forma*) and 69.9% in France (up 9 points *pro forma*). Moreover, green electricity accounts for 88% of consumption at the Group's German sites, a 1 point increase on 2016 *pro forma*.

The Group's brands have also undertaken to increase their use of renewable energy, especially green electricity. For all Gucci sites in Europe, the share of renewable electricity reached 73% in 2017. It was 86% for Bottega Veneta sites, 91% for Alexander McQueen, 82% for Balenciaga, 91% for Brioni, 89% for Stella McCartney, 86% for Boucheron and 92% for Saint Laurent. In 2017, Girard-Perregaux once again opted exclusively for green hydroelectricity for its Swiss sites, which represent over 92% of its total consumption. Similarly, Ulysse Nardin purchases nearly all of the power used on its production sites in Le Locle, La Chaux de Fonds and, since 2017, Donzé Cadrans in the form of locally generated hydroelectricity. This represents 92% of its overall electricity consumption. The share of electricity derived from renewable sources rose to 47% of PUMA's total electricity consumption at its European sites in 2017, thanks in particular to the development since 2012 of this type of energy in Germany and Italy, where nearly 100% of the electricity consumed is renewable.

On top of external purchases, the brands have been boosting their reliance on renewable energy, for instance by installing solar panels. Some brands have already installed solar equipment on the roofs of their buildings, including PUMA's head office in Germany, a warehouse operated by the Luxury business in the United States and three Bottega Veneta sites in Italy. Since 2016, Volcom has also installed two solar panels on the roofs of its buildings on the north coast of Hawaii, in an operation that contributes to raising public awareness on environmental issues because of the regular visits the site receives from the brand's athletes. Saint Laurent also fitted solar panels to the roof of its Beverly Hills store in 2015 and at its new shoe workshop in Vigonza in 2017.

Since September 2014, the C. Mendès ready-to-wear workshop in Angers, which belongs to Saint Laurent, has used biomass rather than gas to meet its heating requirements, and renewable electricity has covered all of the site's consumption since November 2015. Using green energy has significantly reduced the site's carbon footprint. In Paris, three Saint Laurent flagship stores are fitted with the Climespace air conditioning system, an urban cooling system using water from the River Seine to cool buildings. Compared with conventional air conditioning systems, this brings a 35% reduction in electricity consumption and a 50% reduction in CO_2 emissions across the three sites.

Transport-related impacts and emissions

Methodology

The transport-related data collected under the reporting system are divided into three main categories:

- B2B transport: this includes all transport of goods paid for by the brands between suppliers and logistics platforms or industrial sites, and between logistics centres and points of sale. The transport of goods between logistics centres also falls into this category. B2B transport includes road freight, rail freight, sea freight and air freight. Express transport includes goods delivered by express transport service providers via road and air freight;
- B2C 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. As with B2B, only transport that is paid for by the brands is taken into account. B2C transport includes road freight;
- business travel: this covers business air travel and the use of company cars.

The emission factors used in the reporting process are derived from internationally recognised public sources (academic establishments or institutions) and were updated in 2016 on the basis of new editions of these sources. These emission factors are also aligned with those used for the EP&L. Full details on the methods used are available in the methodological note to Kering's environmental reporting, on the Group's website.

Work was also initiated in 2016 on the methodology for calculating CO_2 emissions from B2B transport so as to more accurately reflect the improvements and optimisation work carried out by the Group's brands and logistics platforms. This approach was continued and expanded in 2017 to include new B2B carriers, allowing the use of their reporting of CO_2 emissions to provide a clearer picture of emissions from different transport flows.

Emissions related to transport and travel

Transport- and business travel-related CO_2 emissions in 2017 (in tonnes of CO_2)

	2017
B2B transport	194,120
B2C transport	25
Business travel	56,018
TOTAL	**250,163**

In 2017, the Group's transport- and business travel-related CO_2 emissions totalled 250,163 tonnes. B2B transport accounted for 78% of these emissions.

B2B transport volumes in 2017 and related CO_2 emissions

	Total 2017 *(In t/km or teu/km for sea freight)*	Related CO_2 emissions *(tonnes of CO_2)*
Road freight	91,362,951	14,638
Sea freight	499,847,962	21,306
Air freight	159,832,483	109,475
Rail freight	26,770,179	664
Express air delivery	42,423,260	33,561
Express road delivery	79,427,350	14,476
TOTAL EMISSIONS		**194,120**

Within the Group, the most frequently used means of transport for goods in terms of volume is sea freight. Air transport is also used frequently to move goods to far-off destinations quickly. These two modes of transport account for 67% of CO_2 emissions from B2B transport.

***Pro forma* year-on-year change in CO_2 emissions from B2B transport (in tonnes of CO_2)**

	2017-2016 *pro forma* scope		Year-on-year change
	2017	2016	
Road freight	14,638	12,408	+18.0%
Sea freight	21,306	16,110	+32.2%
Air freight	109,475	76,470	+43.2%
Rail freight	664	385	+72.1%
Express air delivery	33,561	32,897	+2.0%
Express road delivery	14,476	9,784	+48.0%
TOTAL EMISSIONS	**194,120**	**148,054**	**+31.1%**

The Group's *pro forma* B2B transport emissions increased by 31.1% in 2017. The increase in this item chiefly reflects significant growth in the Group's business over the year, as well as greater use of air transport against the backdrop of strong demand for in-store availability of goods, especially in the Luxury brands' faraway markets.

B2C transport-related CO_2 emissions in 2017 and *pro forma* year-on-year change (in tonnes of CO_2)

	Related CO_2 emissions in 2017 *(tonnes of CO_2)*	2017-2016 *pro forma* scope		Year-on-year change
		2017	2016	
B2C – own vehicle fleets	1.2	1.2	1.3	-5.3%
B2C – subcontractors' vehicles	23.8	23.8	6.7	+254.7%
TOTAL	**25.0**	**25.0**	**8.0**	**+212.4%**

CO_2 emissions from B2C transport totalled 25 tonnes in 2017. On a *pro forma* basis, B2C transport emissions increased threefold, but across a very limited scope on all transport-related emissions (a new vehicle).

Optimising logistics flows and switching to alternative means of transport

Goods transport represents a significant part of the Group's CO_2 emissions, which is why Kering works closely with its logistics platforms, its brands and its carriers to reduce the distances covered during supply and delivery, to optimise truck load factors and the environmental and technical performance of truck fleets, and to develop alternative means of transport aimed at reducing the Group's CO_2 footprint.

Work conducted in 2017 marked a continuation of initiatives undertaken in 2016, such as increasing the use of double-deck trucks, reducing the number of trips and therefore CO_2 emissions, and choosing more efficient vehicles for the fleets of the Group's brands. In 2017, the carbon footprint of all air freight companies was mapped. Together, they represent the lion's share of transport-related carbon impact within the Group. The mapping was performed in accordance with the EN 16258 standard, and all major freight carriers were met for discussions on carbon strategies. Moreover, specific clauses on carbon performance are systematically integrated into contracts with carriers.

Delivery schedule optimisation is illustrated through numerous examples. Volcom, for instance, has optimised its distribution network by removing certain sections of transport, optimising its load factor and above all by consolidating shipments in a single weekly delivery, which in 2017 reduced the number of shipments by 30% in some cases compared with 2016.

Another source of improvement is to change the mode of transport wherever possible. PUMA is accordingly redirecting some deliveries to sea freight rather than air transport. This critical axis was further reinforced in 2017, particularly for deliveries with no obvious urgency, as is the case with non-market products such as point-of-sale advertising, packaging and merchandising items. Lastly, PUMA directly integrated the reporting of the CO_2 emissions of its main carrier in 2017 so as to allow it to monitor its sea freight-related impacts more closely.

The selection of more environmentally friendly vehicles for logistics flows is an important means of reducing the Group's CO_2 footprint. This is why Kering has rolled out ecological fleets in partnership with TNT and ND Logistics in order to reduce environmental impacts in cities and to improve quality of life for city dwellers. In 2017, the project covered the cities of Rome, Amsterdam, Milan, Florence, Paris, Munich, Barcelona and Berlin. The next city to be assessed is London.

In 2017, the Kering Logistics team also worked with TNT as part of the Milano City Logistics project aimed at deploying a fleet of fully electric vans for shipments between stores and for B2B and B2C deliveries. These fully green vehicles are shared by Gucci, Bottega Veneta, Saint Laurent and Alexander McQueen for their deliveries.

In Paris, all daily shuttles between Saint Laurent stores are by electric vehicle only. Charging stations have been installed at the brand's head office in the French capital.

Business travel

CO_2 emissions from business travel in 2017 and *pro forma* year-on-year change (in tonnes of CO_2)

	Related CO_2 emissions in 2017 *(tonnes of CO_2)*	2017-2016 *pro forma* scope		Year-on-year change
		2017	2016	
Business air travel	46,941	36,299	31,807	+14%
Company cars	9,077	8,303	7,355	+13%
TOTAL	**56,018**	**44,602**	**39,162**	**+14%**

CO_2 emissions associated with employee business travel amounted to 56,018 tonnes in 2017. On a *pro forma* basis, they increased by 14%. The increase is partly attributable to the continuation of the Group's transformation into an integrated group and the ensuing team-building work conducted by Kering corporate teams across the world.

To limit the impact of Kering employees and brands on the Group's carbon footprint, some brands factor environmental criteria into the selection of company cars. Bottega Veneta, for instance, is renewing its fleet with the inclusion of hybrid vehicles. Of 127 company cars, 68 – or 54% of the fleet – are hybrids. Moreover, the Novara production site in Italy has for several years offered a fleet of shared vehicles. Gucci has also upheld its commitment to replace head-office vehicles with more efficient models. In 2017, its fleet contained 52 hybrid cars, up from 32 in 2016, plus 3 electric vehicles. In turn, Stella McCartney only uses companies offering hybrid vehicles for taxi journeys in the UK.

Brands also encourage the use of public transport to reduce CO_2 emissions arising from personnel travel. Bottega Veneta, for example, provides employees with a free shuttle service linking its Milan and Montebello sites with public transport networks. The Novara production site offers all employees bicycles free of charge for short trips.

Emissions testing in accordance with Scopes 1, 2 and 3

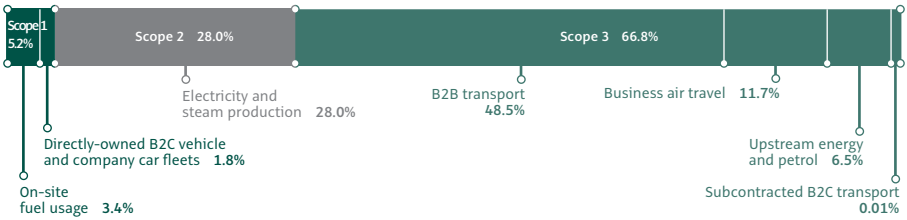
CO_2 emissions by Scope as per the GHG protocol in 2017 (in tonnes of CO_2)

	2017
Scope 1	21,034
Scope 2	111,923
Scope 3	267,028
TOTAL	**399,985**

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

- Scope 1 refers to direct emissions attributable to on-site fuel usage and the fuel burnt by Kering directly owned B2C 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 B2B deliveries and nearly all B2C deliveries) and from most employee air travel, the production of energy fuels (upstream energy and petrol) and line losses. Emissions attributable to the production of raw materials by suppliers or to employee business travel other than by air (by personal car, train, etc.) are not taken into account.

BREAKDOWN OF CO_2 EMISSIONS IN 2017



Total: 399,985 tonnes of CO_2

In 2017, 5% of the Kering group's CO_2 emissions were not under its direct control. Consumption of electricity and steam accounts for nearly 30% of CO_2 emissions. The Kering group is striving to reduce the share of emissions outside its direct control, firstly by reducing consumption and secondly by promoting the purchase of green electricity and the use of renewable energy. Emissions that are not under the Group's control (Scope 3) are the biggest contributors, which is why Kering is taking steps to optimise logistics flows or to use cleaner means of transport in terms of CO_2 as a way of reducing its carbon footprint.

***Pro forma* year-on-year change in CO_2 emissions (in tonnes of CO_2)**

	2017-2016 *pro forma* scope		Year-on-year change
	2017	2016	
Scope 1	19,269	17,895	+7.7%
Scope 2	104,101	107,396	-3.1%
Scope 3	265,215	223,444	+18.7%
TOTAL	**388,585**	**348,735**	**+11.4%**

On a *pro forma* basis, overall emissions across the Group increased by 11% on the back of a 31.1% rise in B2B transport and a 14% increase in air travel (Scope 3). Scope 1 emissions increased by less than 10%, while Scope 2 emissions eased by 3.1%, reflecting both the Group's strong growth and its increased use of electricity from renewable sources.

The carbon-offset programme

As defined in 2012 as part of its sustainability targets, Kering continues to offset its residual Scope 1 and 2 greenhouse gas emissions. In 2017, Kering offset the 136,232 tonnes of the CO_2 emissions it generated in 2016. Carbon credits have been obtained through support for several REDD+ (Reducing Emissions from Deforestation and Forest Degradation) programmes, with VCS (Verified Carbon Standard) verification. Not only does this generate carbon credits, it also provides substantial support for local populations and biodiversity. Kering supports a number of projects in this manner. Since 2012, the Kasigau Corridor project in Kenya has represented 50% of the portfolio. In 2017, another four forest conservation projects received support through REDD+. They are spread over several continents, from the Chocó-Darién Corridor in Colombia to the bogs of Katingan in Indonesia, the Keo Seima Reserve in Cambodia and the protected forest of Makira in Madagascar. Together, they contribute to the protection of more than 890,000 hectares of particularly biodiversity-rich ecosystems representing a resource for more than 215,000 people.

In 2017, Bottega Veneta once again offset all the 2016 GHG emissions of its Milan head office, i.e., 313 tonnes of CO_2, of which 143 tonnes offset by Kering. Similarly, 957 tonnes corresponding to the emissions of the new Montebello workshop were offset through Wildlife Works in 2017, including 348 tonnes of CO_2 offset by Kering.

In 2016, again with a view to progressing further, Kering joined the International Platform for Insetting (IPI), which encourages companies to reduce their supply-chain CO_2 emissions rather than buying carbon credits. IPI is comprised of companies, NGOs and climate experts working on the centralisation of member companies' projects.

3.4. circular economy

Kering's long-term vision is one of a circular economy based on a non-linear model incorporating regenerative practices, both in design and the materials used. The transition to a circular economy, which means rejecting the "take – make – consume – throw away" model, involves more than the simple use of recycled materials: it requires real change in practices at each stage of the production cycle. The idea is to contribute to ecosystem restoration through regenerative agricultural practices in the sourcing of raw materials, to favour renewable energy for production and processing, to optimise the efficiency of such processes so as to reduce the environmental footprint (carbon, water, waste, use of chemicals, etc.) and lastly to promote the recyclability of products while improving their longevity.

Kering is applying its circular economy approach in a collaborative manner on each of these points, in the firm belief that transition to a circular economy requires extensive cooperation within and between sectors. In 2017, Kering accordingly joined the following three initiatives:

- the Fashion Positive PLUS initiative, which leverages the Cradle to Cradle Products Innovation Institute's approach to create a certification guaranteeing the circular virtues of various materials used in the fashion industry and to promote inter-brand contact as a means of accelerating its implementation and mobilising suppliers. Six brands, a number of suppliers and circular economy experts have joined forces to roll out this certification through pilots initially covering seven materials and processes;
- the Global Fashion Agenda, a platform dedicated to promoting sustainability in the world of fashion and a driving force for implementing best practices in the industry. Its most noteworthy initiative, the Copenhagen Fashion Summit, brings together the biggest names in fashion each year to discuss sustainability issues. In May 2017, the Global Fashion Agenda issued a call to increase the pace of the transition to a circular economy. Kering, alongside other major players in luxury and fashion, responded to the call, committing to this goal for 2020;
- in 2017, Kering gave its support to the Ellen MacArthur Foundation Circular Fibres Initiative, and contributed to the Initiative's maiden report, *A New Textiles Economy: Redesigning fashion's future*, published in November 2017. Kering continues to participate by lending its expertise and resources to promote and co-construct a new vision of the textile industry.

3.4.1. Sustainable use of resources

The Group's EP&L clearly shows that most environmental impacts (75%) are caused upstream of the supply chain by the extraction and production of raw materials and the initial transformation stage (Tiers 3 and 4). For Kering, critical impacts are generated by the raw materials used in large quantities whose production can have a significant impact on the environment (leather, cotton, synthetic fibres, etc.), or by raw materials used in small quantities but whose extraction or production can have a high impact. This is the case for animal fibres such as wool and cashmere, as well as metals and precious stones (gold and diamonds).

Kering has committed to reducing its environmental footprint in the pre-operations phase, starting with the production of its raw materials. To this end, the Smart Sourcing programme, launched in 2013, provides recommendations and guidance for brands, allowing them to use raw materials produced sustainably and responsibly. This project involves the Material Innovation Lab and supply chain management, R&D and sustainability teams working closely with the Group and its brands to come up with responsible sourcing solutions tailored to the specific needs of each brand.

In 2012, Kering set out basic principles and guidelines on responsible sourcing consistent with its general sustainability policy, targets and existing good practices. These guidelines cover responsible procurement, environmental management and management of chemicals.

The principles were profoundly revisited and extended in 2017 as part of Kering's 2025 sustainability strategy, so as to give fuller details of the Group's raw material supply and production process requirements. Dubbed the Kering Standards, they set out the criteria imposed on the Group and its suppliers in five key areas: traceability, chemicals, social impact, environmental impact and animal welfare. Building on the founding principles of integrity (material traceability, chain of custody certification, etc.), circularity (using recycled materials where possible, accounting for the recyclability of products, etc.) and the precautionary principle (no GMOs, no nano-materials, etc.), the Kering Standards cover leather and precious skins, fur, wool, cotton, paper, wood, plastic, feathers and down, cellulose fibres, gold and diamonds, and will soon be extended to cover silk, synthetic fibres, coloured stones and other metals (silver and brass). Kering Standards have also been drawn up for the Group's main production processes, namely tanning, the various stages of textile manufacture and leather work. Their coverage is now to be extended to include metal refining and precious stone cutting processes. 2018 will also see the completion of Kering Standards specific to stores and property in general.

True to its spirit of sharing, and firmly believing in its ability to influence the world of fashion to adopt more sustainable practices, Kering has undertaken to publish the detailed version of its Standards on its website.

At the same time, some of the Group's brands apply even more stringent measures. Stella McCartney, for example, has consistently eschewed the use of fur, leather, precious skins and feathers. More recently, Gucci announced its participation in the Fur Free Retailer programme promoted by the NGO Fur Free Alliance, and is committed to proscribing the use of fur in its entire range starting with its Spring/Summer 2018 collection. PUMA adopted a strict policy on the use of leather, skins, fur, feathers and wool in

2012. PUMA has also banned the use of certain species such as crocodiles and snakes, and certain practices such as mulesing in merino sheep.

Leather

Leather is one of the key raw materials used by Kering brands. Cattle and sheep farming and leather processing operations (including tanning) together represent one of the most significant environmental impacts across the Group's supply chains (27% of the total impact – 2016 EP&L Report). A specific Idea Lab on leather, involving most of Kering's brands, has met regularly over the last four years, and more specifically twice in 2017, to identify solutions for reducing the environmental impact of the production of leather and to share best practices (husbandry, traceability, tanning without heavy metals, recycling of offcuts, etc.).

In 2017, Kering continued its collaboration with Origem, a consulting firm specialising in responsible sourcing, to further explore the environmental and social challenges facing the leather (cattle, sheep and goat) industry. Work in 2017 was focused primarily on identifying the environmental challenges associated with leather sourcing in specific regions and the search for sustainable alternatives. The aim is to increase the share of leather meeting the criteria laid down in the Kering Standards used by the Group's brands.

As well as working on its own value chains, Kering aims to encourage and promote the emergence of more responsible practices in the industry. With this in mind, in 2017 it gave its support to the Responsible Leather Initiative (RLI), a multi-party project created following the international workshop organised by Kering in 2016 to highlight the challenges and possible solutions in the development of traceable and sustainable cowhide supply chains.

Metal-free tanning techniques are also a major focus of Kering's work on leather. In 2017, the Group worked closely with its tanneries, as well as its brands and their suppliers, to promote the use of leather tanned without metals. This work consisted partly of R&D activities in the tanneries, with the aim of testing and bringing into production articles tanned using metal-free techniques, and partly in performing four LCAs (lifecycle analyses) of the various metal-free tanning techniques. The findings of these studies based on actual data from the Group's tanneries point to an environmental benefit compared with conventional chrome-based tanning, not only in terms of water and energy consumption, but also by reducing the use of non-renewable resources. The results were presented in November 2017 and will be shared with the scientific community in 2018.

Kering also plans to establish a platform devoted to metal-free tanning techniques bringing together all industry players with a view to accelerating the industry's transformation.

These efforts paid off for the Group's brands in 2017. Gucci, for instance, has brought a monitoring system into its tanneries, enabling it to trace 99% of the leather used for leather goods back to the abattoir or the farm of origin. Bottega Veneta is implementing similar tracking systems to trace the hide used for leather goods back to the country of breeding, slaughter, preparation, tanning and finishing. To reinforce this approach, Bottega Veneta is also promoting ICEC (Institute of Quality Certification for the Leather Sector) certification on the traceability of leather among its suppliers. The brand purchased more than 350,000 square metres of leather bearing this certification in 2017. To take its commitment further, it has also obtained more demanding ICEC certification extending traceability right up to the finished product: for example, the high-volume iconic products in Bottega Veneta's *Cabat* range in Nappa leather are traceable and certified by the ICEC.

In turn, Saint Laurent collects traceability data every two months from its main tanneries (representing approximately 90% of volume) and measures the EP&L impact of supplies used in its leather goods activities throughout the year.

The search for efficiency is central to the brands' approach, as evidenced by the scrap-less project initiated by Gucci in 2017, which involves cutting off parts of hides that cannot be used in finished products due to their size or quality before tanning actually takes place. This lessens the surface to be tanned, meaning reduced use of water, chemicals and energy, and less impact from transport.

In turn, Saint Laurent is continuing work to insource the cutting stages, which has the effect of reducing volumes of leather scraps, and has set up an exclusive system for the collection of offcuts that cannot be reused. Scraps are then recycled through an innovative process. In 2017, Balenciaga's leather goods division joined the project initiated and piloted by Saint Laurent, enrolling its main leather cutting centres in Italy. Over the year, more than 70 tonnes of leather were recycled. Saint Laurent has also gone further by developing its own up-cycling solution. Two years of intense research have resulted in the development of exclusive recycled leather made from production offcuts. The new leather meets the high standards expected by the brand, and was used to make two models of shopping bag, one for men and one for women, for the Spring 2018 collection.

PUMA is striving to reduce the environmental footprint of leather production by encouraging its suppliers to work with tanneries that belong to the Leather Working Group (LWG). The LWG has developed a dual rating system for member tanneries: Gold, Silver or Bronze to describe environmental performance, and A, B or C for the quality of the traceability of skins. In 2017, 99% of the leather used by PUMA for shoes came from tanneries boasting an LWG Gold, Silver or Bronze rating.

Volcom is also building on the standards developed by the Leather Working Group, sourcing its leather exclusively from tanneries belonging to the LWG for its footwear division.

Vegetable textile fibres

Kering set up the Materials Innovation Lab (MIL) to assist brands in 2013. Based in Italy, the MIL provides technical support to the Group's brands to help them integrate more responsible and innovative materials and processes into their supply chains and ultimately their collections. In addition to their close collaboration with Kering Sustainability Department, the MIL's team of experts work with individual brands and their respective suppliers in order to integrate these new more sustainable textiles into the brand's supply chain. The MIL now boasts a library of over 2,500 certified fabrics and an in-house evaluation tool, also drawing on the EP&L methodology, which assesses fabrics' environmental impacts. Since it was launched, the MIL has primarily focused on supporting the Luxury ready-to-wear brands, but has extended its services to cater to the Group's Sport & Lifestyle brands on a case-by-case basis.

Ranking second as the most impactful material for the Group after leather according to the results of the EP&L, cotton is the subject of special attention. More specifically, organic cotton has the major advantage of not being cultivated using pesticides and fertilisers, meaning a greatly reduced environmental footprint (up to 80% reduction compared with conventional cotton). Kering therefore encourages its brands to step up the use of organic cotton in their collections. It does this in two ways: through the Kering Standards and through its new Group-wide purchasing platform.

- the standards laid down by Kering on cotton specify full traceability (to avoid sourcing from high-risk countries, as regards environmental and social impacts), and restricted use of chemicals and pesticides. To ensure that these standards are met, Kering encourages the use of organic cotton, with a preference for GOTS (Global Organic Textile Standard) or OCS (Organic Content Standard) certification. Kering's pledge that 100% of the key materials used by the Group will be consistent with the Kering Standards by 2025 is noteworthy in this respect, as it means that all cotton used will be of organic origin by this date;
- to support work on reaching this ambitious target, Kering launched its Organic Cotton Platform (OCP) in 2016, offering brands technical and financial support to help them overcome the initial difficulties in switching sourcing to organic cotton. Brands submit their sourcing projects to the OCP. The projects are then evaluated by the Group, which subsequently provides technical support for the integration of organic cotton into the brands' supplies, by working directly with suppliers for instance. The platform can also provide financial support to cover the difference in price, the development costs or the supplier audit needed to obtain the required certifications. The OCP has contributed to a significant increase in the proportion of organic cotton used in the collections of the Group's Luxury brands, which more than tripled between 2016 and 2017.

In 2017, Kering continued its collaboration with Cotton Connect, allowing it to work directly with 150 organic cotton farmers in India to improve the yield and quality of their cotton through training and advice on farming practices. The programme also includes a social module involving community education in the fight against child labour, the empowerment of women, the right to education and health and safety issues. In 2017, a Farmer Business School (FBS) was established to help farmers manage their farms by training them in basic accounting and raising their awareness about risk factors (especially weather). 20 tonnes of organic cotton produced through this Cotton Connect project were used by one of the Group's brands for its 2018 collections.

In addition, as co-founder of the Organic Cotton Accelerator (OCA) alongside Textile Exchange and other brands, Kering continued its support for the development of organic cotton farming and the market for organic cotton in 2017. Companies joining the OCA undertake to comply with a number of guiding principles, such as promoting organic cotton and improving the environmental, social and economic aspects of production conditions. In 2017, the OCA launched four pilot agricultural programmes using a digital platform that permits the reporting of field-based data and fosters a better understanding of the needs of farmers. The OCA also increased its support for research and development facilities devoted to organic cottonseeds, which are critical to the sector's development.

In 2017, Kering also took part in the working group for organic cotton within the Coalition for Private Investment in Conservation (CPIC), which aims to draft an organic market development plan taking into account constraints in respect of return on investment, risk and ecosystem restoration.

True to its goal of sharing, and keen to promote more sustainable practices within the industry, Kering joined forces with Textile Exchange in 2017 to publish two detailed reports on the organic cotton market as it stands. The two publications also provide a set of tools, tips and best practices for companies wishing to incorporate organic cotton into their supply chain.

These initiatives enabled the Group's Luxury brands to continue increasing the use of organic cotton in 2017. As such, Alexander McQueen used more than 30,000 kg of organic cotton for its Autumn/Winter 2017 and Spring/Summer 2018 collections, an increase of 66% compared with 2016. Roughly 40% of all cotton purchased by Balenciaga was certified organic by GOTS in 2017. At Bottega Veneta, organic cotton accounts for 88% of total cotton used for its ready-to-wear collections and for the flannel bags used to protect leather goods, jewelry and shoes. Stella McCartney continues to use organic cotton (particularly in its jeans, which account for more than 80% of the brand's overall use of cotton), focusing on GOTS and OCS certifications to ensure the highest standards in terms of traceability and environmental impact along the entire textile production chain. In Egypt, Stella McCartney is also supporting Cottonforlife, a five year programme on developing Egyptian organic cotton planting that includes a strong emphasis on social issues. Saint Laurent has in

turn chosen to focus the integration of organic cotton on its permanent collections; in 2017, several articles in the jersey category (T-shirts, sweatshirts, polo shirts) accordingly used GOTS certified cotton. After testing the integration of organic cotton in various items (shirts, jeans, T-shirts, etc.), Gucci has significantly increased the amounts used in its men's and children's ready-to-wear collections, for the lining of ties and for all shirts used for the uniforms worn by sales staff, representing 105 tonnes of GOTS certified organic cotton. Lastly, Brioni has chosen to develop a capsule collection, *Brioni sustainable*, including organic cotton shirts.

In the Sport & Lifestyle segment, Volcom only uses organic cotton for its basic range of T-shirts sold in Europe. PUMA, the Group's largest cotton user, opted for BCI (Better Cotton Initiative) cotton, which represented nearly 30% of the brand's total cotton purchases in 2017.

Animal textile fibres

Animal fibres such as wool are the material with the third-greatest impact in Kering's EP&L and are central to many initiatives taken by the Group and its brands. Kering and the MIL accordingly continued to identify new sources of high-quality fibres that meet the Group's sustainability standards, especially as regards farming practices and animal welfare. For example, Kering and its brands inspected six sheep farms in New Zealand and nine in Australia to assess their practices in terms of land management and respect for animal welfare. Exchanges such as these enabled Kering to put the finishing touches to its animal welfare standards for sheep farming and their geographical adaptation. In the same vein, Kering and its brands also inspected seven mohair farms in South Africa during the year.

Kering also strengthened its collaboration with experts in farming and sustainable land management practices (Savory Institute, Australian National University) to promote the most demanding management standards for wildlife and biodiversity conservation among sheep farmers, as well as pastoral practices allowing soil regeneration.

A fabric synonymous with luxury, cashmere has been the subject of research and experimentation to improve the environmental footprint of its production. In 2015, Kering and international NGO Wildlife Conservation Society launched a programme in the Gobi region of southern Mongolia to promote sustainable and traditional production of high-quality cashmere in partnership with two cooperatives of nomadic herders representing 160 families and 150,000 hectares of pastures in Omnogobi province. In addition to developing the capacity of farmers to produce better quality wool, the programme focuses on pastoral techniques such as rotating herds in order to improve the impact on biodiversity and animal welfare. This project is now a prime source of supply of high-quality cashmere for the Group's brands, as it meets the animal welfare and biodiversity conservation criteria laid down in the Kering Standards, with the added bonus of reducing the environmental footprint. More than 10 tonnes of responsible cashmere have in this way been integrated into the supply chains of Gucci, Bottega Veneta and Alexander McQueen since 2015. To step up promotion and development of responsible cashmere provision in Mongolia, the Group is also a founding member of the Sustainable Fibre Alliance (SFA), which focuses primarily on training for livestock farmers and the promotion of sustainable cashmere.

Alongside these initiatives, and with a view to boosting efficiency, some Luxury brands including Gucci, Alexander McQueen and Stella McCartney use cashmere fibres from production offcuts, a practice that greatly reduces pressure on areas of the Gobi region (China and Mongolia) that are already badly degraded.

This year, for the first time, Balenciaga brought out collections made exclusively using organic (certified GOTS) and ZQ certified wool (guaranteeing regenerative agricultural practices and consideration of animal welfare), regenerated cashmere, organic silk (certified GOTS) and RDS (Responsible Down Standard) certified feathers.

Precious skins and furs

Because precious skins such as crocodile and snake skin are important raw materials for Kering, the Group places a strong emphasis on sustainable sourcing that is also respectful of the strictest standards of animal welfare. Over the past five years, Kering and its brands have supported a range of initiatives on sustainable supply chains for crocodiles and pythons. These initiatives combine the brands' sustainability departments and the Group's industrial division (which manages its own tanneries and incoming supplies) and various outside experts.

The Group and its brands comply with national and international legislation and regulations on the trade of precious skins: all skins of species catalogued as endangered or vulnerable by CITES (Convention on International Trade in Endangered Species) are obtained with certificates attesting to their legal origin, issued by CITES and the export authority, to ensure that trade does not threaten endangered species.

In 2017, Kering extended the duration of its commitment to the Madagascar Crocodile Conservation and Sustainable Use Programme (MCCSUP). This partnership with the IUCN Crocodile Specialist Group, established in 2014, aims to promote best practices in the trade in Nile crocodile skins from Madagascar, and includes research programmes in partnership with the University of Antananarivo.

2017 also marked a change of direction for Kering's support programmes for sustainable and ethical python trading in South-East Asia. Over the last four years, Kering has worked closely with experts from CITES, the IUCN Boa & Python Specialist Group and the International Trade Centre (ITC) within the Python Conservation Partnership (PCP). After an extensive research programme and the publication of eight sector-based reports and numerous academic papers, the first phase of the PCP was completed in 2016. The programme's second phase, under the name Southeast Asian Reptile Conservation Alliance (SARCA), began in 2017 in a sector-based platform combining leading players in the luxury sector committed to conducting a long-term research programme guaranteeing sustainable and ethical practices in the trading of reptile skins.

While they make limited use of furs, Kering and its brands are working closely with Business for Social Responsibility (BSR) to develop a programme to guarantee traceability and the implementation of best practices in animal welfare across the supply chains. On this issue, Kering, together with animal welfare experts and brand representatives, inspected farms used to breed animals for their fur in Finland, Spain and the United States this year in order to assess their practices in the light of Kering's animal welfare standards.

In 2017, the Kering brands began testing the specific audit protocol for rabbit breeding that was finalised in 2016 following a review by animal welfare experts, NGOs and other Luxury brands. The protocol's test phase will continue in 2018 before being shared with all industry players in the open source approach advocated by Kering.

Some brands have in turn decided to ban the use of fur. Stella McCartney, for example, has consistently eschewed the use of fur, leather, precious skins and feathers. This year, Gucci announced its membership of the Fur Free Retailer programme promoted by NGO Fur Free Alliance, and is committed to ending the use of fur in its entire range starting with its Spring/Summer 2018 collection.

Metals and precious stones

Illegal or unregulated mining can give rise to major social and environmental damage. Small-scale extraction work in particular can endanger communities by causing serious health and environmental damage if unregulated, whereas properly managed mining can generate responsible development for many local communities. Kering is therefore committed to only buying metals and precious stones obtained through activities that have no harmful impact on the environment and that generate opportunities for local communities.

The first key stage of this approach came in 2014 with the purchase of 55 kg of Fairmined-certified artisanal gold, which at the time was the largest ever purchase of such gold. Fairmined artisanal gold is extracted applying the strict standards of the Alliance for Responsible Mining (ARM), whose criteria cover social responsibility, economic development of local communities, working conditions and proper management of chemicals.

To encourage its brands to source responsible gold (RJC Chain of Custody certified, Fairtrade and Fairmined certified artisanal gold with verified and traced provenance) and from selected partner refiners, Kering has developed a dedicated buying platform. The goal is to support responsible gold producers and contribute to their growth, but also to support mining communities through the Kering Responsible Gold Fund. For each kilogram of gold purchased, the Group's brands pay a premium used to endow the fund. Each year, a committee composed of representatives of Kering and its brands selects projects to be supported through the Kering Responsible Gold Fund in favour of mining communities offering social and environmental benefits. Proof of the success of the platform is that responsible gold purchases totaled a tonne in 2017, doubling the volume of responsible gold purchased since the platform was launched. Gucci and Bottega Veneta used responsible gold for all of their jewelry, and a swift progression in the proportion of responsible gold can also be seen at Boucheron, Pomellato, Dodo, Girard-Perregaux and Ulysse Nardin. Following this successful experience with gold, Kering is considering going ahead with similar programmes for silver.

Kering works with its suppliers to ensure that all the diamonds used in its products comply with the Kimberley process, which aims to guarantee that transactions on the international market are not used to finance armed conflict. Kering has also worked with its brands to roll out guidelines and good practices on traceability and sustainable sourcing of diamonds. The Group's main jewelry brands have taken a step further by joining the RJC (Responsible Jewellery Council), an organisation that promotes responsible and transparent social and environmental practices throughout the jewelry sector, from the mine to the point of sale. Boucheron and Gucci have been RJC-certified since 2011, Bottega Veneta and Girard-Perregaux since 2012, and Pomellato and Dodo since 2017.

Plastics

Consistent with their objective of eliminating PVC from their collections, the Group brands have worked on finding alternatives to this material. Having met the target in the proportion of more than 99%, the brands are now focusing their work on the last few items concerned. They are also working to get the commitment across to suppliers, notably through contracts, with a view to eliminating PVC from their collections. Some brands have gone even further, replacing standard plastics such as TPU by alternatives with a lesser environmental impact, such as bioplastics. Because of the very many alternatives available, and the complexity of comparing environmental performances, Kering has worked with the Fraunhofer Institute to develop an innovative tool that buyers can use for rating environmental performance. It is based on a simplified lifecycle analysis of environmental impacts (CO_2 emissions, discharges into water, water consumption and waste production) consistent with the EP&L methodology and backed up by qualitative analysis (average fossil fuel content, food competition, essential ingredients, etc.). Since 2016, the MIL has also offered a range of plastic materials compliant with the Kering Standards to enable brands to incorporate more responsible plastic into their collections.

In 2017, Kering also mapped out plastic consumption in ready-to-wear and logistics packaging in order to determine its level of compliance with the Kering Standards and to develop alternatives when required.

In addition to eliminating some plastic materials in favour of more sustainable or recycled alternatives, the subject of microplastic pollution and its potential impacts on the environment and human health is a key concern for the textile sector. This diffuse pollution, stemming in large part from the washing of synthetic fabrics, is very difficult to quantify, although the scientific community appears to agree on the major risk it represents in terms of ocean pollution. With this in mind, Kering made a three-year commitment in 2017 to work with the European Outdoor Association consortium on microplastic pollution. The consortium's work will be geared towards more accurately measuring the impact from microplastic pollution and developing technical solutions to limit the impact. Kering will provide financial and technical support alongside other industry brands, the Biov8tion research institute and the University of Leeds.

Paper

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 and agencies) for printing communication media such as reports, posters, mailshots and point-of-sale advertising;
- office paper.

In 2017, Kering's overall paper consumption totalled 1,766 tonnes. A breakdown by category is presented below.

Paper consumption in 2017 and *pro forma* year-on-year change (tonnes)

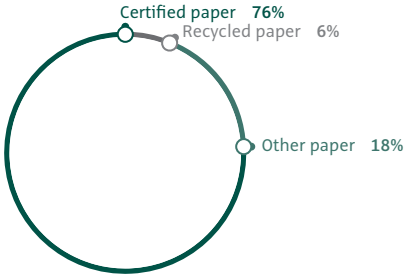
	Consumption in 2017	2017-2016 *pro forma* scope		Year-on-year change
		2017	2016	
Paper – indirect purchases	1,018	989	1,012	-2.3%
Office paper	748	641	723	-11.3%
TOTAL PAPER	**1,766**	**1,630**	**1,735**	**-6.0%**

Between 2016 and 2017, the Group's total paper consumption decreased by 6%. This reduction is explained chiefly by smaller print runs for catalogues and external communication materials. Office paper consumption fell by 11.3%, reflecting the Group's ongoing efforts to reduce paper consumption and promote paperless alternatives.

In 2017, the proportion of certified (FSC or PEFC) or recycled paper was 82% across the Group, breaking down as 76% certified paper and 6% recycled paper. The proportion exceeds 95% in several Kering brands, including Bottega Veneta, Saint Laurent, Balenciaga, Stella McCartney, Brioni, Boucheron, Ulysse Nardin and Girard-Perregaux.

The majority of brand catalogues and office paper used by all of the Group's brands is certified (PEFC or FSC) or recycled.

TYPE OF PAPER USED IN 2017 (%)



Packaging

The Group still uses significant volumes of cardboard and plastic for the protection and transport of goods sold in stores or online.

In 2017, Kering consumed 22,915 tonnes of packaging, 53% of which was cardboard and 34% paper.

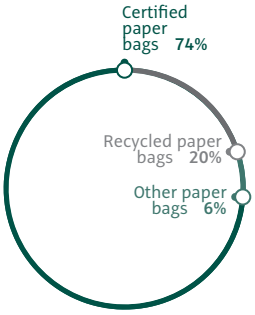
Packaging consumption in 2017 and year-on-year change (tonnes)

	2017	2016	Year-on-year change
Plastic bags	584	259	+125%
Paper bags	1,994	2,575	-23%
Total shopping bags	**2,578**	**2,834**	**-9%**
Plastic packaging	921	788	+17%
Cardboard	12,119	10,037	+21%
Paper for packaging	5,705	3,403	+68%
Textile	1,479	963	+54%
Wood	36	114	-69%
Metals	77	75	+2%
Total packaging excluding shopping bags	**20,337**	**15,380**	**+32%**
TOTAL PACKAGING	**22,915**	**18,214**	**+26%**

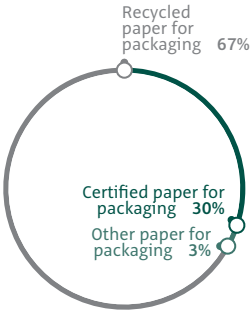
Total packaging consumption increased by 26%. The increase was attributable chiefly to increased business volumes across most brands. In 2017, the proportion of certified or recycled packaging was 97% for paper packaging, 94% for paper bags and 93% for cardboard boxes used across the Group.

In 2017, use of paper bags decreased. However, 15% of the decrease was due to a reporting error regarding the category of the bags given to customers the year before; all the bags used by one brand were reported as paper bags in 2016 when they were in fact plastic (which therefore increases the reading for that year by 125% to adjust for the error). The other 8% of the decline was attributable in large part to stockpiling in 2016, which covered the sharp increase in sales in 2017.

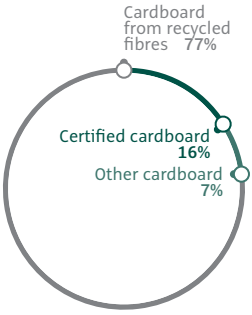
PAPER BAGS



PAPER FOR PACKAGING



CARDBOARD



Most of the Group's brands, including Gucci, Bottega Veneta, Saint Laurent, Balenciaga, Alexander McQueen, Stella McCartney, Pomellato, Dodo, Boucheron, Volcom and PUMA, opt for FSC certification for their packaging. Some brands focus on the integration of recycled fibres. At Bottega Veneta, for instance, 99% of paper and cardboard packaging used in 2017 was either recycled or certified.

In 2017, Saint Laurent developed new foldable packaging for its e-commerce site that can be transported folded, thereby reducing the space used and in turn CO_2 emissions during transport.

In 2017, Balenciaga continued with its No Box project to cut down on packaging and the amount of cardboard used for goods transport, adopting lighter yet equally

resistant solutions to reduce resource consumption. The concept is now in place on its textile bag line, and the brand is working on carrying this over to other lines. Protective packaging for deliveries of small items is biodegradable, made using cornstarch. The brand is also looking into replacing its plastic packaging with recycled equivalents. To date, this has been implemented for production hangers, which are now made from recycled polystyrene. As part of its new visual identity, Balenciaga has developed new store hangers in "liquid wood", an innovative material made using lignin (a component of wood thrown away in massive quantities when making paper), which is also biodegradable (using DIN ISO 14 851).

At Group level, the Luxury Division's multi-brand logistics platform aims to reduce packaging volumes used for product delivery worldwide. It also ensures compliance with the Kering Standards on the subject: in 2017, all boxes used were FSC certified. A study conducted in 2017 on all other papers and the various types of plastics used resulted in the identification of further action plans.

Water

Given the nature of the Group's operations, the bulk of its industrial water consumption is attributable to tanneries. While none are located in water-stressed zones, the brands are still working tirelessly to come up with innovative tanning processes that eliminate heavy metals and use less water.

Across the Group, 68% of water consumed is used for domestic purposes (store cleaning, lavatories, air conditioning, etc.). Consequently, the direct environmental impact of the Group's water consumption is low. Kering is nevertheless applying its EP&L approach to conduct an innovative review of responsible water management across its entire production chain. Indirect water consumption linked to the use of agricultural raw materials such as cotton constitutes an environmental issue.

Kering Standards are nevertheless being developed for the stores and property, and the brands are implementing specific initiatives to reduce their water consumption. Gucci, for example, informs its stores on good practices in water management, with the publication of Gucci Technical Guidelines for the Sustainable Management of Stores. Bottega Veneta collects rainwater for garden watering and water fountains at its Montebello site.

Water consumption in 2017 and *pro forma* year-on-year change (cu.m)

	Consumption in 2017	2017-2016 *pro forma* scope		Year-on-year change
		2017	2016	
Industrial water	299,596	296,560	217,901	+36.1%
Non-industrial water	651,346	609,205	576,523	+5.7%
TOTAL WATER	**950,942**	**905,765**	**794,424**	**+14.0%**

In 2017, Kering's water consumption amounted to approximately 950,942 cu.m. On a *pro forma* basis, total water consumption increased by 14%, largely due to a significant 36% increase in industrial water consumption on the back of a substantial increase in business volumes on industrial sites owned by the group, especially its tanneries.

3.4.2. Sustainable innovation

To significantly reduce its environmental footprint, Kering aims to stimulate disruptive innovation, transform its traditional processes and encourage the widespread adoption of more sustainable practices. An illustration of this determination is the Create pillar of its 2025 strategy, which makes innovation one of the foundations of the Group's sustainability approach.

Kering is a founding partner of the Plug and Play-Fashion for Good accelerator, a partnership formed with Fashion for Good and the C&A Foundation, Plug and Play, a Silicon Valley start-up incubator, and representatives of the private sphere including the Galeries Lafayette group to increase the pace at which innovation is integrated into the luxury and apparel sectors, taking sustainability criteria into account. This accelerator programme helps partners identify the most compelling innovative start-ups in the sector and support them in their development. Candidate start-ups must take a 360° approach to innovation, focusing on three priority areas: the supply of raw materials, the manufacture of fabrics and garments (dyeing, processing, sewing) and product end-of-life (recycling, circular economy). The accent is placed on projects and technologies that can help players in the textile industry reduce their consumption of water and energy, their waste production and their use of chemicals, and help improve their working methods.

In April 2017, the first group of 12 start-ups with great potential was selected, rounded out by a second wave of nine start-ups in December 2017. Kering and its brands have assisted these start-ups through mentoring sessions, and by hosting them at its head office for working and discussion meetings with representatives of Kering and its brands. Lastly, the start-ups were given the opportunity to meet with members of the Kering Leadership Group, to benefit from their advice and experience.

The Group's brands can also make use of the Materials Innovation Lab (MIL), launched in 2013, which offers a library of more than 2,500 certified ecological fabrics and fibres. The materials are assessed in the light of both external standards and certification and a tool exclusive to the MIL, developed in line with the EP&L methodology. Working with Kering's Sustainability Department, the MIL

team partners with suppliers to identify new and more environmentally friendly materials, and to support the Houses in the integration of these materials into their supply chains. The MIL works closely with innovative start-ups and has participated in the mentoring sessions organised with the Plug and Play-Fashion for Good accelerator, particularly to assess the technical feasibility of proposed solutions.

In 2017, when releasing its 2025 sustainability strategy, Kering announced the establishment of a second Innovation Lab dedicated to jewelry and watch brands. During the year, the Group laid down more precisely the strategy that will be at the heart of the development of the watches and jewelry Lab, with the aim of getting it off the ground in 2018.

3.4.3. Waste prevention and management

Hazardous and non-hazardous waste

As is the case for consumption of packaging, the production of waste in Kering's operations stems mainly from the extent of its retail activities. The repackaging of goods and the use of pallets for transport mostly generate non-hazardous waste. Kering mainly generates packaging waste and also 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 2017 and *pro forma* year-on-year change (tonnes)

	Production in 2017	2017-2016 *pro forma* scope		Year-on-year change
		2017	2016	
Non-hazardous waste	18,880	16,804	13,951	+20.5%
Hazardous waste (1)	351	286	254	+12.6%
TOTAL WASTE	**19,195**	**17,090**	**14,205**	**+20.3%**

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

In 2017, the Kering group's total waste production amounted to 19,195 tonnes, 98% of which was non-hazardous.

On a *pro forma* basis, hazardous waste increased by 12.6% due to increased activity in the tanneries.

Non-hazardous waste increased by 20.5% *pro forma*. The increase is directly in line with growth in business volumes.

Waste recycling

Rate of recycling and reuse of waste as energy in 2017 (%)

	% reused in 2017
Non-hazardous waste	69.0%
Hazardous waste	46.0%
TOTAL WASTE	**68.7%**

46% of the hazardous waste and 69% of the non-hazardous waste produced by the Kering group is recycled or reused as a source of energy, resulting in an overall recycling and waste-for-power rate of approximately 68.7%.

In 2011, Balenciaga adopted waste sorting at its main sites in Paris. The brand works with an ESAT (a company working in the protected sector in France) specialising in the recovery and recycling of conventional office waste (paper, envelopes, flyers, etc.), as well as cardboard, plastic, cans and above all fabric. Since the operation began, 89 tonnes of paper and cardboard, 4 tonnes of plastic and 5.1 tonnes of fabric have been recycled. Balenciaga has expanded its recycling system to the new store located on Avenue Montaigne. Saint Laurent also continued its efforts to recycle waste and unused materials in 2017. Partnerships have been established with French vocational rehabilitation organisations to give a second life to fabrics used in old collections. Some fabrics are transformed into insulation for buildings or cars while others are reused to create new clothes. Moreover, Bottega Veneta, Gucci, Stella McCartney, Balenciaga and Saint Laurent recycle cardboard from their Parisian stores.

In addition to conventional office waste (paper, cardboard, ink cartridges, light bulbs, etc.), Volcom develops specific partnerships to reuse polystyrene-based waste in the manufacture of new products, particularly surfboards. Worn skate ramps are recycled into store shelving, and used store display units made of wood are recycled into skateboard ramps. Event banners are reconditioned to make surfboard and snowboard bags. At events run by Volcom, waste bins are provided to the public through a partnership with Repreve, a supplier of recycled PET fibre, under an awareness-raising operation on technology for recycling plastic bottles to make textile fibres.

The volumes used and their composition makes the management of leather waste a challenge for the Group's brands. Several innovative solutions have been developed, for example to transform waste into compost or organic fertiliser after treatment and then grinding. Bottega Veneta recycled 145 tonnes of waste leather using this process in 2017. Gucci also uses this solution for the recycling of leather offcuts produced and collected from its workshops.

Saint Laurent has in turn developed its own up-cycling solution. Two years of intense research have resulted in the development of exclusive recycled leather from production offcuts. The new leather meets the high standards expected by the House, and was used to make two models of shopping bag, one for men and one for women, for the Spring 2018 collection.

Lastly, Kering sought to allow fashion and design schools to benefit from the unused fabrics of its ready-to-wear brands. More than 21,000 metres of fabric were given to nine different schools in the United Kingdom, Italy, France and Belgium in 2017 thanks to the participation of Gucci, Bottega Veneta, Alexander McQueen, Balenciaga, Brioni and Stella McCartney. Also noteworthy is the partnership formed by Gucci with Italian company Green Line in 2015 to make collections from recycled fabrics. Gucci donated 87 tonnes of scrap fabrics from its workshops to Green Line in 2017.

3.4.4. Countering food wastage

Though work on countering food wastage is not directly relevant to Kering's activities, the Group and its brands do develop programmes addressing this issue, especially in Italy, where most sites with personnel canteens are located. Kering, Gucci and Bottega Veneta accordingly support programmes created to redistribute meals not served in canteens to people in need. Through this programme, Kering, Gucci and Bottega Veneta distributed a total of more than 7,000 meals in 2017.

3.4.5. Management of chemicals

As well as complying with fundamental national and international regulations such as REACH (Registration, Evaluation and Authorisation of Chemicals, European Union), GB (Guo Bio, China), CPSIA (Consumer Product Safety Improvement Act, United States), KC Mark (Korea Certification Mark, South Korea), Kering has set itself the target of eliminating all hazardous chemicals from all its brands' products and production processes by 2020. To do so, the Group has established two types of lists of substances subject to restrictions: one for production processes, the Manufacturing Restricted Substance List (MRSL), and one for products, the Product Restricted Substance List (PRSL). There is a single MRSL covering the entire Group, and several PRSLs, one for the Luxury business and one for each Sport & Lifestyle brand.

The MRSL is focused on discontinuing the use of dangerous chemicals in the manufacturing process, first to ensure that workers in the supply chain of the Group's brands are not exposed to hazardous substances, and second to reduce toxic discharges into water. Implementation of the MRSL began in 2014 with a pilot phase at 13 key tanneries, including the four Kering tanneries, involving analysis of more than 3,500 chemicals, plus in-depth chemical tests on samples of leather, water discharge and chemical inputs. This pilot phase enabled Kering to develop a set of guidelines, tools and methodologies to enable the MRSL to be rolled out to its entire leather supply chain in 2016. 38 tanneries representing 80% of the Luxury brands' leather supplies have been covered. In 2017, Kering continued introducing the MRSL throughout the leather supply chain, supporting its suppliers in both the identification of substances to be replaced and in the definition of phase-out plans for the substances in question.

Collaboration and experience sharing are key ingredients of the project. With this in mind, Kering organised Leather Talks in 2017, bringing together 120 people from Kering, its brands and suppliers, and, most importantly, 24 tanneries and 28 chemical suppliers. The event focused on issues such as traceability, sustainable sourcing, environmental performance and management of chemicals. On the latter point, the Talks served to identify the main challenges in extending the MRSL to the entire leather supply chain.

In 2016, Kering officially joined the Zero Discharge of Hazardous Chemicals group (ZDHC) as a signatory member, having been an observer member since 2015. ZDHC comprises 20 or so major international brands working to eliminate the most dangerous chemicals from textile, leather and footwear industry supply chains by encouraging sector-wide take-up of best practices and sustainable chemicals use. Kering takes an active part in ZDHC, and in 2017 was able to share its feedback following the rollout of the MRSL and more specifically its guidelines for compliance with MRSL and data collected on site. PUMA, an active founder member of ZDHC since 2012, sits on its board. It is also a member of AFIRM (Apparel and Footwear International Restricted Substances List Management Group).

In the field of textiles, Kering's MRSL is also undergoing pilot testing in 11 textile factories, which have analysed nearly 2,000 chemicals used in their processes and developed elimination or substitution plans for substances that are not permitted under the MRSL. Here again, the sharing of experience with ZDHC allows for a synergy of efforts and the pooling of technical expertise.

3.4.6. Water discharge and odour prevention

Though the water discharge impact from Kering operations is not significant by itself, discharge from textile and leather industry production facilities can have a more significant environmental impact, especially as regards chemical pollutants. For this reason, water pollution is one of the six environmental impacts covered by the Kering EP&L. Because of the large amounts of water used by tanneries, special wastewater treatment measures are called for. Each tannery has its own on-site wastewater treatment plant. The Group's two Italian tanneries pre-treat their wastewater at their on-site plants, and send the output, which contains chrome, to a special treatment plant used by several other tanneries, which purifies the water and recovers the chrome. The Group's other two tanneries have treatment plants that use sedimentation and physicochemical and biological treatment techniques.

Through its involvement in ZDHC, PUMA co-led work on drafting guidelines on wastewater, the aim being to introduce a new standard on wastewater quality across the clothing sector. The guidelines were published in November 2016, and in 2017 gave rise to pilot projects conducted by several ZDHC members, including PUMA. Kering also contributed to this work and took part in the development of similar standards for wastewater quality in the leather sector.

In 2017, PUMA analysed a total of 61 water samples at 44 supplier sites in China, Indonesia, Thailand, Turkey, Taiwan, Vietnam and Bangladesh. These tests are carried out at sites such as dyeing plants and tanneries, which have water-intensive production processes. They cover the groups of substances listed in the ZHDC MRSL, in incoming water, wastewater before and after treatment, and sludge samples. Compliance rates for heavy metals at the sites tested were in the vicinity of 78% in 2017. PUMA also continued to work with the Institute of Public and Environmental Affairs (IPE), a Chinese NGO, to communicate transparently with all local stakeholders on the chemicals used and released into the environment by the brand's suppliers and subcontractors.

Tanning processes can also give rise to odour pollution, because they emit hydrogen sulphide, especially at the stripping stage. Unpleasant odours are managed by an air evacuation system at the stripping tubs, which channels polluted air through a filter that traps sulphur bearing particles and outputs clean air.

3.5. *protection of biodiversity*

Preservation of biodiversity is a key component of Kering's environmental policy. Kering endeavours to ensure that its activities do not generate negative impacts on biodiversity, and aims to create positive impacts, particularly in terms of soil regeneration and saving endangered animal and plant species. The approach taken by Kering and its brands focuses on three main areas:

- improved measurement of ecosystem services and biodiversity;
- contribution to conservation initiatives;
- awareness raising of the private sector on biodiversity issues.

Improved measurement of ecosystem services and biodiversity

Kering is committed to improving the allowance made for biodiversity and ecosystem services in its EP&L and to improving the data and knowledge underlying these evaluations. In 2017, this included:

- the development of a biodiversity indicator in collaboration with the Institute for Sustainability Leadership at the University of Cambridge. After ambitious work begun in 2016 and in-depth discussions with dozens of stakeholders, Kering continued its partnership with Cambridge University in 2017 to develop methodology for measuring the impact of business activities on biodiversity, notably through supply chains. The first version of the new methodology was released and then reviewed by experts at a workshop in Cambridge in June 2017; it was subsequently published by the University in a white paper. The methodology was also presented to a panel of stakeholders at the World Forum on Natural Capital in Edinburgh. The objective in 2018 will be to test the methodology in a range of supply chains in order to develop and validate its feasibility in actual use;
- the continued partnership with Stanford University's Natural Capital Project to explore opportunities to improve the measurement of ecosystem services through the use of the EP&L soil indicator. An important feature of this work is that it will allow Kering to align itself with other similar initiatives, notably the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) approach;

- participation in the Product Biodiversity Footprint (PBF) Steering Committee, an initiative geared towards drafting a standard measurement of impacts on biodiversity in the context of lifecycle analysis practices. This project, coordinated by ICare, includes three representatives of the private sector, including Kering, experts from ADEME, the Museum of Natural History, AgroParisTech, the United Nations Environment Programme (UNEP) and the Society of Environmental Toxicology and Chemistry (SETAC).

Support for conservation initiatives

In 2017, the Group's projects were focused primarily on farming practices that respect wildlife and forest conservation through its REDD+ carbon offset projects.

- the Group is continuing its partnership with the Wildlife Friendly Enterprise Network (WFEN) to develop best-practice guides to promote the conservation of biodiversity in farming practices applied for producing raw materials. In 2017, WFEN issued practical recommendations on ensuring positive cohabitation between endangered local species and sheep farms in South Africa, Australia, Mongolia and New Zealand;
- Kering continues to offset its residual Scope 1 and 2 greenhouse gas emissions through reduction projects certified by REDD+ (Reducing Emissions from Deforestation and Forest Degradation). In 2017, 136,232 tonnes of CO_2 were offset in respect of 2016, helping protect 890,000 hectares of biodiversity hotspots in Kenya, Indonesia, Colombia, Cambodia and Madagascar. All projects supported by Kering are certified by the Climate, Community and Biodiversity Alliance (CCBA), which recognises the positive contribution of REDD+ projects in the conservation of biodiversity and ecosystems, but also for the living conditions of local populations.

Raising awareness of biodiversity issues in the private sector

In 2017, Kering continued its efforts to encourage private stakeholders to pay greater attention to biodiversity issues. To this end, the Group participated in the Global Environment Facility's (GEF) Technical Advisory meeting in Washington and the 7th Conference of the GEF in Ethiopia. Kering also took part in the Biodiversity in Business conference organised by the University of Oxford and NGO Fauna and Flora International, and regularly shares its expertise through various workshops, including that run by the Convention on Biological Diversity devoted to mainstreaming biodiversity in business.

3.6. animal welfare

Kering believes that the products developed by its brands must meet the highest standards of quality in all aspects of production, including those related to the welfare of animals supplying some of the materials used by the brands.

To this end, Kering is committed to implementing the highest standards of respect for animal welfare for all the segments of its supply chain derived from animal-based materials, and is committed to widely spreading and sharing its standards and best practices within the industry.

As such, over the last two years, Kering has developed a set of criteria imposed on the Group and its suppliers of key raw materials, known as the Kering Standards. They cover five main areas: traceability, chemicals, social impact, environmental impact and animal welfare. For animal welfare, Kering has developed a very detailed additional system of standard practices, calling on external expertise by consulting with specialists in animal welfare and submitting animal welfare standards to a third party for approval.

The animal welfare standards developed by Kering are confined to specific species and production typologies (breeding or capture in the wild), and in some cases the geographical context. To date they cover cattle, sheep, crocodilians, ostriches, pythons, ducks, geese, kangaroos and other species of mammals bred for their fur. They are divided into three levels: Bronze, Silver and Gold, following a logic of continuous improvement.

- the Bronze level is the basic level that must be observed by the various brands and their suppliers;
- the Silver and Gold level have additional and more restrictive criteria reflecting the highest existing standards in terms of animal welfare. The Gold level includes additional criteria covering the management of biodiversity on farms. The criteria are regularly updated so that the Gold level always matches the most demanding standards in terms of animal welfare worldwide.

Kering's animal welfare standards are backed up by specific audit protocols describing how Kering and its brands can measure their suppliers' compliance on each of the standards. The protocols naturally cover conditions in which livestock are kept, but also include broader criteria such as farms' environmental performance or their impact on local communities and people.

Since its animal welfare standards are an industry first, Kering expects them to be phased in gradually, in partnership with suppliers. Pilot projects have been conducted with strategic suppliers involving brand representatives and animal welfare experts. In 2017, these projects covered roughly 50 farms with ten different animal species in Africa, Asia, Europe, Australia and New Zealand.

Kering has pledged that 100% of key raw materials used by the Group and the associated production processes will comply with the Kering Standards, including those in respect of animal welfare, by 2025.

Lastly, in 2017, Kering continued its collaboration with the Foundation for Nature and Mankind (Nicolas Hulot Foundation - FNH) on intersector cooperation on supply chains with the aim of improving traceability and environmental practices. Discussions focused on the question of animal welfare as part of the renewal of the FNH-Kering partnership signed in 2017 for the next three years, meaning that the issue will take greater importance in the sector and be advocated at all levels.

4. supporting community development

4.1. community impact and preservation of know-how

Kering and its brands play a major role in the economic and social fabric of the regions where their sites are located. Community involvement is especially important in the Luxury business: other than their directly operated workshops, the Luxury brands draw their expertise and know-how from a network of thousands of suppliers, more than 90% of which are based in Italy. Work by the Group's brands thus contributes actively to the preservation of traditional expertise and excellence in craftsmanship in leatherwork in Italy, as well as watchmaking in the Jura Valley and artistic creation in London, Paris and Milan.

Of particular note in 2017 was the launch of the Gucci Art Lab project. The Gucci Art Lab will open in 2018, bringing together the brand's leather goods and shoes activities at an ultramodern site spanning 37,000 sq.m. The purposes of this new centre of excellence will be to preserve the unique know-how developed by Gucci and instil technological innovation enabling it to optimise production, a key factor in underpinning the brand's strong growth. Another important instance of vertical integration is the new Saint Laurent women's shoes workshop opened in 2017 in Vigonza, Italy, which internalises all development and production stages (sketching, materials research, prototyping, tests, finishing, etc.). This new workshop deftly balances cutting-edge technology with the traditional practices of exceptional craftspeople. It is Saint Laurent's third internal production site, after the ready-to-wear workshop in Angers, France, and the leather goods workshop in Tuscany, Italy.

The sustainability of the Group's brands, particularly in the Luxury business, relies on the key know-how that must be preserved either through specific training or local partnerships:

- Bottega Veneta develops content for the leatherwork design and product development syllabus at IUAV University of Venice. This partnership covers two courses. The first, at the Venice University site, is on bag design, with students putting together a capsule collection focusing on a specific technical issue relating to manufacturing. The second, at the Bottega Veneta site (in the Scuola dei Maestri Pellettieri), consists of manual activities aimed at refining skills in pattern design, leatherwork techniques and product treatments and finishing. On completion of the syllabus, students present two bag prototypes with their tutor. The brand also organises training sessions on its own premises as part of the Scuola dei Maestri Pellettieri workshop to spread and transmit the traditional leatherworking techniques that are so specific and essential to the brand. In 2017, 252 people from both inside and outside the company were able to perfect their techniques in the field of leatherwork (tanning, cutting, sewing, finishing, etc.). Bottega Veneta also continued to offer funding and support to three community craft cooperatives under the Comunità Montane Femminili project, launched in early 2011 in Alto Astico and in Posina, in 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, more than 80 women now run their workshops independently, and have accordingly become direct suppliers to the brand;
- Gucci continued its partnership with the *Made in Italy* Tuscany Academy on the preservation of leatherwork-specific know-how;
- Brioni continued its programme for training exceptional tailors at its *Scuola di Alta Sartoria* school. On completing the three-year course, the 16 young people admitted each year are offered employment in the Brioni workshops. In September 2016, Brioni extended this programme with the Ready, Steady scheme, which enables young tailors to acquire new skills through a one-year apprenticeship both in the brand's production departments and at its shops. With the last stage of the Let's Go! programme, from March 2018 to September 2019, the young tailors will be able to switch shops every three months over a one-year period to familiarise themselves with different cultures and customer profiles across the world;
- Stella McCartney continued to offer a scholarship to the Central Saint Martins College of Art and Design, conditional upon the student's committing to an ethical policy of not using fur or leather. Presentations were also given to students to share the brand's vision of sustainable fashion;
- since 2013, Boucheron has been supporting a course for future jewelers through a partnership with the *École Privée de Bijouterie Joaillerie de Paris* (BJOP). The graduation ceremony took place in July 2017 at the Kering head office at 40 rue de Sèvres in Paris;
- under a partnership with a jewelry school that opened in 2017, some of Pomellato's most experienced goldsmiths are sharing know-how and enthusiasm for the trade with young students;

- Ulysse Nardin supports the Watch Museum of Le Locle and two training institutes in the field of watchmaking, CIFOM and WOSTEP. This support involves taking on apprentices, developing the training programmes and offering evening courses for Ulysse Nardin employees to build on or hone their skills.

While loyal to their heritage and tradition, the brands are eminently forward-looking. Gucci, for example, is eager to catalyse the spirit of innovation and creativity of younger generations to instil a more modern vision of luxury. In 2017, Gucci began a new three-year strategic partnership with the University of Bocconi to set up the Gucci Research Lab, whose four-strong research-teaching team and Director will be supporting Gucci's innovation strategy and cultivating a start-up spirit at the brand. The Gucci Research lab will be publishing yearly white papers to report on its work.

In September 2017, Saint Laurent founded the *Institut de Couture Saint Laurent* in partnership with two prestigious schools: *Institut Français de la Mode* (IFM) and *École de la Chambre Syndicale de la Couture Parisienne* (ECSCP), from which Yves Saint Laurent graduated in 1955. The Institut de Couture Saint Laurent runs a six-month advanced course on ready-to-wear, with theory classes, spotlights on iconic pieces from the Saint Laurent brand and practical classes balancing traditional craftsmanship with creativity and innovation. Sustainability will be another key feature of this course, which began in September 2017 and targets students from both of these fashion schools along with Saint Laurent employees, who can take part in some of the modules under their career development plans.

On the Group's side, since 2014 Kering has been part of a strategic five-year partnership with the Centre for Sustainable Fashion (CSF) at the London College of Fashion (LCF) to promote sustainable design and innovation in the fashion industry. This partnership focuses on three main areas:

- the Kering Talks: each year, visionaries and business leaders from the fashion industry have their say on the latest developments in the area of sustainable fashion and share their vision of the sector and its most innovative advances. After the inaugural talk in 2014 by François-Henri Pinault, Chairman and CEO of Kering, and talks by Kelly Slater, world surfing champion and founder of Outerknown (in 2015), and Stella McCartney (in 2016), in 2017 Marco Bizzarri, President and CEO of Gucci had a conversation with Livia Firth, Founder and Creative Director of Eco-Age, on the culture of purpose, respect and responsibility at the heart of the brand's transformation;
- the joint development of teaching modules (MOOC) for the Sustainable Design programme: Kering and the CSF, in collaboration with a community of experts, researchers and professors, have pooled their skills to create and deliver a course module taught at the LCF on supply chains and the environmental impact of sourcing strategies;
- the Kering Award for Sustainable Fashion: each year, Kering brands and the CSF run a competition open to third-year BA and MA students. The 2017 winners were each awarded a grant of €10,000 for their project and given internships at Gucci and Stella McCartney, where they benefited from the two brands' expertise as they worked further on their projects.

Kering has also partnered with two schools, Parsons in New York and Tsinghua in Beijing, through the organisation of conferences, competitions and scholarship and knowledge sharing programmes involving Kering executives.

Furthermore, community impact lies at the heart of Kering's sustainability strategy, of which responsible sourcing of raw materials is a key element. In practical terms, responsible sourcing takes into account both environmental and social issues, in particular those related to the production of raw materials (extraction or crop and animal husbandry). This means that the Group seeks to go beyond simply reducing any negative impacts to having a truly positive impact that directly benefits producers. For example:

- Kering purchases artisanal gold certified by Fairtrade, which supports implementation of best mining practices and contributes to developing standards of living among local communities;
- the Organic Cotton Field project in India enjoys close ties with a training programme that develops entrepreneurship among women so they can improve their standard of living through farming practices that help them diversify their sources of income;
- the Gobi Desert Cashmere programme works directly with nomadic shepherds to train and support them with a view to developing farmers' cooperatives and the means to improve the quality of cashmere while having a direct positive impact on their standard of living.

4.2. stakeholder dialogue

In an increasingly interconnected world, players in the private sector need to pay attention to and maintain close 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. For Kering, this means:

- defining a policy for consultation and analysis of stakeholder expectations at the Group level;
- encouraging each brand to develop its own stakeholder dialogue platform at a more operational level.

Group approach

Materiality

In 2014, Kering called on the expertise of Business for Social Responsibility (BSR), a consultancy firm specialising in the field of stakeholder dialogue, to update its materiality analysis. To this end, 12 interviews were carried out internally with senior executives of Kering and its brands. Kering also sent a questionnaire to over 100 external stakeholders (universities, NGOs, consumer groups, trade unions, investors and rating agencies, suppliers and business federations). This work was a defining part of the development of Kering's 2025 Sustainability strategy, along with dialogue extending across and beyond the company.

Platforms of dialogue and exchange

In order to remain constantly attentive to the key issues affecting its stakeholders, Kering participates in a number of international initiatives involving multiple parties:

- **SAC**: In 2012, Kering became a member of the Sustainable Apparel Coalition, which brings together major players (brands, retailers, suppliers, NGOs, etc.) from 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 contributed to the creation and implementation 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. PUMA and Stella McCartney are also stakeholders in the SAC's work. Of particular note is the Convergence project, partnered by Kering, which aims to lay down a framework of harmonised and global social audit procedures;
- **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. Kering worked actively with the WBCSD in 2017, notably by sharing its EP&L methodology as part of the development of the Natural Capital Protocol. Kering is also a member of *Entreprises pour l'Environnement*, the French partner of the WBCSD, which brings together some forty French and international companies. In 2017, Kering sponsored the 12th edition of the Entreprises pour l'Environnement LCI awards programme that rewards innovative projects from young people on responsible communications and consumption;
- **NCC**: The Natural Capital Coalition is a group of players which in 2016 committed to creating a Natural Capital Protocol, a document setting out a common framework for measuring and accounting for natural capital. Kering actively contributed to drafting the protocol, by sharing its EP&L methodology and by extending the protocol to the Textile and Apparel sector. In 2017, Kering presented its EP&L approach at an event run by the Natural Capital Coalition for the launch of the Japanese version of the Natural Capital Protocol, which marks the start of the coalition's development in the Asia Pacific region;
- **ZDHC**: In 2016, Kering joined the Zero Discharge of Hazardous Chemicals group (ZDHC) as a signatory member, after being an observer member since 2015. PUMA has been a ZDHC member since 2011. ZDHC comprises twenty or so major international brands working to encourage sector-wide take-up of best practices and sustainable chemicals use with a view to eradicating the most hazardous chemicals from textile, leather and footwear industry supply chains;
- **LWG: The Leather Working Group** unites players in the leather industry in the aim of improving the environmental performance and traceability of its member tanneries. Following PUMA's commitment to the LWG, Kering chose to join the organisation in 2014 in order to speed up the work related to leather traceability and improve the environmental footprint of its tanneries;
- **Textile Exchange**: Kering is a member of Textile Exchange Europe, and sits on the Board of Directors of this body committed to promoting the production and use of more sustainable textiles throughout the Clothing industry. In 2017, Kering published two guides with the Textile Exchange, reporting on the organic cotton market to date and setting out advice and good practices for companies wishing to include organic cotton in their supply chains;
- **IUCN**: The International Union for Conservation of Nature develops and maintains cutting-edge conservation science, particularly with respect to species, ecosystems and biodiversity, and their impact on human livelihoods. Kering initiated a strong partnership with the IUCN in 2013, together with the International Trade Centre (ITC), on python breeding and trading in South-East Asia. Kering works closely with the IUCN Crocodile Specialist Group to guide its initiatives in terms of species conservation and sustainable trade. Kering is a member of the Board of IUCN USA;

- **Wildlife Friendly Enterprise Network**: Kering is a member of the Board of Directors, and supports moves to include the biodiversity criterion in the production of key raw materials (wool, cashmere, etc.);
- **BSR (Business for Social Responsibility)**: Kering takes part in three joint initiatives as a member of this international network of more than 300 companies:
  - the Responsible Luxury Initiative, which promotes transparency and cooperation between Luxury Goods companies, particularly with regard to supply chains. The Group is especially attentive to issues regarding furs and precious skins,
  - the Business Action for Women initiative, formed by 18 companies in the consumer goods sector alongside the Win-Win Strategies NGO with the aim of improving conditions for women in society. Kering's involvement here focuses primarily on the issues of women in the supply chain, the role of women in combating climate change, and the eradication of violence against women,
  - the Global Business Coalition Against Human Trafficking (gBCAT), formed by major private groups and non-governmental organizations to combat modern slavery, primarily by detecting it and eradicating it from companies' complex supply chains;
- **IPI**: In 2016, Kering joined the board of the International Platform for Insetting, a multi-stakeholder initiative involving companies, NGOs and climate experts. The principle of insetting is to offset the carbon footprint by acting directly in the supply chain using blockchain technology to promote trust in the system and ensure its transparency.

Brands' sector approach

Like Kering, the brands are active members of organisations representing their specific sectors. The Luxury brands specialising in leather goods, such as Gucci and Bottega Veneta, are very active in the work of Italy's Unione Nazionale Industria Conciaria (UNIC) to improve the environmental footprint of tanning processes, as well as health and safety conditions in tanneries. The association of Italian tanners is in turn a member of Cotance, the organisation representing the leather industry in Europe, which contributes to the European Commission initiative aimed at defining a standard for measuring the environmental footprint of leather goods. The Group's brands are also active in professional associations in Italy. Gucci, for example is a partner of the Camera Nazionale della Moda Italiana.

The watchmaking industry is also represented through various federations in Switzerland, in particular the Federation of the Swiss Watch Industry, the *Fondation de la Haute Horlogerie* and the *Association Suisse pour la Recherche Horlogère*, to which Girard-Perregaux and Ulysse Nardin belong. Ulysse Nardin takes part alongside other leading brands in the discussions of the *Centre Suisse d'Electronique et de Microtechnique* (CSEM) on new technologies applicable to watchmaking.

Also at the European level, the Group's brands take part in talks held by the European Cultural and Creative Industries Alliance (ECCIA), which brings together Europe's five main Luxury Goods and creative industry federations, including Comité Colbert in France, Fondazione Altagamma in Italy and Walpole in the United Kingdom.

Some brands go further by creating their own dialogue and exchange mechanisms with their stakeholders. PUMA, for example, runs an annual Talks event. In 2017, the 14th edition of the event was held in Hong Kong, the first time it had been held outside its usual venue of Banz in Germany. The Hong Kong location was considered more coherent with the brand's operational value chain realities. The 40 or so participants at the event (suppliers, industry and government representatives, NGOs, sustainability experts, etc.) discussed intersectorial collaboration and transparency aspects of social and environmental performance.

True to its strong commitment to protecting the oceans, Volcom continued its partnership with the Surfrider Foundation, which recognises the brand as an active coastline defender.

In the Luxury business, Gucci joined the Fur Free Retailer programme run by the Fur Free Alliance NGO following the brand's announcement of a commitment to ban the use of furs across its range starting from its spring/summer 2018 collections. Gucci also remains actively involved in Social Accountability International (SAI). This is the body that developed the SA8000 standard for companies to help them ensure respect for fundamental workers' rights in their operations (subsidiaries and suppliers) worldwide. Gucci's constructive dialogue with NGOs dates back several years, on animal and environmental issues (LAV, Humane Society, etc.) and the rights of workers in the supply chain (Oxfam, Transparency International, etc.).

Stella McCartney has continued its commitment to Canopy to reduce the risk of deforestation associated with the use of viscose. Since 2012, the brand has been a member of the Ethical Trading Initiative (ETI), which works to promote respect for human rights throughout the supply chain. In 2017 it opened dialogue with NGO Anti-Slavery International (ASI) further to the risk analysis it carried out in response to the UK modern slavery act.

4.3. relationships with subcontractors and suppliers

4.3.1. The protection of human rights at Kering and the fight against corruption: general framework, guiding principles and key commitments

The protection of human rights, for all Group employees as well as for all employees of the supply chains of its various brands, is central to Kering's ethical commitments. In many respects, it outweighs all other concerns. The ethical approach to business and the Group's overall behaviour, as transcribed in the Kering Code of Ethics, is consistently a central part of the Group's identity and development.

In a codified practice dating back to 1996, and building on a first version of a Code released in 2005 and revised in 2009, the Kering Code of Ethics, further updated and again distributed to all employees in 2013, provides a common foundation for business conduct and the Group's commitments. It clearly sets out the ethical principles that should be applied everywhere and by all, the Group's values, what it believes in, and what it opposes.

In more precise terms, the Code incorporates the major international reference texts in terms of ethics and human rights, which include the United Nations' Universal Declaration of Human Rights and the European Convention on Human Rights, the various conventions of the International Labour Organization, especially nos. 29, 105, 138, 182 (child labour and forced labour), 155 (health and safety of workers), 111 (discrimination), 100 (remuneration), 87 and 98 (freedom of association, right to organise and collective bargaining), the OECD (Organisation for Economic Co-operation and Development) guidelines for multinational companies, the United Nations Convention on the Rights of the Child and the 10 principles of the United Nations Global Compact.

Since 2013, the Code has included the Group Suppliers' Charter, which sets out in detail Kering's specific expectations of its commercial partners in respect of social and environmental issues.

On the issue of preventing corruption, Kering prohibits any political, trade union, cultural or charitable financing being carried out in exchange for direct or indirect material, commercial or personal advantages. The Group complies with national and international regulations in the prevention of direct and indirect corruption.

The Group's three Ethics Committees seek to ensure compliance with the Code of Ethics, and may have matters referred to them by any employee, either directly or via the ethics hotline set up for all Group employees worldwide in 2013. From 2018 access to this hotline will no longer be limited to employees of the Group.

A new milestone was reached in 2015 with the creation of a Compliance structure, led by a Group Chief Compliance Officer (CCO) backed up by an international network of Brand Compliance Officers (BCO) appointed by the CEOs of each brand, to ensure compliance with prevailing legal requirements, including those relating to the fight against corruption and to competition law.

Lastly, a mandatory ethical training module developed directly by the Group and updated annually is provided to all employees of all brands worldwide in nine languages. It covers all of the major principles enshrined in the Code, and also describes potential ethical dilemmas and specific themes, including the fight against corruption, which is dealt with in a dedicated module each year. For its fourth year, in 2017, the themes covered by the training programme were fighting corruption, workplace behaviour and climate change and its impact on raw materials sourcing.

This framework applies without exception to all of the Group brands, wherever they operate. The brands are free to supplement it or to integrate it into their own procedures and materials, but it remains the common foundation shared by all.

This is, for example, the case at Gucci and Bottega Veneta, which in 2007 and 2009 respectively embarked on the process of obtaining SA8000 (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 continuously improve working conditions by setting up a specific management system for this purpose. In 2013, Gucci and Bottega Veneta received SA8000 certification for all their activities. Gucci obtained renewal of its certification in 2017. Kering's international logistics platform for its Luxury brands (Luxury Goods International – LGI) also enjoys SA8000 certification.

Gucci is also actively involved with Social Accountability International (SAI), which developed the SA8000 standard, and is a member of SAI's Advisory Committee.

Stella McCartney has also issued its own specific policy against modern slavery to its suppliers and partners, and has made a public announcement on this matter (Modern Slavery Statement).

PUMA has had its own code of conduct for suppliers and other partners since 1993. A Social Handbook is also available, with contact details to enable factory employees to reach the PUMA.Safe team directly in case of breaches of the PUMA Code of Conduct. PUMA's membership of the Fair Labor Association (FLA) 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 cooperation between PUMA and FLA dates back to 2004, and aims to manage and implement the required standards in terms of working conditions at supplier sites. PUMA.Safe has been certified by the Fair Labor Association since 2007. In 2005, PUMA also undertook to publish an annual update of its supplier list. An example is PUMA's commitment alongside the FLA and other contractor brands, since 2015, to implement a national minimum wage policy in Georgia with local stakeholders. In 2017 PUMA also continued its

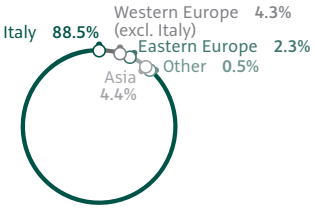
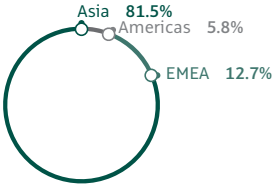
work on integration of the Ruggie Framework (also known as the United Nations Guiding Principles on Business and Human Rights) into its approach to human rights. The Ruggie Framework defines the set of Guiding Principles on Business and Human Rights, and is considered to be the reference framework issued by the United Nations on human rights. The brand revisited its suppliers' code of conduct in 2016 to incorporate elements in the fight against corruption.

The Volcom brand is also developing its code of conduct that its suppliers undertake to follow when they work for the brand.

In 2017, against a backdrop of increasing stakeholder attention on respect for human rights in the supply chains of major international groups, Kering analysed its practices by lining them up against the United Nations Guiding Principles (UNGP) on business and human rights. This survey enabled Kering to identify specific points for progress in areas including public commitment and policy, scope of internal control procedures, grievance and remediation mechanisms, and external communications. A specific action plan in 2018 will be progressively implemented to help Kering go beyond specific national legislation such as the Duty of Care in France, and the Modern Slavery Act in the United Kingdom.

4.3.2. Implementation within the Group: the same ambition, the same logic, two separate organisations

No control system, regardless of how mature and tested it is, can guarantee the absence of risk, and it is up to the Group and its brands to develop with suppliers the most efficient collaborative and control systems in order to keep risk to a minimum and implement any corrective action in cases where non-compliance is identified. As a Group comprising leading global brands, Kering operates on two very distinct major markets whose supply chains are structured in very different ways:

Activity	Supplier portfolio	Size of suppliers	Geographical location of Kering's suppliers in 2017
Luxury	Thousands of mostly small suppliers, highly fragmented market, high level of craftsmanship	Average number of employees by supplier: fewer than 50	More than 95% in Europe, predominantly in Italy [1]:  Strong government presence, comprehensive and mature labour law, highly developed social dialogue
Sport & Lifestyle	A few hundred large and mid-sized suppliers	Average number of employees by supplier: more than 1,000	More than 80% in Asia [2]:  Less government presence, nascent labour law, social dialogue left to the initiative of the private sector

(1) Geographical breakdown in 2017 of direct suppliers and contractors to the Luxury activities, managed within the centralised system introduced by Kering in 2016.
(2) Geographical breakdown of the production plants of PUMA's suppliers in 2017.

To meet the very different challenges encountered in these two market segments while maintaining the determination to serve a single ambition, Kering has established two separate organisations.

For the Luxury brands, 2016 marked a major turning point in the approach to supplier management and assessment, with complete redesign of the organisation. The challenge was that different brands had potentially adopted different practices, and distinct audit and risk evaluation methods, and that a single supplier working for several of the Group's brands could potentially face multiple audits. Therefore, the decision was made in 2015 to significantly improve the system's efficiency and to unify practices and the monitoring of the process across Kering's entire Luxury business. On that basis, a single central body allowing Kering to control the compliance of its Luxury brands' suppliers was established in late 2015, and began operating in January 2016. The new organisation is based on six key pillars:

1. Sustainability principles established for all Luxury brands in 2015 are divided into three areas:
   a) the social aspects related to human rights, labour rights, and health and safety: elimination of child labour, forced labour, human trafficking in all its forms and discrimination, compliance with statutory working hours, respect for the freedom of association and the right to collective bargaining; etc.;
   b) environmental aspects: compliance with laws as well as restrictive lists of chemicals defined by Kering, environmental management, waste water treatment; etc.;
   c) aspects related to the supply of raw materials and packaging: respect for animal welfare and the five related freedoms, sourcing and traceability requirements for a number of key materials used by Kering, prohibition of certain substances and/or certain sourcing regions (for reasons related to the social conditions of production – child or forced labour, for instance – or environmental issues), etc.

These principles are split into two broad categories: those that are mandatory, due to requirements imposed by international and national laws, and those embodying Kering's additional expectations and best practices in the field of sustainability. They also make reference to conventions, agreements and major international texts, for which they represent a practical extension (ILO and United Nations Conventions, United Nations Guiding Principles on Business and Human Rights, Millennium Ecosystem Assessment, Ramsar Convention, etc.). These sustainability principles have been phased into supplier contracts since 2016. Each supplier is in turn tasked with imposing these principles on its own subcontractor network, if they have any.

2. Kering provides central management through a team of 16 people (12 auditors specialised in conducting supplier audits and monitoring anomalies, and 4 people dedicated to risk management, control of procedures, and management of information support systems); depending on needs (locations, workload etc.), this team can be assisted by an external service provider selected in 2016.
3. Clear and uniform procedures for all Luxury brands, corresponding to the different stages of the supplier relationship: activation procedure, monitoring procedure, termination of contract procedure, etc.
4. A risk evaluation used, on the basis of collective data (information in the possession of the relevant brand(s) and self-assessment of the supplier prior to activation), to classify suppliers in accordance with three levels of risk (high, medium or low) and to construct an audit plan. Audit plans are updated monthly based on the needs of the various brands and/or the occurrence of particular events.
5. A single and comprehensive audit methodology, including not only the key chapters relating to social compliance, but also the essential components relating to health and safety, and environmental management. Containing 88 questions, the comprehensive audit questionnaire is divided into 13 categories (child labour, forced labour, health and safety, freedom of association and right to collective bargaining, discrimination, environment, etc.) and aligned with the best standards in the field, in particular the SA8000 and SMETA standards. The results are naturally pooled between the brands in order to avoid any overlap in the audits. Follow-up audits with a smaller scope focus on the area(s) in which breaches of compliance were identified or observations were made during the first comprehensive audit.
6. Anomalies classified into four categories and standard responses to each case:
   a) Breaches subject to zero tolerance (relating to the most serious situations liable to be encountered, specifically child labour, forced labour, irregular work, undeclared subcontractors, threats, discrimination, serious breaches of regulations, counterfeit, etc.).

      Identification of a zero-tolerance breach triggers the immediate establishment of a crisis unit bringing together the Kering audit team and the relevant brand(s) to decide on the future of the relationship with the supplier: immediate shutdown of the approval process if the supplier is in the process of being activated but has not started working; and discussions about the possibility of remediation and support for the supplier or about the need to terminate the contractual relationship if the supplier is working on one or more orders. The brand is the ultimate decision-maker on the most appropriate response.

b) Serious breaches of compliance.

The supplier is given one month to resolve the serious breach of compliance, and a follow-up audit is scheduled to confirm that the issue has been resolved.

c) Moderate breaches of compliance.

The supplier is given three months to resolve the moderate breach of compliance, and a follow-up audit is scheduled to confirm that the issue has been resolved.

For each of the 13 categories of the comprehensive audit questionnaire, a detailed description of what constitutes zero-tolerance breaches, serious breaches of compliance, moderate breaches of compliance and observations has been prepared. For example, in the health and safety category, any situation potentially endangering the lives of workers is a zero-tolerance breach; the absence of mandatory documentation on aspects liable to jeopardise the health or safety of workers (certificate relating to fire safety for instance) is a serious breach of compliance; the absence of mandatory documentation other than that addressing areas bearing on the health or safety of workers (minutes of the meeting of on-site Health and Safety representatives for instance) is a moderate breach of compliance; and a deviation from existing procedures (for example, first aid training running behind schedule) is an observation.

d) Observations give rise to a corrective action plan, and are the subject of a dedicated checklist at the next audit. The supplier has six months to remedy the observation.

Depending on the results of audits, suppliers are classified as:

- compliant (no zero-tolerance breaches, no compliance breaches, whether serious or moderate, fewer than five observations);
- partially compliant (no zero-tolerance breaches, no serious compliance breaches, fewer than five moderate breaches);
- non-compliant (cases of zero-tolerance breaches, and whenever more than five compliance breaches, whether serious or moderate, are identified).

The new organisation, effective since January 1, 2016, is phasing in both Kering's Luxury brands and their suppliers.

In the Sport & Lifestyle business, PUMA's audits are performed by PUMA.Safe (Social Accountability and Fundamental Environmental Standards) and nine internal auditors dedicated to these issues. In 2016, PUMA reorganized its supplier portfolio, distinguishing between core suppliers, which account for 80% of production, and other suppliers, called upon less often, for smaller production orders. In 2017 PUMA teams focused on core suppliers, delegating audit of the other suppliers to local expert organisations. As an exception to this rule, all new suppliers are audited by a member of the PUMA team.

The comprehensive audit criteria used by PUMA combine social, environmental, and health and safety standards set by the brand. They allow it to provide an overall rating at the end of the audit, directly related to the percentage of compliance observed during the process:

- **A rating** assigned when compliance is from 95% to 100%. Sites of this nature are audited once a year;
- **B+ rating** assigned when compliance is from 90% to 95%. Breaches of compliance are minor and can be corrected immediately. Sites of this nature are audited once a year;
- **B- rating** assigned when compliance is from 85% to 90%. Sites of this nature are audited once a year. If during the next audit, compliance breaches identified the year before have not been corrected, the overall rating is lowered to C;
- **C rating** assigned when compliance is from 75% to 85%. Many instances of non-compliance or serious breaches of compliance are identified. In such cases, a warning letter is sent to the site management and a follow-up audit is organised within four months to check that the issues have been remedied;
- **D rating** assigned when compliance is below 75%. The contractual relationship is terminated or not finalised if the supplier was not yet active.

Volcom, lastly, follows a mixed approach by conducting some audits with its own teams, others being conducted by an external firm commissioned by Volcom directly or by another of the supplier's clients.

4.3.3. Audits conducted and results obtained in 2017

Luxury activities

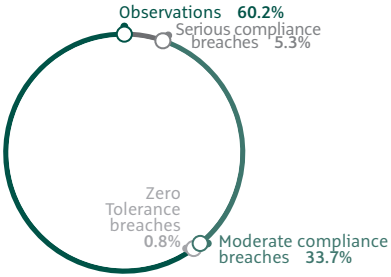
The supplier base managed by the Kering central team for the Luxury brands has the following characteristics:

- it does not yet include all suppliers, though 2017 did see a sharp rise in the number of suppliers managed, with the inclusion of all production suppliers and the first raw materials suppliers. Inclusion of suppliers of jewelry and watchmaking brands will extend over the next two years;
- it covered 3,438 suppliers in 2017 (32% more than in 2016), with the following breakdown:
  - 28% direct suppliers (i.e., with no subcontractor),
  - 13% contractors (direct suppliers working for one or more brands and which subcontract part of their production),
  - 59% subcontractors.

  Subcontracting without prior authorisation is not permitted.

A total of 2,424 audits were conducted within this portfolio of suppliers in 2017 (comprehensive and follow-up audits). These 2,424 audits revealed findings that break down as follows:

BREAKDOWN OF ANOMALIES OBSERVED DURING THE 2,424 AUDITS CARRIED OUT IN 2017 WITHIN THE LUXURY ACTIVITIES (CENTRALISED MANAGEMENT)



Robust corrective action plans were put together following the audits, wherever breaches of compliance, and particularly serious breaches, were identified. Follow-up audits were then conducted to verify the resolution of the problem. The few zero-tolerance breaches found during the audits were the subject of immediate attention in accordance with established rules and in coordination with the relevant brands.

In addition to the 2,424 audits conducted by the Kering central team, 48 audits were conducted in early 2017 by two brands before they were included in Kering's centralised system. This brings the total number of audits for the Luxury activities in 2017 to 2,472.

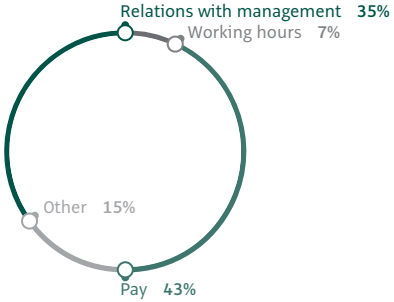
Sport & Lifestyle activities

Within the PUMA brand, 432 audits were conducted in 2017. The audit results under the PUMA rating system were as follows:

Audits leading to the award of an A rating	24.26%
Audits leading to the award of a B+ rating	36.27%
Audits leading to the award of a B- rating	36.52%
Audits leading to the award of a C rating	2.70%
Audits leading to the award of a D rating	0.25%

The main challenges, as reported via the system implemented at PUMA for the transmission of grievances from supply chain employees, highlighted four major areas of concern (a different categorisation for grievances and the areas covered thereby was adopted in 2017).

BREAKDOWN BY THEME OF THE GRIEVANCES RECEIVED IN 2017 BY PUMA FROM EMPLOYEES IN THE BRAND'S SUPPLY CHAINS



Lastly, Volcom conducted eight audits in 2017.

A total of 2,912 audits were conducted across the entire Kering group in 2017.

Responsible purchasing policy

For non-retail (indirect) purchases, the Group's Indirect Purchasing Department remains committed to responsible sourcing based on a reciprocal undertaking with suppliers to respect the Kering Code of Ethics. It also has specific commitments tailored to each category of purchases, with buyers identifying the most relevant sustainability criteria. To formalise this process, a responsible purchasing policy has been implemented at Group level. It sets out the priorities to be shared and applied by all Group employees to manage purchasing ethically and responsibly. It has been distributed to all Kering employees. Kering formalised these commitments in 2014 by signing the 2010 "Responsible Supplier Relations" Charter issued by the French Ministry of the Economy and Finance, and the *Compagnie des dirigeants et acheteurs de France* (French purchasing managers' association – CDAF). The Charter's purpose is to promote the implementation of and compliance with best practices in relation to suppliers in France and to encourage the major signatory companies to implement a progress-oriented approach with their suppliers, especially small and medium-sized enterprises, in order to develop a true partnership through mutual knowledge and the respect for each party's rights and duties.

4.3.4. Engaging with suppliers

Training and raising the awareness of suppliers, and helping them adopt best practices, is the preferred avenue taken by the Group and its brands to achieve tangible improvement in practices across their value chains. This approach is also based on the recognition that the pooling of energies and a coalition approach are powerful levers for change. The environmental part grew out of the lessons

drawn from the EP&L approach and the predominant role played by supply chains (Tiers 1 to 4) in the Group's environmental impact: without suppliers sharing Kering's commitment and belief in the need for action, potential improvements would be limited.

The Group therefore acts at several levels, as a Group and within each of its brands, individually or collectively.

Dialogue with partners continued in 2017 with the first Kering Leather Talks. This event brought together 24 tanneries and 28 suppliers of chemical substances to develop active and effective cooperation on improving sustainability in the leather industry, through measures such as projects to eradicate the use of hazardous chemicals, as specified on the Manufacturing Restricted Substance List (MRSL).

Kering's international logistics platform, Luxury Goods International (LGI), also runs awareness-raising and discussion meetings with suppliers and with logistics partners in particular. In 2017, these meetings put a sharp focus on carbon footprint mapping. Most freight operators now provide the Group with CO_2 reports compliant with the EN 16258 standard (see section 3.3. of this chapter).

In 2017, Gucci organised a number of meetings with its suppliers to present its sustainability strategy, the Kering supply and production standards, and key supply chain environmental projects on techniques such as metal-free tanning. A meeting on ready-to-wear activities was attended by 58 suppliers and one on leather goods by 49 suppliers. Along similar lines, Gucci ran three meetings with tanneries and an Italian tanneries association to probe environmental management practices and future development outlooks.

In 2017, Gucci also began cooperation with the United Nations High Commissioner for Refugees (UNHCR) with a view to offering vocational training courses and apprenticeships in the leather goods sector for refugees in Italy. In a similar initiative, PUMA worked closely with the Turkish Employment Ministry in 2017 on the recruitment of Syrian refugees by its suppliers.

Bottega Veneta's latest step in supplier dialogue came with its September 2017 meeting with 162 suppliers for an in-depth look at production, quality assurance, sustainability and supply chains.

Stella McCartney's ongoing supplier engagement programme includes specific training courses, on subjects such as combatting modern slavery, productivity improvement and remuneration levels.

In addition to meetings devoted to presentation, exchanges and the co-construction of solutions with suppliers, Kering also works with their suppliers on the practical implementation of projects aimed at reducing its environmental footprint, as evidenced by the Clean By Design project. It was the Stella McCartney brand in 2013 that first made a commitment to the National Resources Defense Council (NRDC), as part of the Clean by Design programme aimed at reducing textile manufacturers' environmental footprint.

In 2014, under the Group's impetus, Gucci, Alexander McQueen, Saint Laurent, Balenciaga, Bottega Veneta and Brioni also joined the programme. A total of 25 suppliers, mostly weaving mills, and printing and dyeing workshops based in Italy, are involved in the programme. The initial audits, conducted in 2014 and 2015, identified simple changes that could reduce their energy costs and greenhouse gas emissions by 15% to 25% without affecting production and with a return on investment in less than five years. Between late 2015 and early 2016, 24 suppliers started to implement these actions, which had generated an annual reduction of 3,300 tonnes of CO_2 by the end of 2016. At a special event in February 2017, all the suppliers involved in the programme were presented with, and congratulated for, the results obtained. In April 2017, Kering published a report on the results and findings from the Clean By Design project. The bulk of the report is on strategies and technical and managerial solutions recommended for improving the water and energy consumptions of weaving plants. By the end of 2017, the Clean by Design project had achieved the following results:

- investments of €2.2 million in optimising the use of resources, resulting in annual savings of €940,000, for return on investment in less than 2.5 years;
- complete elimination of the direct use of liquid fossil fuels, replaced by electricity, biomass, natural gas and LPG;
- reduction in greenhouse gas emissions approaching 8,000 tonnes per year.

In 2017, Kering extended this programme to its other supply chain activities. In late 2016, three wool cleaning and three silk yarn plants in China agreed to take part in the programme. Initial energy evaluations were performed in summer 2017, immediately followed by the first interventions. Preliminary results are encouraging, the most significant being steam savings of up to 20% and electricity savings of up to 7%. To rationalise supplier engagement efforts on Kering projects, it was also decided to extend the Clean By Design scope to chemical substances and the management thereof. By including initial evaluation of chemical substances, the Clean By Design programme has become a lever for developing the project on implementation of Kering's Manufacturing Restricted Substance List (MRSL).

In summer 2017, Clean By Design in Italy was also extended to cover denim washing sites, where energy audits would be carried out in December 2017 or early 2018. Clean By Design coverage of the Denim activity includes an evaluation of chemical substances consistent with rollout of the Kering MRSL.

In the Sport & Lifestyle business, PUMA and the FLA began a pilot study in 2017 in Turkey on respect for human rights in the cotton industry. In the leather industry, PUMA is pushing ahead with initiatives addressing its main tanneries and with the Leather Working Group (LWG), an industry association seeking improved environmental performance and traceability at its member tanneries.

In terms of training, PUMA launched a new programme on women's empowerment with their partner ILO Better Work, aimed at two of their key suppliers in Bangladesh. Encouraged by the initial results from this programme, PUMA will be extending it to other sourcing countries in 2018.

Following on from previous projects, and the SAVE programme (which ran from 2011 to 2015 in Cambodia, China, Bangladesh and Indonesia) in particular, PUMA launched the VIP (Vietnam Improvement Program) in 2017, under an agreement signed in late 2016 in Vietnam with the IFC (International Finance Corporation), a member of the World Bank Group and the largest global development institution focused exclusively on the private sector in developing countries. This programme involved in-depth energy efficiency evaluations and feasibility studies on renewable energy supplies with eight strategic suppliers showing high carbon footprints. Discussions are now under way with a view to extending the programme to China and Bangladesh, thereby covering the brand's three largest production countries.

PUMA is also keeping up efforts on employee health and safety in its supply chains, by carrying out risk assessment with main suppliers (prior to wide-scale application to other suppliers in 2018), by taking part in working groups alongside other players in the sector to improve road safety for employees going to and coming from work (especially in Cambodia), and by auditing building safety (through audits on electrical, fire and structural safety with seven suppliers in Pakistan and five in India).

4.4. *from risk management to the 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 enable customers to enjoy the products developed by the brands safely, Kering has defined a set of quality control procedures that comply with the strictest international consumer health, safety and environmental standards and regulations, such as REACH, US CPSIA, China SAC GB Standards, Japan Industrial Standards (JIS), etc. In 2014, a dedicated structure, the Product Compliance Advisory Department, was created at Group level. Aimed at pooling services, its purpose is to advise brands on product testing protocols to ensure that products comply with the local characteristics of each market. It naturally makes considerable reference to the Product Restricted Substance List (PRSL), which specifically lists the substances to be removed or the threshold not to be exceeded, and applies the highest existing standards for the disposal of hazardous chemicals. To take into account the pace of technological development and progress in chemical research, the PRSL is updated every year. In 2017, the Product Compliance Advisory Department focused on two aspects:

- rules and PRSL criteria have been issued to ensure the compliance of finished products. On this matter, training sessions have been run for the relevant departments of each brand (product development, production, quality, aftersales service, etc.) and their suppliers;
- partnerships have been strengthened with international test laboratories in response to the increasing number of product typologies for testing (furniture, promotional accessories, packaging, etc.).

Evidence of the effectiveness of the organisation implemented by Kering for managing chemical substances was Gucci's 2014 accreditation ("Certificate for Company with quality pre-evaluation on imported garments") allowing it to benefit from reduced customs checks in China. This accreditation was made possible by the performance of Gucci products, and the robustness of internal systems for managing product compliance. The accreditation was extended to Bottega Veneta, Stella McCartney and Alexander McQueen in 2015, followed by Balenciaga and Saint Laurent in 2016.

Some brands also have specific initiatives, such as Girard-Perregaux, whose Quality Department helped create a technical committee on watchmaking, also involving Ulysse Nardin, Gucci and Boucheron, in 2014. In 2016, the Committee continued to discuss the framework for action related to regulatory compliance in respect of hazardous chemicals and the implementation in their operations and with their pool of suppliers of the Product Substance Restricted List (PRSL) and the Manufacturing Restricted Substance List (MRSL) drawn up by the Group. The MRSL covers production processes as opposed to products. It also sets out the list of chemicals to be eliminated or restricted. Girard-Perregaux also takes part in the *Association pour L'Assurance Qualité des Fabricants de Bracelets Cuir* (AQC) on the chemical compliance of leathers used in watchbands, the aim being to set up a certification label.

In the Sport & Lifestyle business, harmonisation has gone even further, as the entire industry converges towards common standards. PUMA has accordingly adopted the PRSL advocated by the Apparel and Footwear International RSL Management Group (AFIRM) and the Zero Discharge of Hazardous Chemicals (ZDHC) MRSL. Launched in 2011, the ZDHC aims to eliminate all discharges of hazardous chemicals in the textile industry by 2020. It posts annual updates on the progress made with this programme on its

website. PUMA has accordingly discontinued, along with other industry players, the use of dozens of chemical substances deemed detrimental to human health and the environment, going beyond prevailing regulatory requirements. These substances include heavy metals, phthalates, organic compounds, azodyes and chlorobenzenes. In addition to the PRSL, PUMA's Handbook for Environmental Standards lays down test procedures to ensure compliance with the PRSL and the given thresholds. The PUMA Handbook for Environmental Standards is distributed to the brand's suppliers, who must in turn agree to comply with it.

Developing responsible products: a long-term strategy

Broadly speaking, Kering's strategy is to seek 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 results of the EP&L carried out at the Group level clearly show that the biggest environmental concerns are located far upstream, in particular at the raw material production stage (farming, cultivation and mining), rather than in the Group's own operations and sites;
- designing more responsible 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 production technologies.

The brands are therefore focusing their efforts on upgrading sourcing and improving their processes:

- in 2017, a product module was added to the digital systems used for implementing the EP&L. This new module enables brands' product design and development teams to assess the environmental impact of alternative design options (choice of materials, sourcing countries, production processes, etc.) during the design simulation process. It indicates the most environmentally sound options to guide design choices toward optimisation on an EP&L footprint criterion;
- finalisation and release of the Kering Standards marked a major step forward, providing the brands with clear, detailed information in the form of lists of sourcing and process sustainability criteria for each material;
- Kering sets up conditions conducive to stimulating innovation at its brands. Initiatives such as the Plug & Play – Fashion for Good partnership keep brands in touch with the start-up community, bringing benefits for the development of innovative and responsible products;
- the Group's brands also have permanent access to the Materials Innovation Lab (MIL). Four years after it was first launched, the lab today offers the brands a library of more than 2,500 ecological fabrics and fibres to use in their collections. Working with Kering's Sustainability Department, the MIL team works with suppliers to identify new materials that are better for the environment, and supports the brands in integrating these materials in their supply chains. The main MIL advances in 2017 were:
  - development of a collaborative approach with stakeholders in the value chain, from raw material producers to weavers and spinners, to ensure that the availability of sustainable materials is in step with production cycles,
  - deployment of an online database enabling brands to easily access sustainable textiles proposed by the MIL,
  - provision of information to fabric suppliers on the various existing or pending environmental and social certifications, and support in obtaining certification if necessary,
  - joint R&D with suppliers and research institutes such as the Hong Kong Research Institute of Textile & Apparel (HKRITA), on sustainable textiles,
  - due diligence for selected start-ups under the Plug & Play – Fashion for Good programme and support through mentoring sessions,
  - ongoing work on integrating circular economy principles in the brands' production cycles, through participation in initiatives, such as Circular Fibres at the Ellen MacArthur Foundation, Fashion Positive Plus programmes at the Cradle to Cradle Institute and collaboration with Aquafil, which makes Econyl®, an innovative sustainable nylon fibre made from fishing nets or other nylon waste,
  - operational support for the brands in checking the integrity of supply chains.

True to the principle of materiality that guides their actions, Kering and its brands have focused primarily on materials deemed strategic by virtue of their volume, their environmental impacts or their importance in collections.

The proportion of organic cotton used in the ready-to-wear collections continues to increase. Bottega Veneta used more than 160 tonnes of GOTS (Global Organic Textile Standard) certified organic cotton in 2017. This amounts to 88% of the cotton used in its ready-to-wear collections and in the flannel bags protecting leather goods, jewelry and shoes. Around 40% of the cotton bought by Balenciaga in 2017 was GOTS certified organic, and all of the brand's flannels under its new visual identity will be in organic cotton. Stella McCartney's jeans collections use organic cotton, which accounted for more than 80% of the brand's overall use of cotton in 2017. Alexander McQueen used more than 30 tonnes of organic cotton for its autumn/winter 2017 and spring/summer 2018 collections. Saint Laurent decided to focus on its permanent collections for introducing the use of organic cotton. In 2017, GOTS-certified cotton appeared in several items in the brand's jersey category (T-shirts, sweatshirts, polo shirts, etc.). After testing the use of organic cotton in various product lines (shirts, jeans, T-shirts, etc.), Gucci proceeded with a significant increase in the amounts of organic cotton used in its men's and children's ready-to-wear collections, in its tie linings and in all the shirts included in its salesforce personnel uniforms, bringing the total up to 105 tonnes of GOTS-certified organic cotton. Brioni opted to develop a capsule collection, Brioni Sustainable, that includes shirts in organic cotton.

In the Sport & Lifestyle business, Volcom makes exclusive use of organic cotton for its basic T-shirts sold in Europe. PUMA, the Group's biggest cotton user, has opted for BCI (Better Cotton Initiative) cotton, which accounted for close to 30% of the brand's cotton purchases by the end of 2017.

Wool sourcing has also progressed within the Group, particularly on precious fibres such as cashmere. This is due to an innovative process to recover scrap production, which is sorted by quality and colour to be converted into a "regenerated" cashmere fibre. Depending on the collection and the level of quality required, a certain percentage of virgin fibres can be added before the spinning stage. The whole process takes place in Italy; it is environmentally friendly and fully traceable. Gucci introduced this innovative cashmere fibre in its ready-to-wear collections in 2016, and, along with Alexander McQueen, continued to use it in 2017. Stella McCartney uses only regenerated cashmere, in all of its collections, and has attained Gold level in Cradle to Cradle certification for its wool, a first in the fashion industry. This certification attests primarily to recyclability of the wool used and represents a 70% reduction in the chemical substances used across all manufacturing stages (production, bleaching, dyeing, etc.).

Moreover, cellulosic fibres such as viscose are the subject of great attention, because they are made from wood pulp and as such carry significant risks in terms of deforestation. This is why Stella McCartney has made a commitment alongside the NGO Canopy to ensure that all cellulose based fibres used by the brand are 100% traceable and sustainably sourced by 2017, ensuring that their production is not the cause of deforestation in areas with high ecosystem value such as Indonesia and Brazil. This objective has been reached: starting with the spring/summer 2017 collections, all of the viscose used is 100% traceable, made with cellulose pulp from sustainably managed Swedish forests, and transformed into yarn in Germany for weaving in Italy. Full traceability ensures that the production process has no deforestation effect.

In leather goods, the brands continued the move to chrome- and metal-free tanning. The switch has now been made for the iconic Gucci handbags, customisable small leather items and footwear, while Bottega Veneta bought more than 234,000 sq.m. of leather tanned without the use of chrome and metal in 2017, 68% more than in 2016. In 2016, Kering extended metal-free tanning to crocodile skins, notably those used for watchbands designed by its France Croco tannery, a first in the Luxury sector.

A good example of the circular economy approach under way at the Kering brands is the increasing use of Econyl® textile in collections from Alexander McQueen, Gucci and Stella McCartney. Econyl® yarn is made from plastic waste, much of it recovered from the oceans. In 2017, Gucci used more than 20,000 metres of this recycled nylon yarn, and Stella McCartney launched its Falabella line of bags, developed using the textile. Volcom also uses this recycled textile in its swimwear and in 2017 extended the use of Econyl® to other product lines.

In jewelry, the Kering Responsible Gold purchasing platform facilitated a significant increase in the proportion of responsibly sourced gold (RJC Chain of Custody certified gold, Fairtrade- and Fairmined-certified artisanal gold, and gold from verified traceable sources) used by the Group's brands, bringing the total to more than one tonne of responsibly sourced gold used in 2017. Responsibly sourced gold was thus used in 100% of Gucci and Bottega Veneta jewelry, and there was a marked increase in its use at Boucheron, Pomellato, Dodo, Girard-Perregaux and Ulysse Nardin.

In response to rising consumption of palladium for plating the metal parts in its leather goods and shoes, Gucci developed an innovative partnership in 2017, enabling it to use palladium recycled from catalytic converters used in medical applications. This recycled palladium is produced at an RJC Chain of Custody certified plant in Italy, ensuring full traceability of this precious metal. Recycled palladium currently covers 20% of Gucci's needs and the brand plans to increase this proportion to shrink its environmental footprint further.

Stella McCartney also addresses the issue of metals sourcing, which accounts for a large part of the brand's environmental footprint. The brass used for the chains of its iconic Falabella bag is being phased out in favour of steel, which has a lower environmental impact. And the steel is stabilised by PVD, a vacuum metallisation process that deposits thin films of material in vapour form, and has a much lower environmental impact than classic electrolytic plating processes. Saint Laurent has been using the same process (PVD coating on stainless steel) for several years now, for certain metal parts on its leather goods and, more recently, on its shoes.

In 2017, Kering Eyewear formed a strategic partnership with Bio-On, an Italian company specialising in the development of natural and fully biodegradable plastics. The aim is to investigate possible applications of a new biodegradable eco-plastic (colours, quality, strength, etc.).

Responsibly sourced materials also occupy a preponderant position in the collections of Alexander McQueen; in their spring/summer 2018 collection, responsibly sourced materials are used in 48% of the ready-to-wear pieces and in 62% of the accessories.

4.5. initiatives carried out by the kering foundation and sponsorship programmes

The Kering Foundation: strong commitment to combat violence against women

The Kering Foundation, formed in 2008, combats violence against women. The Foundation commits Kering to a key issue that ties in with its brands' activities and customers, and an area where the Group has a vital role to play alongside governments and NGOs.

Since 2014, the Kering Foundation has stepped up its international impact, focusing actions on three geographic areas: the Americas, Western Europe and Asia. In each of these regions, the Foundation focuses on a main cause (sexual violence, harmful traditional practices and domestic violence, respectively), with particular attention to the situation of migrant and refugee women, and selects a limited number of NGO partners. It also supports social entrepreneurs, expanding its efforts to raise awareness and prevent violence against women. The Kering Foundation involves the Group's 44,055 employees in its work.

As part of its business development in China, the Foundation once again held regular Steering Committee meetings every six months, attended by beneficiary NGOs, experts in the field and members of the Foundation. The purpose of the Steering Committee is to create a framework for discussion and cooperation with partner associations to assess and advance projects receiving support.

- **Working alongside NGOs**

Active in Europe in the fight against harmful traditional practices such as female genital mutilation (FGM) and forced marriage, the Foundation continued its support for *La Maison des Femmes* in France alongside other corporate foundations (Elle Foundation, Raja, Sanofi Espoir, etc.). In response to the fact that 14% of patients at its maternity clinic have suffered genital mutilation, the team at the *Centre Hospitalier de Saint-Denis*, a hospital located just outside Paris, decided to centralise the full range of services addressing the various problems faced by women who are vulnerable or victims of violence. These services include access to sexual and reproductive healthcare, social outreach, support and advice for victims of FGM. At *La Maison des Femmes*, which opened in 2016, a team of gynaecologists, midwives, nurses, psychologists, sexologists, osteopaths, policewomen and lawyers offer unique and comprehensive attention, care, support and guidance addressing medical, psychological, emotional and material needs.

The partnership with Rosa Fund in the United Kingdom reached its end in May 2017. Continuing its support on the combat against harmful traditional practices, the Foundation is partnering the Birmingham and Solihull Women's Aid (BSWA) organisation, which works on improving the psychological support offered to victims of female genital mutilation, along the lines of the Dahlia Project in London, a pioneering institution on tackling the mental health issues involved.

In Asia, the Foundation focuses its action on domestic violence in China, which affects 25% to 30% of women according to a study conducted by the All-China Women's Federation in 2004. It accordingly supports the Maple Women's Psychological Counselling Center in Beijing, which provides telephone support and multi-service coordination (medical, psychological and legal assistance) for victims of domestic violence in Beijing. The Maple Center also runs awareness-raising campaigns among communities in remote areas, involving participants in parent-children activities and role-play games on gender.

In Hong Kong, the Foundation continued its support for the HER Fund, which backs grassroots associations and self-run groups working primarily with women from marginalised communities: migrant women, domestic employees, ethnic minorities, sexual minorities, etc. The HER Fund finances projects run by these groups and helps them develop self-reliance, particularly in terms of assessment and communications.

In the Americas, the partnership with the Civic Nation association and their It's On Us campaign wound to an end in 2017. The Foundation will be submitting further US projects for consideration to the Board of Directors in January 2018.

Concerned over the situation of refugees, and women refugees in particular (70% of women on migration paths are victims of violence), the Kering Foundation continued its support for the Lebanese NGO Restart Center, which dates to 2015, and its project on socioeconomic integration for 200 Syrian women refugees. This support takes two forms: psychological and medical aid for refugee women and families; and caregiver training for refugee women to help them in turn provide support for other victims of violence. By the end of June 2017, more than 200 refugee women had been given psychological and social care, and more than 25 had been trained to provide support for other women and girls in their community. The Foundation also continued its partnerships with *Gynécologie sans Frontières* and *Planning Familial* in northern France. With removal of the refugee camps there in 2017, the associations continued their support with mobile teams, under increasingly difficult conditions.

- **Partnering with social entrepreneurs acting for the benefit of women**

Since 2008, in line with Kering's entrepreneurial values, the Foundation has rewarded and provided support to social entrepreneurs combining sustainable business models with solutions to social issues. In partnership with MakeSense in Europe, the United States and Mexico, the Good Lab in Hong Kong and CASVI in continental China, the Foundation launched a new edition of the Kering Foundation Awards in 2017. Five to seven award winners will be selected to benefit from a six-month incubation programme, two years of mentorship support from Kering personnel and financial support from €5,000 to €10,000.

All award winners will be attending the awards ceremony to be held in the first half of 2018.

The Kering Foundation continued its support of the Starfish Project (Kering Foundation award-winner in 2015), which designs and produces jewelry in Beijing. This project, run by and for women who are victims of violence, has facilitated the reintegration of more than 100 women.

In 2017 the Foundation also continued its support for We End Violence, a social enterprise and former Foundation award winner that works to prevent sexual violence in the United States, operating an innovative model to raise awareness and change the types of behaviour that induce gender-based violence. In 2016-2017, We End Violence actions reached an audience of more than 44,400.

- **Raising awareness among staff and the general public**

The eradication of violence against women requires a change in underlying mentalities and behaviours. Awareness-raising on this matter, among its employees and the general public, is a key component of the Kering Foundation 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 train employees within its brands to provide better help for potential victims. This was done first in France and then in Italy, in 2013, in partnership with *Donne in Rete contro la violenza* (D.i.Re). In January 2015, the Kering Foundation joined forces with British NGO Women's Aid. In June 2016, the Foundation extended its activities in the United States alongside the NGOs National Alliance to End Sexual Violence (NAESV) and the National Network to End Domestic Violence (NNEDV). Since 2011, 912 employees have been trained through efforts to ensure Kering provides a supportive work environment for women who are victims of domestic violence.

In addition, the 120 leaders of Kering and its brands in the Americas region were kept up to date on this approach at the latest session of Imagine Americas on May 2.

Kering's programme also extends to senior management. In 2017, 12 members of the Executive Committee were trained on the initiative to counter domestic violence.

To mark the Cannes Film Festival and the Kering for Women programme, the Foundation organised a roundtable in May 2017. Three speakers addressed the issue of the different types of violence that women face.

- Salma Hayek Pinault, actress, director and producer, member of the Board of Directors of the Kering Foundation;
- Costa-Gavras, film director and President of the *Cinémathèque Française*;
- Kaouther Ben Hania, director of *La Belle et la Meute*, selected by the 2017 Cannes Film Festival.

On November 25, International Day for the Elimination of Violence against Women, the Foundation launched the sixth edition of the White Ribbon for Women Campaign.

From November 20 to 25, this operation reached customers at Alexander McQueen, McQ, Bottega Veneta, Boucheron, Brioni, Christopher Kane, Dodo, Gucci, Pomellato, Qeelin, Stella McCartney and Tomas Maier stores, along with the majority of the Group's employees and countless partners, journalists and opinion leaders.

This year's digital-only campaign primarily targeted Generation Z, the aim being to bring about profound and lasting cultural change, worldwide. With the hashtag #ICouldHaveBeen and the website ICouldHaveBeen.org, set up especially for the occasion, the Foundation invited people to put themselves in the place of any of the one in three women who, according to statistics, are victims of violence. Official ambassadors Alessandro Michele, Christopher Kane, Joseph Altuzarra and Dennis Chan launched the Kering Foundation appeal by telling us the first names they could have been given had they been born girls. As members of the Foundation's Board of Directors, Stella McCartney and Salma Hayek Pinault invited girls and women to follow their example and speak up for all women, to become HER. This sixth edition reached a potential audience of 2.1 billion people, with a strong take-up among Generation Z.

The Kering Foundation also stepped up operations in France by becoming a founding partner of the broad coalition *Stop aux Violences Faites aux Femmes* (StopVFF), launched by Make.org on November 25, 2017. This initiative, joined by citizens, major companies and associations working to eradicate violence against women, seeks to develop and implement ten innovative and concrete solutions over the next three years.

At the same time, the Kering Foundation unites the Group's employees around its commitment to women: their skills, both professional and personal, are a valuable source of support for NGOs and social entrepreneurs.

Since 2014, employees who take two weeks' solidarity leave for an assignment in a foreign country have been given two to four days' paid leave. In 2017, the Group gave 36 days' paid leave for volunteer work in support of women and for pre-departure training. For example, two Christopher Kane employees went out to help develop the skills of the Arpan NGO in India, which seeks economic empowerment for women in the community, through the production for sale of pullovers, shawls and scarves in angora. The volunteers provided the NGO's project coordinators with valuable experience-based input and worked closely with them to optimise the organisation of production.

The philanthropy of the Kering group brands

Alongside the initiatives undertaken by the Kering Foundation in the Group's name, each brand supports causes of its own choice, by donating products (bags, shoes, jewelry, etc.), running private sales, taking part in charity dinners, or forming long-term partnerships with non-profit organisations. For many of these operations (in education, training, healthcare, culture, etc.), women are the beneficiaries, this being an increasingly important focus of Kering group philanthropy.

- **Multiple initiatives benefiting women**

In 2017, more than 35% of all initiatives carried out by the brands, representing funding of more than €3,600,000, were for the benefit of women. Several brands have provided support for programmes and organisations of direct benefit to women. Gucci has gone a step further in its commitment to defending women's and girls' rights, making a donation of one million euros in its capacity as founding partner of the UNICEF Girls' Empowerment Initiative, which seeks gender equality and empowerment. Since 2015, Gucci has also been supporting a project in partnership with Oxfam Italy on women's entrepreneurship and local economic development in South Africa. Over a three-year period, this project has helped 152 women set up small businesses and cooperatives in urban and rural areas of East London and Pretoria. In India, Gucci helps girl victims of violence through the I was a Sari initiative, providing embroidery training on a project that involves transforming old saris into items of clothing. Gucci also continues to promote Chime For Change, a global campaign to convene, unite and strengthen the voices speaking out for girls and women.

At its Penne workshop in Italy, Brioni has launched a pilot programme in the form of a psychological support service (and hotline) run by the women's rights association *Unione Donne in Italia* (Pescara section). The service, open to all employees (with special attention to women) based in Penne, Civitella and Montebello, seeks to promote workforce well-being and provide assistance in managing and resolving conflicts. Again in Italy, Pomellato continued its partnership with CADMI, a member of the D.i.Re network, to offer medical and psychological support to women victims of violence, and Gucci continued its support for the network in Florence, Milan and Rome. PUMA, working with the Daily Paper fashion brand and the Right to Play Foundation, has built a new football pitch for a girls' school in Accra, Ghana.

In December 2017, Saint Laurent formed a three-year partnership with NGO Charity: Water, which works around the world to bring drinking water to local communities, this being an essential factor in efforts to improve health and education for populations, most especially for women and children. The organisation's mission, namely to support the development of local communities by means of sustainable projects on water, is highly consistent with Saint Laurent's values.

Product donations are another form of support offered by the Group's brands, as with Qeelin in Hong Kong, Ulysse Nardin in Switzerland, and Balenciaga and Pomellato for the US organisations No More Tears and Peninsula League of North Carolina. Volcom donated products for the benefit of women at three emergency shelters in Australia. Alexander McQueen, Bottega Veneta and Stella McCartney ran special sales and charity lunches for the organisations they support, including Women's Aid, the Joyful Heart Foundation and the Women's Foundation.

The Group's brands also joined forces for the sixth edition of the White Ribbon for Women campaign, putting on a number of events, both internally for employees and externally at stores for their customers. Brioni and Stella McCartney made product donations for a photography competition to motivate employees, and Brioni donated 10% of the sales of its Paris shop from November 20 to 25 to *La Maison des Femmes*, a non-profit organisation supported by the Kering Foundation.

- **Diversified resources for education and training**

Close to 50% of the brands' 2017 budget for philanthropic actions (more than €4,390,000) went to education and training.

Schools support by Brioni, Bottega Veneta, Pomellato and Stella McCartney took two forms: product donations for auctions, and financial aid on projects such as training for young tailors and a course on the creation of bags and accessories. Balenciaga, Boucheron and Qeelin also made product donations to support organisations including the Hawaii Opera Theatre, *Avenir pour les Enfants du Monde* (AEM), and the French International School. Gucci donated €30,000 to Action in Africa for funding scholarships. Part of the revenues from sale of a special edition of the PUMA Classic Creeper (€1,063,000) was donated to Rihanna's Clara Lionel Foundation to support its innovative and effective programmes on education, healthcare and civil protection. In the United States, Volcom focused on the training of young people through sport, in partnership with Save Our Youth Surf Camp.

- **Culture and heritage**

More than 25% of the projects implemented by the brands are in the cultural sector, representing a total of more than €2,550,000. Balenciaga donated pieces for the collection of the *Musée de la mode de la Ville de Paris*. Since 2014, Brioni has partnered NGO *MUSAP*, in charge of preserving the archaeological and cultural heritage of the town of Penne, the site of its workshops and of the *Arazzeria Pennese*, which produces tapestry artwork. Bottega Veneta continued its sponsorship of the Los Angeles Hammer Museum for the fifth year running, with financial support topping €330,000 in 2017. In China, Bottega Veneta sponsors the Shanghai Center of Photography, to support the development of contemporary photography. Boucheron sponsored the *Comédie Française* and *Insula Orchestra* in France, with sums of €25,000 and €10,000 respectively. Gucci continued its support for the Art+Film Gala run by the Los Angeles County Museum of Art (LACMA) and for the Boboli Gardens restoration project at the Uffizi Gallery in Italy, with financial aid of €2 million over three years. Saint Laurent donated more than €69,000 to two cultural projects: the *Institut du Costume* and the Vogue Paris Foundation.

- **Healthcare and disease prevention**

In 2017, around 5% of the brands' philanthropic activities addressed health and medical research. The fight against cancer is a priority for the brands. Stella McCartney holds an annual awareness campaign on this issue. Revenues from sales of a bright pink version of the Ophelia Whistling bra, designed especially for the occasion, are donated to the Linda McCartney Centre in the United Kingdom and to the Memorial Sloan Kettering Cancer Center in Harlem, USA. PUMA worked with the photographer Gunner Stahl on its *For You Mom* capsule collection to raise public awareness on breast cancer. Brioni ran a special sale in San Francisco benefiting the Multiple Myeloma Research Foundation. Saint Laurent makes financial contributions and product donations to support associations such as *Sidaction* and *AIDES* working to combat AIDS. Bottega Veneta's support for healthcare and medical research organisations, such as the German AIDS Foundation, took the form of product donations and financial contributions totalling €68,400. Gucci contributed €260,000 for 54 projects in this field, including: *Associazione Tumori Toscana* and *Telethon* in Italy, and projects in the United States and Canada such as Celebrity Fight Night Foundation, Susan G. Komen and the Elton John AIDS Foundation. Balenciaga makes product donations in support of several organisations and institutions focusing on the treatment of childhood illness. These include the David and Lucile Packard Foundation and the Child Mind Institute in the United States.

5. cross-reference table
pursuant to articles r. 225-104 and r. 225-105 of the french commercial code (code de commerce)/global compact/gri g4

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 II 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 businesses. Subsidiaries whose activities are considered to be discontinued under IFRS rules have been deliberately excluded from the scope of the published information.

Pursuant to Grenelle II Articles R. 225-104 and R. 225-105 of the French Commercial Code	GRI	Global Compact	Section of this Reference Document
1° Social information			
Employment			
Total number of employees and breakdown of employees by gender, age and region	G4-10	3 to 6	2.1.
Hires and redundancies	G4-LA1		2.1.
Remuneration and changes in remuneration	G4-LA13		2.2.
Work organisation			
Organisation of working time	G4-LA2	3 to 6	2.6.
Absenteeism	G4-LA6		2.6.
Social dialogue			
Organisation of social dialogue, procedures for informing, consulting and negotiating with employees	G4-LA4	3 to 6	2.8.
Collective bargaining agreements in place within the Group and their impacts on economic performance and working conditions of employees	G4-LA5		2.8.
Health and safety			
Health and safety in the workplace	G4-LA6 to 8	3 to 6	2.6.
Bargaining agreements signed with trade unions and employee representatives concerning health and safety in the workplace	G4-LA6		2.6.
Work-related accidents, in particular frequency and severity, and work-related illnesses	G4-LA7		2.6.
Training			
Training policies	G4-LA11	3 to 6	2.4.
Total number of training hours	G4-LA10		2.4.
Diversity			
Measures taken to promote gender equality	G4-LA10	3 to 6	2.5. and 2.7.
Measures taken to promote the employment and integration of people with disabilities	G4-LA12		2.5.
Policy concerning the fight against discrimination	G4-LA12 and G4-HR3		2.5. and 2.7.

Pursuant to Grenelle II Articles R. 225-104 and R. 225-105 of the French Commercial Code	GRI	Global compact	Section of the Reference Document
Promotion and compliance with the provisions of the International Labour Organisation conventions			
Compliance with freedom of association and the right to collective bargaining	G4-HR4 and G4-LA4	3 to 6	2.3., 2.5. and 4.3.
Elimination of discrimination in respect of employment and occupation	G4-HR3 and G4-LA13		2.3. and 2.5.
Elimination of forced and compulsory labour	G4-HR6		2.3., 2.5. and 4.3.
Effective abolition of child labour	G4-HR5		2.3., 2.5. and 4.3.
2° Environmental information			
General policy			
Organisation of steps taken to address environmental issues and environmental assessment and certification procedures		7 to 9	1.3. and 3.1.
Initiatives taken to train and raise awareness among employees on environmental protection			3.1.
Resources assigned to the prevention of environmental risks and pollution	G4-EN31		ND
Amount of provisions and guarantees covering environmental risks	G4-EN31 and G4-EC2		ND
Pollution			
Measures taken to prevent, reduce and rectify emissions into air, water and soil that have a significant impact on the environment	G4-EN22 to 26	7 to 9	3.2. to 3.5.
Steps taken to address noise and any other form of pollution relating to a specific activity			ND
Circular economy			
Measures taken to prevent, recycle and reuse waste, and other means of waste recovery and elimination	G4-EN23		3.4. and 4.4.
Steps taken to fight against food waste			3.4.
Water consumption and supply of water in accordance with local regulations	G4-EN8	7 to 9	3.2. to 3.4.
Raw materials consumption and measures taken to promote more efficient use	G4-EN1 and G4-EN27		3.2. to 3.4. and 4.4.
Energy consumption and measures taken to improve energy efficiency and use of renewable energy	G4-EN3 to EN7		3.2. and 3.3.
Land use			3.2. and 3.4.
Climate change			
Main sources of greenhouse gas emissions generated by the Group's businesses, in particular through the usage of the goods and services it produces	EN16, EN17, EN18, EN19 and EN20	7 to 9	3.2. and 3.3.
Adapting to the consequences of climate change	EN18 and EC2		3.2. and 3.3.
Biodiversity			
Measures taken to protect and develop biodiversity	G4-EN11 to EN14	7 to 9	3.5. and 3.6.

Pursuant to Grenelle II Articles R. 225-104 and R. 225-105 of the French Commercial Code	GRI	Global compact	Section of the Reference Document
3° Societal information			
Territorial, economic and social impact of the Company's activities			
On employment and regional development	G4-EC7 and G4-EC8	1 to 10	4.1.
On neighbouring or local populations	G4-EC1, G4-EC5 and 6		4.1.
Stakeholder engagement			
Dialogue with stakeholders	G4-24 to 27	1 to 10	1.1., 2.7., 4.2. and 4.3.
Partnership and sponsorship initiatives			4.5.
Subcontracting and suppliers			
Incorporating social and environmental issues into the purchasing policy	G4-EC9, G4-HR4, 5, 6, 8 and 10	1 to 10	4.3. and 4.4.
Scale of outsourcing and steps taken to raise awareness among suppliers and subcontractors with respect to corporate social responsibility			4.3.
Fair practices			
Steps taken to fight against corruption	G4-SO3 to 5	1, 2 and 10	2.3. and 4.3.
Measures taken to promote consumer health and safety	G4-PR1 and G4-PR2		3.4. and 4.4.
Steps taken for the protection of human rights	G4-HR		2.3. and 4.3.

6. report by one of the statutory auditors,

appointed as independent third party, on the consolidated human resources, environmental and social information included in the management report for the year ended december 31, 2017

This is a free English translation of the Statutory Auditors' 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 standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Kering SA, (the "Company"), appointed as independent third party and certified by COFRAC under number(s) 3-1048 (1), we hereby report to you on the consolidated human resources, environmental and social information for the year ended December 31, 2017 included in the Management Report (hereinafter named "CSR Information"), pursuant to article L. 225-102-1 of the French Commercial Code (*Code de commerce*).

Company's responsibility

The Board of Directors is responsible for preparing a company's Management Report including the CSR Information required by article R. 225-105-1 of the French Commercial Code in accordance with the protocols used by the Company (hereinafter the "Guidelines"), summarised in the Management Report and available on request at the Human Resources and Sustainability Departments and summarised on Kering's website (www.kering.com).

Independence and quality control

Our independence is defined by regulatory texts, the French Code of Ethics (*Code de déontologie*) of our profession and the requirements of article L. 822-11 of the French Commercial Code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional standards and applicable legal and regulatory requirements.

Statutory Auditors's responsibility

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the Management Report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R. 225-105 of the French Commercial Code (Certificate regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).

It is not our responsibility to provide any conclusion on the compliance with other applicable legal expectations, in particular those concerning article L. 225-102-4 of the French code of commerce (duty of care) or French law no. 2016-1691 of December 9, 2016 ("Sapin II" – fight against corruption).

Our work involved nine people and was conducted between October 2017 and February 2018 during a six week period. We were assisted in our work by our sustainability experts.

We performed our work in accordance with the order dated May 13, 2013 defining the conditions under which the independent third party performs its engagement, the professional guidance issued by the French Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) relating to this engagement and ISAE 3000 (2) concerning our conclusion on the fairness of CSR Information.

(1) Whose scope is available at www.cofrac.fr.
(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

1. Attestation regarding the completeness of CSR Information

Nature and scope of our work

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human resources and environmental impacts of its activities and social commitments and, where applicable, any actions or programmes arising from them.

We compared the CSR Information presented in the Management Report with the list provided in article R. 225-105-1 of the French Commercial Code.

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R. 225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covers the scope of consolidation, i.e., the Company, its subsidiaries as defined by article L. 233-1 and the controlled entities as defined by article L. 233-3 of the French Commercial Code.

Conclusion

Based on the work performed, we attest that the required CSR Information has been disclosed in the Management Report.

2. Conclusion on the fairness of CSR Information

Nature and scope of our work

We conducted about 20 interviews with the people responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;
- verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important[(1)]:

- at parent entity level, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the Management Report;
- at the level of a representative sample of entities/divisions/sites selected by us[(2)] on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample represents between 64% and 75% of the social data and between 39% and 81% of quantitative environmental data disclosed.

(1) The concerned quantitative and qualitative information is listed in the annex of this report.
*(2) **Entities audited on environmental and social indicators at brand level**: PUMA, Gucci, Pomellato Dodo, Balenciaga.*
***Entities audited on social indicators only**: PUMA Germany, PUMA China, Gucci Italy-Gucci Fashion, Gucci USA, Dodo Pomellato Italie, Balenciaga France, Kering Operations Switzerland.*
***Entities audited on environmental indicators only**: Gucci Retail EMEAIR, Gucci MPC, Pomellato Dodo Italie, Kering Group Operations (Caravel and Blutonic tanneries for industrial water, LGI for the energy consumption of the warehouses and CO_2 emissions associated for B to B transport).*

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the Company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgement, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, February 12, 2018
One of the Statutory Auditors
Deloitte & Associés

Stéphane Rimbeuf
Partner

Julien Rivals
Partner, Sustainability Services

appendix

csr information selected by the independent third party

Quantitative social information

Workforce registered as of December 31 (breakdown by gender, status, type of contract, geographical region)
Allocation of hirings by permanent/fixed-term contracts
Allocation of permanent departures by reason
Number of training hours (excluding safety training)
Number of trained people
Number of working hours
Number of disabled employees
Frequency rate and severity rate of work-related accidents
Overall rate of absenteeism and illness
Number of collective agreements signed during the year

Qualitative social information

Promotion and respect of ethics
Number of claims received by the Ethics Committee during the year
Development of skills and talents
Initiatives on diversity
Social dialogue initiatives

Quantitative environmental information

Energy consumption and associated CO_2 emissions
Renewable electricity proportion at Group level
Emissions associated with transport and travels
Tons of CO_2 offset
Packaging consumption
Industrial water consumption

Qualitative environmental information

Implementation of the EP&L
Management of hazardous chemicals
Responsible purchasing of gold and diamonds
Responsible purchasing of leather
Use of responsibly sourced precious skins and furs

Quantitative societal information

Number of trained employees as part of Kering's Charter to prevent and combat domestic violence

Qualitative societal information

Information regarding social audits
Charter on working relations with fashion models and their well-being

chapter 4
report on corporate governance

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1. kering governance

Pursuant to Article L. 225-37 *et seq.* of the French Commercial Code (*Code de commerce*), this report on corporate governance was prepared by the Company's Board of Directors and accompanies the Management Report. This report describes membership of the Board of Directors and application of the principle of balanced representation of women and men on the Board, the conditions for preparing and organising work performed by the Board, the Corporate Governance Code to which the Company refers, and the remuneration awarded to Directors and corporate officers, as presented below. In addition, this report indicates any potential limitations set by the Board on the powers of the Chairman and Chief Executive Officer.

The Board of Directors approved the full report at its meeting on February 12, 2018 in accordance with the provisions of Article L. 225-37 of the French Commercial Code.

1.1. reference corporate governance code

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 corporate officers and the April 2010 AFEP-MEDEF recommendation concerning the strengthening of the representation of women within the boards, as amended in November 2015 and November 2016 (the revised AFEP-MEDEF Code).

1.2. combination of management roles

In 2005, PPR adopted a governance structure with a Board of Directors and appointed François-Henri Pinault as Chairman of the Board of Directors and Chief Executive Officer.

Further to discussions by the Appointments Committee, the Board decided to combine the roles of Chairman of the Board and Chief Executive Officer and to renew this choice after the Combined General Meeting of June 18, 2013 decided to reappoint François-Henri Pinault as a Director, considering that this arrangement was more in tune with Kering's specific characteristics. The decision to combine the roles of Chairman of the Board and Chief Executive Officer was considered best suited to the Group's organisation, *modus operandi* and businesses. Following the Annual General Meeting of April 27, 2017, the Board of Directors confirmed its decision to appoint François-Henri Pinault as Chief Executive Officer.

In its decision, the Board took particular note of François-Henri Pinault's specific position as both controlling shareholder and closely involved in conducting the Group's business, of which he has in-depth operational knowledge and extensive experience. The Board also underlined the benefits of combining management roles in the context of the Group's transformation drive on the grounds that this guarantees an effective strategic decision-making process, enables the Group's economic and financial performance to be optimised, and ensures strong, consistent communication.

This arrangement is also aligned with the Group's shareholder structure, which includes individual share ownership, a controlling shareholder and institutional shareholders, all of whom have a stake in Kering's long-term development.

François Pinault, founder of the Group, is Honorary Chairman of the Board of Directors but is not a Director.

1.3. complementary nature of the duties of the chairman and chief executive officer and the group managing director

Pursuant to a decision of February 26, 2008, Jean-François Palus, at that time PPR Chief Financial Officer, was appointed Group Managing Director. The Combined General Meetings of June 18, 2013 and April 27, 2017 each renewed his term of office as Director for four years, while the Board of Directors' meeting held after each of these Combined General Meetings renewed his term of office as Group Managing Director for the same period, acting on a recommendation of the Chairman and Chief Executive Officer.

Since October 2012, Jean-François Palus has headed Kering's Sport & Lifestyle activities and has also served as Chairman of the Board of Directors of PUMA SE since December 1, 2012. The Group Managing Director is also directly responsible for operations at several brands within the Luxury activities.

He also helps to define the Group's overall strategy alongside the Chairman and Chief Executive Officer.

1.4. balance of power on the board of directors

The Group strives to ensure and maintain an appropriate balance of power on its Board and seeks to ensure that Board membership is suitably balanced and diverse. Members of the Board have backgrounds in a variety of industries and are mainly independent (six out of the ten Board members are classified as independent Directors, excluding the Director representing employees). Seven women sit on the Board. This proportion exceeds the requirements set out in the French Copé-Zimmerman law, which states that at least 40% of Board members must be women.

The operating rules and procedures of the Board of Directors are defined by law and the Company's Articles of Association, along with the internal rules of the Board and its four specialised Committees, as described in Chapter 4, section 2 of this Reference Document:

- Audit Committee;
- Remuneration Committee;
- Appointments Committee, which also acts as a Governance Committee;
- Sustainability Committee.

The Company decided to disband the Strategy & Development Committee and instead dedicate a Board meeting to the Group's strategy and development, thereby enabling all Directors to have a say on these matters.

The specific provisions of the Company's Articles of Association regarding Directors are in line with basic legal requirements. There are special provisions for the term of office of Directors (four years, renewable), the age limit (no more than one-third of the Directors may be over 70), the Director representing employees (appointed by the Kering Works Council) and the minimum number of shares that each Director must own (500). Concerning this last point, it should be added that, in accordance with Article L. 225-25 of the French Commercial Code, the Director representing employees is exempt from the obligation to hold shares.

In order to ensure a streamlined reappointment process for Board members, the Combined General Meeting on May 7, 2009 chose to implement the staggered renewal of the Board of Directors.

Directors are expected to be diligent and fully committed to the work of the Board and its Committees, which benefit from the diverse backgrounds, skills and expertise of their members. Directors with an in-depth, long-standing knowledge of the Group are a perfect complement to newly appointed Directors who bring a fresh perspective on the Group and help it evolve.

Notwithstanding 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.), Article 15 of the Company's Articles of Association states that the following decisions require the prior approval of the Board:

- matters and transactions that have a substantive effect on strategy of the Company or the Kering group more generally, its financial structure or its scope of business activity;
- except in the event of a decision by the Annual General Meeting, securities issues of all types that are liable to cause a change in the share capital;
- the following transactions by the Company or by any entity controlled by the Group, insofar as they each exceed €500 million, an amount set annually by the Board of Directors:
  - 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.

The internal rules of the Board provide that each Director must inform the Board of any existing or potential conflict of interest with Kering SA or any other Group company, and must not vote on any matters that concern them directly or indirectly. Each year, the Board of Directors assesses the position of the Directors with regard to conflicts of interest.

The internal rules are revised on a regular basis so they can be brought into line with changes in governance recommendations and practices. In 2016, changes were made mainly to reflect the entry into force of the EU Regulation on market abuse, on July 3, 2016.

The internal rules are published in full on the Company's website.

As indicated above, each Committee has its own internal rules, which are updated on a regular basis. The most recent update concerned the internal rules of the Audit Committee which were amended to include rules for the approval of services that may be provided by Statutory Auditors or their networks other than statutory audit services.

In accordance with the recommendations of the revised AFEP-MEDEF Code, every three years the Board of Directors appoints an independent expert to carry out a formal assessment. Each year, the Board also organises a discussion on its work. This annual self-assessment by the Board concerns its membership, organisation and operation. The assessment takes place in two stages:

- a questionnaire is given to each Director;
- each Director meets with the Vice-Chair of the Board (Patricia Barbizet), using the questionnaire as the starting point for discussions.

At the end of these meetings, the Directors set new objectives for improving the quality of their organisation and ensure that all important issues have been suitably prepared and addressed.

As part of the ongoing initiative to improve the balance of power on the Board of Directors and in line with the recommendations of the revised AFEP-MEDEF Code, meetings are now organised without the presence of the executive corporate officers.

1.5. *dialogue with executive management and operational divisions*

The Directors can take up matters with Executive Management at any time and with complete transparency, and Executive Management keeps the Directors regularly informed of all important events concerning the conduct of the Company's business. The Board has the resources to freely discuss all matters which concern it, particularly issues relating to the Group's strategies, the implementation of those strategies and their follow-up. The Directors also have all of the information needed to freely make informed decisions and help Executive Management draw up the agendas for the meetings.

The Board can meet with Group senior executives at certain meetings of the Board of Directors or its Committees. At a meeting of the Board in October 2017, the Directors were able to visit Bottega Veneta's workshops and its head office in Veneto.

Each Director is also entitled, if he or she so wishes, to meet the Group's senior executives outside these meetings in order to gain a better insight into the Group's businesses or certain operational issues.

The Board's membership and role ensures that it acts in compliance with the Group's best interests at all times. It provides a platform for reflection and is an invaluable source of support for Executive Management, while ensuring that it protects the interests of all stakeholders.

2. membership of the board of directors and information on directors and corporate officers

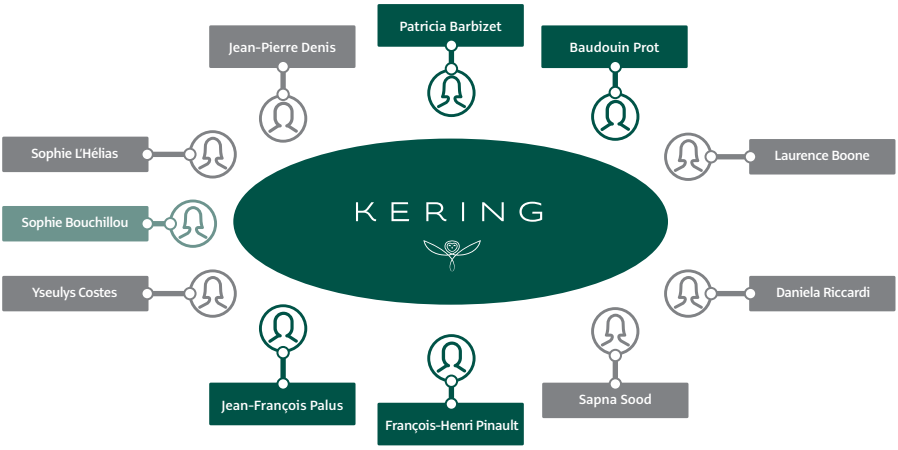
2.1. membership of the board of directors as of february 12, 2018

The Board is composed of Directors with wide and diversified experience, relating in particular to corporate strategy, finance, governance, insurance, economics, social and environmental responsibility, 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 facilitate a smooth renewal process, the Combined General Meeting on May 7, 2009 adopted an amendment to Article 10 of the Company's Articles of Association implementing the staggered renewal of the Board of Directors.

After having considered the Board of Directors' report and the favourable opinion issued by the Company's Works Council, the Combined General Meeting on May 6, 2014 decided to amend Article 10 of the Articles of Association in order to establish the procedures for appointing Directors representing employees in accordance with the French law dated June 14, 2013 in relation to job security.

As of February 12, 2018, the Board of Directors was composed of eleven members, six of whom are independent Directors according to the AFEP-MEDEF Code and the Board of Directors' criteria (see section 2.2.4 of this chapter), and one of whom was appointed by Kering's Works Council to represent employees.



- Non-independent Director
- Independent Director
- Director representing employees

François-Henri Pinault
Chairman of the Board of Directors and Chief Executive Officer

- Member of the Sustainability Committee

Patricia Barbizet
Vice-Chair of the Board of Directors

- Chair of the Appointments Committee
- Member of the Remuneration Committee
- Member of the Audit Committee

Laurence Boone
Director

- Member of the Audit Committee
- Member of the Appointments Committee

Sophie Bouchillou
Director

- Member of the Remuneration Committee

Yseulys Costes
Director

- Member of the Remuneration Committee
- Member of the Appointments Committee

Jean-Pierre Denis
Director

- Chairman of the Audit Committee
- Member of the Remuneration Committee

Sophie L'Hélias
Director

- Chair of the Remuneration Committee
- Member of the Audit Committee

Jean-François Palus
Group Managing Director

- Member of the Sustainability Committee

Baudouin Prot
Director

- Member of the Appointments Committee

Daniela Riccardi
Director

- Member of the Sustainability Committee

Sapna Sood
Director

- Chair of the Sustainability Committee
- Member of the Appointments Committee

Name	Position	Age	Independent Director[1]	Participation in a committee				Start of 1st term of office	End of current term of office	Nationality
				Audit	Remuneration	Appointments	Sustainability			
François-Henri Pinault	Chairman and Chief Executive Officer	55					√	1993[2]	2021	French
Patricia Barbizet	Vice-Chair	62		√	√	√		1992[3]	2021	French
Jean-François Palus	Group Managing Director	56					√	2009	2021	French
Yseulys Costes	Director	45	√		√	√		2010	2018	French
Jean-Pierre Denis	Director	57	√	√	√			2008	2020	French
Baudouin Prot	Director	66				√		1998[3]	2021	French
Daniela Riccardi	Director	57	√				√	2014	2018	Italian
Laurence Boone	Director	48	√	√		√		2010	2020	French
Sophie L'Hélias	Director	54	√	√	√			2016	2020	French
Sapna Sood	Director	44	√			√	√	2016	2020	British
Sophie Bouchillou	Director representing employees	55			√			2014	2018	French

Average age	DI*:	DI*:	DI*:	DI*:	DI*:	Average seniority
54 years	60%	75%	75%	60%	50%	11 years

* ***DI**: Degree of independence (in accordance with the provisions of the revised AFEP-MEDEF Code, the Director representing employees is not included in the calculation of the degree of independence).*

(1) According to the criteria of the revised AFEP-MEDEF Code and the Board of Directors.

(2) Member of the Executive Board from 1993 to 2001 and the Supervisory Board from 2001 to 2005.

(3) Member of the Supervisory Board until 2005.

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 four Committees responsible for assisting it in performing its duties: the Audit Committee, the Remuneration Committee, the Appointments Committee, and the Sustainability Committee.

Membership of the Board of Directors did not change in 2017.

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 2017;
- other directorships and positions held in the last five years.

Among Kering's Directors and corporate officers, only François-Henri Pinault, Jean-François Palus and Patricia Barbizet hold or have held legal representative or corporate functions in the Group's subsidiaries.

Director expertise

- Leadership
- Finance and accounting
- Economics
- Technology
- Industry
- Marketing
- Corporate Social Responsibility
- Risk management
- Corporate governance

François-Henri Pinault

Chairman and Chief Executive Officer

Number of shares held: 36,201

Born on May 28, 1962 (55 years old)
Kering: 40 rue de Sèvres, 75007 Paris
French citizen
First appointed in 1993
Term of office last renewed on April 27, 2017
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020

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. In 2003, he was appointed Chairman of the Artémis group and then Chairman and Chief Executive Officer in January 2018. 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) and the Executive Board (from June 1993 to January 2001), François-Henri Pinault has been the Chairman and Chief Executive Officer of Kering since May 19, 2005. Following the Combined General Meeting on April 27, 2017, 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 end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020.

François-Henri Pinault is a member of the Sustainability Committee. He attended all seven Board meetings in 2017 but did not attend the two Sustainability Committee meetings held during the year, representing an attendance rate of 78%.

François-Henri Pinault is manager and managing partner of Financière Pinault, which indirectly held 51,617,767 Kering shares as of December 31, 2017.

Other directorships and positions held as of December 31, 2017:

Position	Company	Country	Start of 1st term of office
at the level of the majority shareholder group:			
Manager	Financière Pinault SCA	France	October 2000
Group Managing Director	Artémis SA	France	December 2017
Member of the Management Board	SC Château Latour	France	June 1998
Chairman of the Board of Directors	Collection Pinault-Paris (SAS)	France	May 2016
Chairman	Sonova Management (SAS)	France	October 2015
Representative of Sonova Management	Sonova SCS	France	October 2015
within the Kering group:			
Chairman of the Strategy Committee	Boucheron Holding SAS	France	May 2005
Director	Stella McCartney Ltd	United Kingdom	June 2011
Director	Ulysse Nardin le Locle SA, manufacturer of prestige Swiss watches	Switzerland	November 2014
Director	Sapardis SE	France	May 2008
Chairman of the Board of Directors	Volcom Inc.	United States	July 2011
Director	Kering International Ltd	United Kingdom	May 2013
Director	Kering UK Services Ltd	United Kingdom	May 2014
Director	Kering Eyewear SpA	Italy	November 2014
Chairman of the Board of Directors	Yves Saint Laurent SAS	France	June 2013

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Vice-Chairman of the Board of Directors	PUMA SE (1)	Germany	July 2011 to April 2017
Director	Fnac SA	France	October 1994 to June 2013
Chairman of the Supervisory Board	Yves Saint Laurent SAS	France	April 2005 to June 2013
Chairman of the Supervisory Board	Kering Holland NV	Netherlands	October 2005 to April 2013
Director	Christie's International Plc	United Kingdom	May 2003 to April 2014
Chairman of the Board of Directors	Sowind Group SA	Switzerland	July 2011 to October 2015
Director	Brioni SpA	Italy	January 2012 to May 2015
Non-executive Director	Kering Holland NV	Netherlands	April 2013 to October 2016
Non-executive Director	Kering Netherlands BV	Netherlands	April 2013 to October 2016
Director	Bouygues (1)	France	December 1998 to April 2016
Director	Soft Computing (1)	France	June 2001 to September 2017
Chairman of the Board of Directors	Artémis SA	France	May 2003 to December 2017

(1) Listed companies (as of the date the position was held).

Patricia Barbizet

Vice-Chair of the Board of Directors

Number of shares held: 1,040

Born on April 17, 1955 (62 years old)
Artémis: 12 rue François 1er, 75008 Paris
French citizen
First appointed in 1992
Term of office last renewed on April 27, 2017
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020

A graduate of the *École Supérieure de Commerce de Paris* (ESCP-Europe), in 1976 Patricia Barbizet began her career as treasurer of the Renault Véhicules Industriels group then as Chief Financial Officer of Renault Crédit International. She joined the Pinault group in 1989 as Chief Financial Officer, and from 1992 to 2018 was Chief Executive Officer of Artémis, the Pinault family holding company. She served as Chairwoman at Christie's International from 2014 to 2016.

Patricia Barbizet is also a senior Director on the Board of Total. She is a Director of Bouygues, Air France-KLM and PSA Peugeot-Citroën and chaired the Investment Committee of Fonds Stratégique d'Investissement (FSI) from 2008 to 2013.

After serving as Chair of the Supervisory Board of PPR (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 April 27, 2017 and will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020.

Patricia Barbizet is Chair of the Appointments Committee and member of the Audit and Remuneration Committees. Prior to the Combined General Meeting on April 29, 2016, she was also a member of the Sustainability Committee and Chair of the Strategy & Development Committee. She attended all seven Board meetings in 2017 and all meetings of the Committees on which she sits (one Appointments Committee meeting, four Audit Committee meetings, and two Remuneration Committee meetings), representing an attendance rate of 100%.

Other directorships and positions held as of December 31, 2017:

Position	Company	Country	Start of 1st term of office
at the level of the majority shareholder group, mainly:			
Director	Artémis SA	France	1992
Chief Executive Officer, non-corporate officer	Financière Pinault SCA	France	January 2001
Member of the Supervisory Board	Financière Pinault SCA	France	June 2004
Administratore Delegato	Palazzo Grassi	Italy	September 2005
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	December 1997
Representative of Artémis, Director	Collection Pinault-Paris	France	May 2016
Member of the Supervisory Board	Compagnie du Ponant	France	December 2015
Deputy Chairwoman of the Board of Directors	Christie's International Plc	United Kingdom	September 1998
within the Kering group:			
Director	Yves Saint Laurent SAS	France	June 2013
outside the Kering group:			
Director	Total (1)	France	May 2008
Director	Groupe Fnac (1)	France	June 2013

(1) Listed companies (as of the date the position was held).

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Chief Executive Officer	Artémis SA	France	1992 to 2017
Director	Air France-KLM (1)	France	January 2003 to December 2013
Director	TF1 (1)	France	July 2000 to April 2013
Director	Bouygues (1)	France	December 1998 to April 2013
Director	Fonds Stratégique d'Investissement	France	December 2008 to July 2013
Member of the Supervisory Board	Yves Saint Laurent SAS	France	June 2003 to June 2013
Director	Tawa Plc (1)	United Kingdom	April 2011 to June 2012
Group Managing Director	Société Nouvelle du Théâtre Marigny	France	April 2010 to January 2012
Director	Société Nouvelle du Théâtre Marigny	France	February 2000 to November 2015
Non-executive Director	Kering Holland NV	Netherlands	July 1999 to October 2016
Director	Peugeot	France	April 2013 to October 2016

(1) Listed companies (as of the date the position was held).

Jean-François Palus

Director and Group Managing Director

Number of shares held: 69,426

Born on October 28, 1961 (56 years old)
Kering International: 6 Carlos Place, W1K 3AP London, United Kingdom
French citizen
First appointed in 2009
Term of office last renewed on April 27, 2017
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020

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 (1991 to 1993), Group Financial Control Director (1993 to 1997), then store manager at Fnac (1997 to 1998) and lastly Corporate Secretary and member of the Executive Board of Conforama (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 of PPR (since renamed Kering) since February 26, 2008. Following the Combined General Meeting on April 27, 2017, the Board of Directors renewed his term of office as Group Managing Director for a term of four years.

Jean-François Palus has headed Kering's Sport & Lifestyle activities since October 2012. He 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 was renewed by the Combined General Meeting on April 27, 2017 and will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020.

Jean-François Palus is a member of the Sustainability Committee. He attended all seven Board meetings in 2017 and the two Sustainability Committee meetings, representing an attendance rate of 100%.

Other directorships and positions held as of December 31, 2017:

Position	Company	Country	Start of 1st term of office
at the level of the majority shareholder group:			
Group Managing Director	Artémis SA	France	December 2017
within the Kering group:			
Chairman of the Board of Directors	PUMA SE [(1)]	Germany	December 2012
Director	Pomellato SpA	Italy	July 2013
Director	Sowind Group SA	Switzerland	December 2013
Director	Kering Luxembourg SA	Luxembourg	May 2011
Chairman	Volcom LLC	United States	July 2011
Director	Kering Americas Inc.	United States	June 2011
Director	Volcom Luxembourg Holding SA	Luxembourg	October 2012
Director	Kering Tokyo Investment	Japan	November 2013
Director	Guccio Gucci SpA	Italy	June 2014
Director	Gucci America Inc.	United States	May 2014
Director	Kering Asia Pacific Ltd	Hong Kong	May 2014
Director	Yugen Kaisha Gucci	Japan	May 2014
Director	Kering South East Asia	Singapore	October 2014
Director	Birdswan Solutions Ltd	United Kingdom	May 2014
Director	Paintgate Ltd	United Kingdom	May 2014
Director	Christopher Kane Ltd	United Kingdom	June 2014
Director	Ulysse Nardin le Locle SA, manufacturer of prestige Swiss watches	Switzerland	November 2014
Director	Kering Eyewear SpA	Italy	November 2014
Director	Tomas Maier LLC	Switzerland	July 2017
Director	Stella McCartney Ltd	United Kingdom	September 2016
Director	Altuzarra LLC	United States	September 2016

(1) Listed companies (as of the date the position was held).

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Director	Fnac SA	France	November 2007 to June 2013
Director	Groupe Fnac	France	September 2012 to June 2013
Chairman and Chief Executive Officer	Sapardis SE	France	March 2007 to June 2013
Member of the Supervisory Board	Kering Holland NV	Netherlands	May 2006 to April 2013
Member of the Supervisory Board	Yves Saint Laurent SAS	France	March 2011 to March 2013
Permanent representative of Kering on the Board of Directors	Redcats SA	France	April 2006 to February 2013
Representative of Sapardis on the Management Board	SC Zinnia	France	December 2009 to June 2013
Director	Brioni SpA	Italy	January 2012 to October 2015
Chairman of the Board of Directors	Brioni SpA	Italy	May 2014 to October 2015
Chairman of the Board of Directors	LGI SA	Switzerland	April 2011 to June 2016

Yseulys Costes

Independent Director

Number of shares held: 500

Born on December 5, 1972 (45 years old)
1000mercis: 28 rue de Châteaudun, 75009 Paris
French citizen
First appointed in 2010
Term of office last renewed on May 6, 2014
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2017

Yseulys Costes holds a Master's 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 (US).

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 campaigns on interactive media (Internet, mobile phones, etc.). The 1000mercis group currently has more than 400 employees and posted consolidated revenues of €56.2 million in 2016.

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 was renewed by the Combined General Meeting on May 6, 2014 and will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2017.

Yseulys Costes is a member of the Appointments and Remuneration Committees. Prior to the Combined General Meeting on April 29, 2016, she was also member of the Audit and Strategy & Development Committees. She attended all Board meetings in 2017 and all meetings of the Committees on which she sits or sat (two Remuneration Committee meetings and one Appointments Committee meeting), representing an attendance rate of 100%.

Other directorships and positions held as of December 31, 2017:

Position	Company	Country	Start of 1st 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
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	Vivendi (1)	France	2013 to 2017
Member of the Supervisory Board	Numergy	France	2012 to 2014

(1) Listed companies (as of the date the position was held).

Jean-Pierre Denis

Independent Director

Number of shares held: 500

Born on July 12, 1960 (57 years old)
Arkéa group: 29808 Brest Cedex 09
French citizen
First appointed in 2008
Term of office last renewed on April 29, 2016
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019

Jean-Pierre Denis is a Finance Inspector 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 (2000 to 2003), Chairman of Dalkia (Vivendi group then Veolia Environnement) (1999 to 2003), Advisor to the Chair of CGE, which became Vivendi (1997 to 1999) and Deputy General Secretary of the French President's cabinet (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 29, 2016 and will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019.

Jean-Pierre Denis is Chairman of the Audit Committee and member of the Remuneration Committee. He attended all Board meetings in 2017 and all meetings of the Committees on which he sits (four Audit Committee meetings and two Remuneration Committee meetings), representing an attendance rate of 100%.

Other directorships and positions held as of December 31, 2017:

Position	Company	Country	Start of 1st term of office
Chairman	Fédération du Crédit Mutuel de Bretagne	France	September 2008
Chairman	Crédit Mutuel Arkéa	France	September 2008
Director	Avril Gestion	France	December 2014
Director	Caisse de Crédit Mutuel de Cap Sizun	France	May 2008
Director	Altrad Investment Authority	France	August 2013
Chairman	Château Calon-Ségur SAS	France	December 2012
Director	Nexity[1]	France	August 2015
Director	Paprec Holding	France	November 2010
Director	JLPP Invest SAS	France	
Member of the Supervisory Board	Tikehau Capital	France	January 2017

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Chairman	Arkéa Capital Partenaire	France	-
Member of the Supervisory Board	Oséo Bretagne	France	-
Director	Glon Sanders	France	until 2013
Director	Soprol	France	until 2015
Director	Newport	France	until 2015
Director and General Treasurer	French professional football league (association)	France	until 2016
Acting Chairman	French professional football league (association)	France	until 2016

(1) Listed companies (as of the date the position was held).

Baudouin Prot

Director

Number of shares held: 600

Born on May 24, 1951 (66 years old)
BNP Paribas: 3 rue d'Antin, 75002 Paris
French citizen
First appointed in 1998
Term of office last renewed on April 27, 2017
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020

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. From December 2011 to December 2014, he served as non-executive Chairman of BNP Paribas. 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 April 27, 2017 and will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020.

Baudouin Prot is a member of the Appointments Committee. He attended six of the seven Board meetings in 2017 and the one Appointments Committee meeting, representing an attendance rate of 88%.

Other directorships and positions held as of December 31, 2017:

Position	Company	Country	Start of 1st term of office
Chairman of the Supervisory Board	Foncia[(1)]	France	March 2017
Director	Finastra		November 2017
Director	Veolia Environnement SA[(1)]	France	April 2003
Director	BGL BNP Paribas[(1)]	Luxembourg	April 2015

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Chairman of the Board of Directors	BNP Paribas SA[(1)]	France	December 2011 to December 2014
Director	Erbe SA	Belgium	June 2004 to December 2013
Director	Pargesa Holding SA[(1)]	Switzerland	May 2004 to December 2013
Director	Lafarge SA[(1)]	France	May 2011 to August 2016

(1) Listed companies (as of the date the position was held).

Daniela Riccardi

Independent Director

Number of shares held: 500

Born on April 4, 1960 (57 years old)
Baccarat: 11 place des États-Unis, 75116 Paris
Italian citizen
First appointed in 2014
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2017

Daniela Riccardi is the Chief Executive Officer of Baccarat. She has recognised experience in business development and branding in the consumer retail and distribution sectors. She joined Baccarat in May 2013 after having served as Chief Executive Officer of the international Lifestyle brand Diesel since 2010. Daniela Riccardi was responsible for the creation and implementation of a strategic plan at Diesel which resulted in greater revenue growth and product exposure through an ambitious distribution policy. Prior to Diesel, Daniela served for 25 years at Procter & Gamble in various senior management roles around the world, including Vice-President of P&G Columbia, Mexico and Venezuela. From 2001 and 2004, she was Vice-President and General Manager of P&G Eastern Europe and Russia, based in Moscow. Between 2005 and 2010, she was President of Procter & Gamble in China. She has been a member of the Colbert Committee since June 2015.

Daniela studied political science and international relations at Sapienza University of Rome, in Italy.

She has been a Director of Kering since May 6, 2014. Her term of office will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2017.

Daniela Riccardi is a member of the Sustainability Committee. She attended six of the seven Board meetings in 2017 and the two meetings of the Committee on which she sits, representing an attendance rate of 89%.

Other directorships and positions held as of December 31, 2017:

Position	Company	Country	Start of 1st term of office
Chief Executive Officer	Baccarat (1)	France	May 2013
Director	WPP Plc (1)	United Kingdom	September 2013

(1) Listed companies (as of the date the position was held).

Daniela Riccardi has not held any other corporate office in the past five years.

Laurence Boone

Independent Director

Number of shares held: 500

Born on May 15, 1969 (48 years old)
AXA Investment Managers: Tour Majunga – 6 place des Pyramides, 92908 Paris-La Défense Cedex
French citizen
First appointed in 2010 (resigned in 2014)
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019

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) 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 was Managing Director, European Economic Research at Bank of America Merrill Lynch from July 2011 to June 2014. Between June 2014 and March 2016 she served as special advisor to the French President on multilateral and European economic and financial affairs. Since March 2016, she has been Chief Economist at AXA group, Head of Research and Investment Strategy at AXA Investment Managers, and member of the Management Board of AXA Investment Managers, for whom she is also responsible for developing relations with sovereign entities.

The author of numerous articles, Laurence 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 member of the French Circle of Economists and a Knight of the Legion of Honour.

Laurence Boone was first appointed a Director of Kering on May 19, 2010. Her term of office was renewed at the 2014 Annual General Meeting but she resigned on July 15, 2014 following her appointment to the Office of the French President as an advisor in economic and financial affairs. She was reappointed as a Director of Kering at the Combined General Meeting on April 29, 2016. Her term of office will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019.

Laurence Boone is a member of the Audit Committee. She attended all seven Board meetings in 2017 and three of the four meetings of the Audit Committee, on which she sits, representing an attendance rate of 91%.

Laurence Boone was also appointed a member of the Appointments Committee as of February 1, 2018.

Laurence Boone did not hold any other directorships or positions at December 31, 2017, and has not held any other corporate office over the past five years.

Sophie L'Hélias

Independent Director

Number of shares held: 601

Born on December 15, 1963 (54 years old)
56 Avenue Paul Doumer, 75116 Paris
French citizen
First appointed in 2016
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019

A qualified attorney, Sophie L'Hélias worked for US business law firms in New York and Paris for several years before entering the world of finance as Managing Director of a New York hedge fund. She subsequently created an institutional investor advisory firm. An expert on governance issues, she is co-founder of the International Corporate Governance Network (www.icgn.org), the leading international network of institutional investors for corporate governance. She recently founded LeaderXXchange™ in the US which collaborates with institutional investors, business leaders and other market participants to promote diversity on corporate boards. LeaderXXchange™ is a partner of the International Economic Forum of the Americas' Conference of Montreal.

Sophie is a frequent speaker on governance, sustainability, climate finance and diversity issues at international economic, financial and academic conferences in the US, Canada and the UK.

She is a member of the Global Advisory Board of the Lazardis Institute for the Management of Technology Enterprises at Waterloo in Canada, Senior Fellow of The Conference economic think tank in New York, and a member of Hawkamah Governance Institute's Editorial Board in Dubai.

She holds an MBA from INSEAD, an LLM degree from the University of Pennsylvania Law School, a Master of Law degree from Pantheon-Sorbonne University and a degree from the European Law Institute at the University of Saarbrücken in Germany.

Sophie has been a Director of Kering since April 29, 2016. Her term of office will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019.

She is Chair of the Appointments Committee and member of the Audit Committee. She attended all seven Board meetings in 2017 and all meetings of the Committees on which she sits (four Audit Committee meetings and two Remuneration Committee meetings), representing an attendance rate of 100%.

Sophie did not hold any other directorships or positions as of December 31, 2017, and has not held any other corporate office over the past five years.

Sapna Sood

Independent Director

Number of shares held: 500

Born on June 4, 1973 (44 years old)
Holcim Philippines: No 8 Turin Street, McKinley Town Center – Fort Bonifacio, 1634 Taguig City, Philippines
Australian citizen
First appointed in 2016
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019.

Sapna Sood has an Executive MBA from IMD Business School, a Graduate Certificate of Change Management from the Australian Graduate School of Management and a Bachelor of Engineering from the University of Sydney.

She is currently Chief Operating Officer of LafargeHolcim Philippines. Prior to this she served as Senior Vice-President, Health and Safety at LafargeHolcim based in Paris. Sapna began her career as an Applications Engineer with Fisher-Rosemount. In 1997, she joined the Linde group (formerly known as the BOC group) under their Graduate Development Program and subsequently held various senior positions in the Linde group in Australia, the US, Singapore, Germany and China. She joined the Lafarge group in 2013 as Senior Vice President of Health and Safety and with the merger of Lafarge and Holcim took on the same responsibility for the new group in July 2015.

Sapna has been a Director of Kering since April 29, 2016. Her term of office will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019.

She is Chair of the Sustainability Committee and member of the Appointments Committee. She attended all seven Board meetings in 2017 and the three meetings of the Committees on which she sits, representing an attendance rate of 100%.

She did not hold any other corporate office as of December 31, 2017.

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Non-executive Director	Lafarge Malaysia Berhad	Malaysia	November 2014 to 2016

Sophie Bouchillou

Director representing employees

Born on March 1, 1962 (55 years old)
Kering: 40 rue de Sèvres, 75007 Paris
French citizen
First appointed in 2014
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2017.

Sophie Bouchillou is Human Resources Project Coordinator at Kering SA. She joined the Group in 1981 working for Conforama as a sales and administrative agent and subsequently executive sales assistant. From 2001 to 2009, she held the position of executive purchasing assistant at PPR Purchasing. She has been working in the Human Resources Department of Kering SA since 2009.

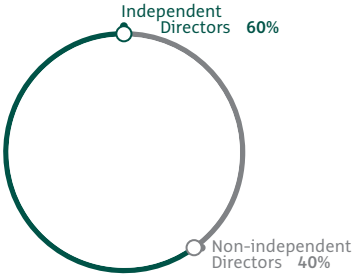
Following the amendment of the Company's Articles of Association adopted by the Combined General Meeting on May 6, 2014, which provides for the appointment of a Director representing employees in accordance with the law of June 14, 2013, Sophie Bouchillou was elected as a Director for a term of four years by the Kering Works Council on July 10, 2014. Her term of office will expire in July 2018.

She attended all seven Board meetings in 2017, representing an attendance rate of 100%.

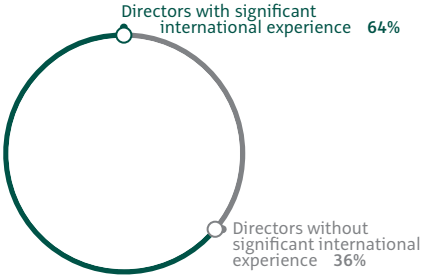
Acting on a recommendation of the Appointments Committee at its March 10, 2017 meeting, the Board of Directors appointed Sophie Bouchillou, Director representing employees, to the Remuneration Committee.

Sophie Bouchillou did not hold any other corporate office as of December 31, 2017.

DEGREE OF INDEPENDENCE [1] OF THE BOARD OF DIRECTORS

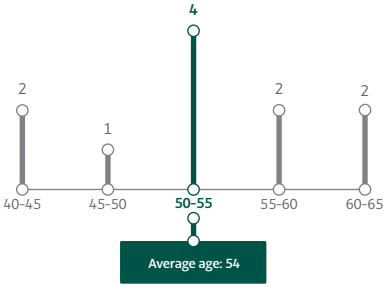


INTERNATIONAL EXPERIENCE ON THE BOARD OF DIRECTORS

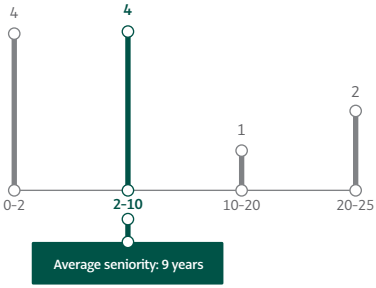


(1) In accordance with the recommendations of the revised AFEP-MEDEF Code, these percentages do not include the Director representing employees.

AGE PROFILE OF THE BOARD OF DIRECTORS



SENIORITY ON THE BOARD OF DIRECTORS



2.2. conditions of preparation and organisation of the work of the board of directors

2.2.1. 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, the Board reviews all issues concerning the smooth running of the Company and acts on all matters over which it has authority.

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 comprehensive 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 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 inside 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. In compliance with current regulations, the internal rules also require Directors to declare trading 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, even potential 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.

To reinforce its methods of functioning and in the interests 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 role of its four specialised Committees: the Audit Committee, the Remuneration Committee, the Appointments Committee and the Sustainability Committee.

Executive Management may in all circumstances be heard within said Committees.

2.2.2. 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 combine the duties of Chairman and Chief Executive Officer, and maintained this option in May 2009. This choice has contributed to efficient governance in light of the organisation of the Kering group, within which 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 precise operational knowledge and in-depth experience of this business. On the proposal of the Chairman and Chief Executive Officer, the Board of Directors' meeting appointed a Group Managing Director (*Directeur Général Délégué*) whose term of office was renewed on April 27, 2017 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 April 27, 2017 for another four years.

Management of the Luxury activities is the responsibility of the Chairman and Chief Executive Officer and the Group Managing Director. The Group Managing Director is also in charge of the Sport & Lifestyle activities. More specifically, within the Luxury activities, the Chairman and Chief Executive Officer is directly responsible for the operations of the Gucci, Bottega Veneta and Yves Saint Laurent brands while the Group Managing Director is responsible for the other brands of the Luxury activity.

The Chairman and Chief Executive Officer and the Group Managing Director both participate, on an equal footing, in the work of the Board of Directors, 60% of whose members are independent Directors. The Board operates smoothly as a result of frequent meetings, the regular attendance of its members and the assistance of its specialised Committees.

The Chairmen and Chief Executive Officers of the main brands (Gucci, Yves Saint Laurent and PUMA) and the Chief Executive Officer of the Luxury – Watches & Jewelry division are members of the Executive Committee and attend Board of Directors' meetings as non-voting Directors. At those Board meetings they are invited to attend, they are all therefore able to provide their views and information concerning the Group's activities and brands with a view to keeping the non-executive Directors and the Board as a whole well-informed.

2.2.3. Limitations by the Board of Directors on 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 lead to 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 2017):

- 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.

2.2.4. 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, or have been in such position in the past five years;
- be an employee, executive corporate officer or Director of its parent or of a company that the latter consolidates, or have been in such a position in the past five years;
- be an 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 corporate officer of the Company (currently in office or having held office within the past 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 corporate officer;
- have been the auditor of the Company within the past five years;
- be a Director of the Company for more than twelve years, the maximum period for which a Director is considered independent.

Each year, the Appointments Committee reviews the independence of each Director in light of the criteria set out in the AFEP-MEDEF Code. In reviewing independence with regard to the direct or indirect business relationship criteria, an additional quantitative and qualitative analysis is performed, if necessary, in order to determine the independence of individual Directors where any such business relationship exists.

In 2018, following the review of the Appointments Committee on February 1, 2018, the Board of Directors meticulously analysed – along with all other criteria – any business relationships that may exist between the Kering group and the entities or groups in which independent Directors exercise their duties. Based on the Board's analysis, with the exception of Yseulys Costes, no independent Directors and none of the entities or groups in which they exercise their duties have a business relationship with the Company, its group or its management team. The Board of Directors carried out a qualitative and quantitative review of the situation of Yseulys Costes, Chair and Chief Executive Officer of 1000mercis, along with the business relationships existing between 1000mercis and Kering. Global business between these two companies for all activities and for each of the parties is well below the 1% materiality threshold set by the Board of Directors. The Board of

Directors therefore considers Yseulys Costes to be an independent Director, particularly because there is no relationship of economic dependence, and sees value in continuing to benefit from her renowned expertise.

Six of the ten[1] Directors currently serving on the Board are therefore classified as independent Directors (Yseulys Costes, Daniela Riccardi, Laurence Boone, Sophie L'Hélias, Sapna Sood and Jean-Pierre Denis). The Group thus satisfies the recommendations of the revised AFEP MEDEF Code, namely that "at least one-third" of Board members should be independent Directors in companies with controlling shareholders, which is the case for Kering.

2.2.5. Director induction and training

Upon first joining the Board, all Directors are given training adapted to their specific needs. Meetings are organised with the Group Managing Director and with the Group's executive corporate officers to give them an insight into the Group and into each of its businesses.

Directors continue to receive instruction after arrival and on an ongoing basis. In accordance with Decree no. 2015-606 of June 3, 2015 on the time needed for Directors representing employees to carry out their duties and the basis for their instruction within the Company, the Board of Directors decided (i) to allow Directors representing employees sufficient time to prepare for each Board meeting and (ii) to provide them with a minimum of 20 hours' instruction per year during their term of office. In this respect, since joining Kering's Board of Directors, Sophie Bouchillou has attended a training course organised by the French Institute of Directors (*Institut Français des Administrateurs* – IFA), as well as internal training sessions given by some of the Company's functional divisions.

2.3. *activity of the board of directors and its specialised committees*

2.3.1. Activity of the Board of Directors in 2017 and up to February 12, 2018

Activity of the Board of Directors in 2017

During 2017, the Board met seven times with an average attendance rate of 97%; the Chairman of the Board chaired all Board meetings.

Dates	Directors present *(attendance rate)*
February 9	*11/11 (100%)*
March 10	*11/11 (100%)*
April 27 (before the Combined General Meeting)	*11/11 (100%)*
April 27 (after the Combined General Meeting)	*11/11 (100%)*
July 27	*11/11 (100%)*
October 24	*11/11 (100%)*
December 14	*9/11 (81.8%)*

The following persons took part in the Board meetings:

- the Directors;
- the Board secretary (the Head of the Legal Department);
- the Works Council representative;
- the Statutory Auditors, the Internal Audit Director and non-voting Directors (at some meetings).

The agendas for Board meetings are drawn up by the secretary following discussions with the Chairman and Chief Executive Officer and the Group Managing Director and examination of the agendas of specialised committee meetings and Directors' proposals.

Several days before each Board meeting, each Director receives, via a secure file-sharing system, a copy of the agenda, the draft minutes of the previous meeting, and documentation relevant to the items on the agenda.

The minutes of each Board meeting are submitted for explicit approval at the subsequent meeting.

In compliance with the internal rules of the Board, some matters undergo preliminary examination by the relevant Committees, who can therefore issue their opinions for submission to the Board of Directors. The Chairman reports on these preliminary Committee meetings at each Board meeting.

In 2017, the work of the Board of Directors mainly involved reviewing the annual and interim financial statements, the Group's business activity and strategic issues.

(1) The AFEP-MEDEF Code does not include Directors representing employees when calculating the percentage of independent Directors on the Board. This explains why the proportion of independent Directors on the Board is calculated based on 10 Directors instead of 11.

At the February 9, 2017 Board meeting the main item on the agenda concerned the review of parent company and consolidated financial statements for 2016. The following documents in particular were examined:

- Chairman's report on activity of the Board, internal control and risk management;
- Statutory forecast documents (cash flow forecast management: current assets and liabilities as of December 31, 2016; uses and sources of funds for 2017; funding plan; forecast income statement);
- Statutory Auditors' report.

The Board also reviewed the work of the Audit Committee on key focus points for the closing of the 2016 financial statements and the Group's Internal Audit activity, and heard a presentation on business activity in 2016. Accordingly, the Board approved the annual financial statements and reports for the 2016 fiscal year for the Annual General Meeting, and adopted the draft Management Report of the Board of Directors to be put before the Annual General Meeting. The Directors discussed and approved the related-party agreement, and granted and allocated the Directors' fees for 2016 in accordance with the terms and conditions of its internal rules. The Board also decided to renew the EMTN (Euro Medium Term Notes) programme. Lastly, further to a preliminary analysis conducted by the Audit Committee, the Board also reviewed potential and/or actual risks of fraud affecting the Group.

On March 10, 2017, the Board met to deliberate on the Group's 2017 budget. The Directors examined the work of the Remuneration Committee on remuneration for members of the Executive Committee on the Group's remuneration policies and on remuneration for executive corporate officers. They heard the report on the work of the Appointments Committee, particularly on the findings of the Board's self-assessment. Director independence and the new composition of the Board were also addressed. The Board examined the work carried out by the Sustainability Committee in 2016.

Following its discussions, the Board called the Combined General Meeting on April 27, 2017.

On April 27, 2017, the Board met prior to the Combined General Meeting held on the same day. Following discussions on preparations for the Combined General Meeting, including an examination of written questions received, the Board was presented with a review of business operations.

The Board of Directors met again after the Combined General Meeting on April 27, 2017. The Board noted the renewal of the terms of office of the Directors concerned, confirmed its decision to entrust Executive Management of the Company to the Chairman of the Board, renewed the term of office of the Group Managing Director and redefined his powers, renewed the term of office of the Vice-Chair of the Board, appointed four non-voting Directors, confirmed the membership of the Board's Committees and renewed the authorisation granted to the Chief Executive Officer, with the possibility to sub-delegate such authorisation, to carry out certain transactions, in particular transactions referred to in Article 15-II of the Articles of Association, up to a fixed amount of €500 million. The Board approved the implementation of the share buy-back programme authorised by the Annual General Meeting on the same day.

On July 27, 2017, the Board reviewed the work of the Audit Committee, which had met the day before, heard the findings of the Statutory Auditors and a report on business activity for the first half of 2017, and adopted the interim financial statements and reports. The agenda also included an item on governance, the main aim being to inform Directors of recent legislative and regulatory changes, particularly the entry into force of the European Regulation on market abuse (MAR). It also adopted the procedure for managing insider information and reviewed progress on issues relating to fraud.

On October 24, 2017, the Board met at Bottega Veneta's premises in Montebello Vicentino (Italy) to discuss the Group's strategy. The discussion focused on two key areas:

- an in-depth analysis of 2018 initiatives for implementing the strategy defined at the October 2017 meeting, especially: (i) the "Prometheus" project, which will partially overhaul certain planning, logistics, procurement and sales processes for the Luxury activities so that the brands can better manage the shared resources made available by the Group, (ii) data management in the context of the Group's shift to digital, and (iii) innovation initiatives, with the aim of creating an internal dynamic enhancing Kering's competitive edge;
- a presentation of Bottega Veneta's strategy by the brand's Chief Executive Officer.

On December 14, 2017, the Board decided to pay an interim dividend for 2017 as from January 17, 2018. At the same meeting, the Board also had preliminary discussions regarding the spin-off of PUMA from the Group. The Directors met at a later date without the executive corporate officers to discuss strategic options concerning the PUMA Group.

Activity of the Board of Directors up to February 12, 2018

The Board of Directors met twice between January 1 and February 12, 2018.

On January 11, 2018, all Board members were in attendance to finalise the PUMA discussions and authorise the Company to prepare its plan to distribute a substantial proportion of PUMA shares to Company shareholders.

On February 12, 2018, the Board of Directors met to adopt the 2017 annual financial statements and reports to be submitted to the Annual General Meeting as well as to approve this report. It also heard a report on the Group's financial position. The Board then granted and allocated the Directors' fees for 2017 in accordance with the criteria adopted in March 2014, which remained unchanged.

2.3.2. Assessment of the Board of Directors

In accordance with its internal rules, since 2004 the Board of Directors has carried 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 by a third-party expert was carried out by a specialised firm which reported to the Board on March 11, 2016.

In line with the recommendations of the revised AFEP-MEDEF Code, the Board decided to conduct a self-assessment of its membership, organisation and operation. This assessment, which began at the start of 2017, was carried out in two stages: an analysis of the questionnaires sent to each Director followed by a meeting with each Director.

Input from the completed questionnaires provided the basis for individual interviews of the Directors by the Vice-Chair of the Board of Directors. The issues covered included the scheduling of Board meetings not attended by executive corporate officers, the involvement of operational departments at the Board meeting on strategy, the activity and membership of Committees, and the content of information received.

The findings of the self-assessment were:

- the Directors are satisfied with the conditions in which the Board carries out its work; they especially appreciate the relationship of trust forged with the Company's management and the friendly and constructive climate for Board discussions. The quality of the Board's work has improved, in particular thanks to the two in-depth strategy seminars held, as well as visits organised to the brands;
- the Directors expressed a wish for an improvement in technical conditions for videoconferences. A technical solution is therefore currently being considered as a means of improving remote communications.

2.3.3. Specialised Committees

Audit Committee

Duties

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 hear 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 Committee also considers potential Statutory Auditors for appointment.

Composition

The Kering Audit Committee comprises four Directors: Jean-Pierre Denis, Chairman, independent Director, Patricia Barbizet, Sophie L'Hélias, independent Director, and Laurence Boone, independent Director.

The four members of the Audit Committee 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 section 2.1 of this chapter).

In accordance with the revised AFEP-MEDEF Code, two-thirds of the members of the Committee are independent Directors, and no member is an executive corporate officer.

Activities of the Audit Committee in 2017 and up to February 12, 2018

The Committee met four times in 2017, with an average attendance rate of 94%.

During 2017, the Chief Financial Officer and Group Internal Audit Director were regularly invited to present their work and answer questions at meetings of the Committee.

On January 11, 2017, the Audit Committee reviewed Internal Audit activities (audit missions and action plan tracking) and Group risk exposure, and heard the Internal Audit Director's presentation of the 2017 audit plan. With a view to submitting its recommendations to the Board of Directors, it also reviewed the accounting options for the annual financial statements, the off-balance-sheet commitments, the scope of the Statutory Auditors' engagement, the independence of the Statutory Auditors, and their general programme for audit work.

On February 7, 2017, the Committee met prior to the Board meeting held to adopt the 2016 financial statements, a topic to which it devoted most of its work (with a presentation of the financial statements by the Group Chief Financial Officer), and heard the Statutory Auditors in relation to their reports on the financial statements. It also reviewed the services provided by Artémis in 2016,

At its meeting on June 7, 2017, the Committee began by reviewing the interim financial statements, on the basis of a presentation by the Group Chief Financial Officer. This was followed by a presentation of Group Internal Audit missions by the Audit Director. The Committee also heard a report on the development of the Group compliance programme given by the Chief Compliance Officer, who has a direct link to the Board of Directors via the Audit Committee. The Chief Compliance Officer is thus fully independent, an important factor in any compliance programme.

With a view to the meeting of the Board on July 27, 2017 to adopt the interim financial statements, the Committee met the day before to review the financial statements. This meeting was attended by the Chief Financial Officer, the Financial Control Director, the Financing and Treasury Director and the Director of Financial Communications and Market Intelligence. The Committee also heard the Statutory Auditors' reports on the interim financial statements, and reviewed an interim report on the audit reform.

Since the beginning of 2018, the Audit Committee has met twice, with all of its members present.

With a view to submitting its recommendations to the Board of Directors, on January 15, 2018 the Committee reviewed the accounting options for the annual financial statements, off-balance sheet commitments, the scope of the Statutory Auditors' engagement, the independence of the Statutory Auditors, and their general programme for audit work.

On February 8, 2018, the Committee met before the meeting of the Board to adopt the 2017 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 2017, and heard a report on the performance of the Kering share.

On February 9, 2017, the Committee informed the Board of its work and recommendations.

Remuneration Committee

Duties

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 in section 4.1 of this chapter), as well as the method for allocating the Directors' fees granted to the Board by the Annual General Meeting, the remuneration policy for senior executives and 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.

Composition

The Remuneration Committee currently comprises four Directors: Sophie L'Hélias, Chair, independent Director, Patricia Barbizet, Yseulys Costes, independent Director, and Jean-Pierre Denis, independent Director. Accordingly, with regard to the criteria of the revised AFEP-MEDEF Code, independent Directors represented the majority of the Remuneration Committee's members.

Acting on a recommendation of the Appointments Committee at its February 2, 2017 meeting, on March 10, 2017 the Board of Directors appointed Sophie Bouchillou, Director representing employees, to the Remuneration Committee.

Activities of the Remuneration Committee in 2017 and up to February 12, 2018

The Committee met twice in 2017, with an average attendance rate of 100%.

At its first meeting on February 7, 2017, all of its members were in attendance to conclude matters following the discussions of the three previous meetings. The Committee issued a proposal on reconfiguring the system of remuneration for executive corporate officers, and this was submitted to the Board of Directors at its meeting on February 9, 2017. At this meeting, members also reviewed variable remuneration for 2016 and the fixed remuneration of Executive Committee members. This Committee's review was carried out on the basis of estimates; the Committee will determine the rate of achievement for all remuneration at its next meeting, based on the Group's 2016 results.

On March 7, 2017, the Committee met to review and determine the variable components of the remuneration awarded to the Chairman and Chief Executive Officer and to the Group Managing Director, and the components of remuneration for 2017 (see section 4.1 of this chapter for more details).

On February 6, 2018, all the members of the Committee met to review the variable remuneration for 2017 and the fixed remuneration of the Executive Committee, Chairman and Chief Executive Officer and Group Managing Director. The Committee's review was carried out based on the Group's 2017 results. The Committee also discussed the components of remuneration for 2018.

The Remuneration Committee reported on its work and recommendations to the Board of Directors.

Appointments Committee

Duties

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 on these matters to the Board.

Composition

The Committee comprises four Directors: Patricia Barbizet, Chair, Yseulys Costes, independent Director, Sapna Sood, independent Director, and Baudouin Prot.

As part of its improvement programme in governance matters, on February 1, 2018, the Appointments Committee decided to appoint Laurence Boone to this Committee.

Activities of the Appointments Committee in 2017 and up to February 12, 2018

The Appointments Committee met once in 2017 and all of its members were present.

On February 2, 2017, the Committee met for a progress update on the assessment of the Board of Directors and to review the resulting proposals on the independence of certain Directors and the membership of the Board's Committees.

At its meeting of February 1, 2018, the Committee reviewed a draft of the section of this report dealing with corporate governance and the succession plan for the Group's senior executives. It also discussed Director independence and the membership of the Board and its Committees.

The Appointments Committee accordingly reported on its work and made its recommendations to the Board of Directors.

Sustainability Committee

Duties

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 of Directors and Executive Management to maintain a high level of sustainability in their economic, social and environmental context, the Group's clear ambitions in terms of ethics and the corporate citizenship policies and practices upheld by the Group, its senior executives and employees.

Composition

The Committee comprises four Directors: Sapna Sood, Chair, François-Henri Pinault, Daniela Riccardi and Jean-François Palus.

Activities of the Sustainability Committee in 2017 and 2018

The Committee met twice in 2017, with an average attendance rate of 67%.

The Committee met on March 14, 2017 to discuss Group activities with regard to sustainability, consistent with the targets set for 2017. Specific issues covered included the Group sustainability priorities of the EP&L, innovative projects and sustainable sourcing.

A second meeting was held on November 10, 2017. Members were reminded of the reasons for the emphasis placed on sustainability in Kering's strategy, and they proceeded with a brief review of the implementation of the "Advance" programme. The Committee members noted that this new plan goes beyond strictly environmental issues to cover two other points – social responsibility and development of new business models – and thus position the Group as a catalyst for positive change in these areas.

The Group Sustainability Director took part in both meetings of the Sustainability Committee.

The Committee did not meet in early 2018.

2.4. 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 April 27, 2017 which followed the Combined General Meeting, the Board of Directors decided to confirm François Pinault, founder of the PPR group, since renamed Kering, as Honorary Chairman of the Board of Directors. In this capacity, François Pinault is invited to participate in the meetings of the Board of Directors on a consultative basis. He did not participate in any of these meetings in 2017.

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 April 27, 2017 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.

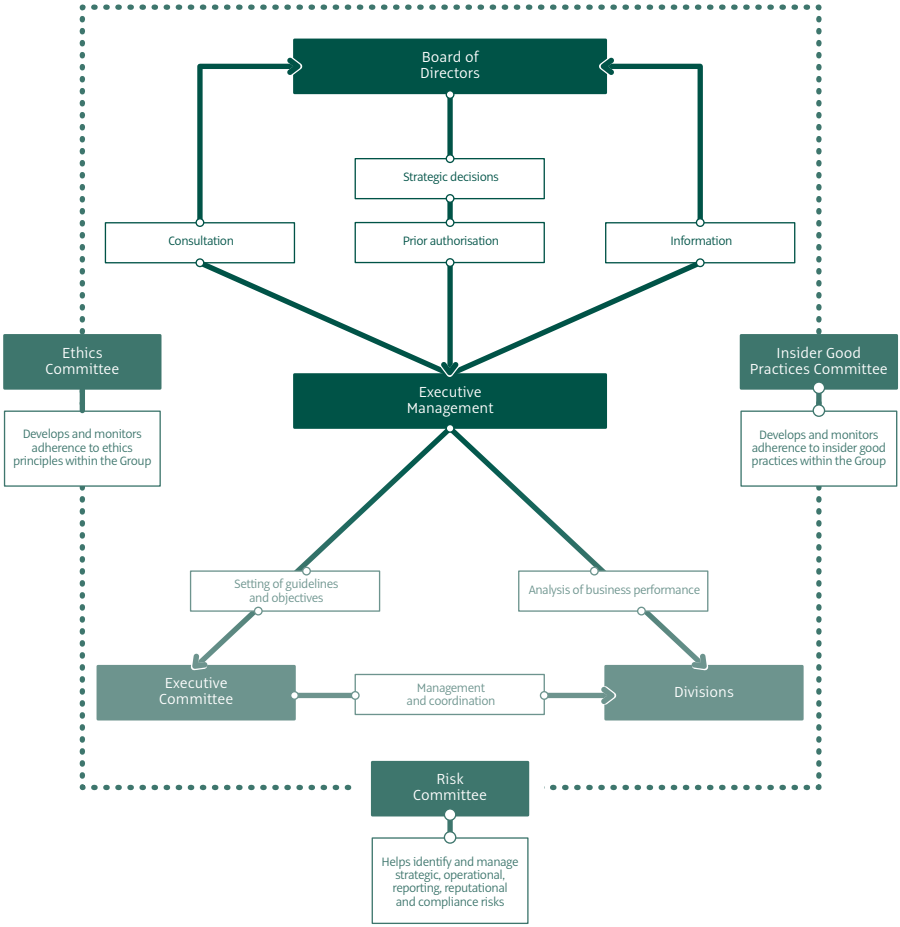
Non-voting Directors

- Marco Bizzarri, President and Chief Executive Officer of Gucci (appointed by the Board of Directors at its meeting on June 18, 2013);
- Björn Gulden, Chief Executive Officer of PUMA (appointed by the Board of Directors at its meeting on October 24, 2013);
- Albert Bensoussan, Chief Executive Officer of Kering's Luxury – Watches & Jewelry division (appointed by the Board of Directors at its meeting on July 30, 2014);
- Francesca Bellettini, Chief Executive Officer of Saint Laurent (appointed by the Board of Directors at its meeting on April 27, 2017).

The main role of non-voting Directors is to attend Strategy & 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. The non-voting Directors are appointed by the Board of Directors.

2.5. 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.



Executive Committee

The Executive Committee meets regularly, with the Chief Executive Officers of the Group's major brands and Kering's main operating officers. The 14-member Executive Committee is the Group's key operational body and reflects Kering's transformation into a more integrated group.

It affords the Chief Executive Officers of its activities and 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 as of December 31, 2017:

- François-Henri Pinault, Chairman and Chief Executive Officer;
- Jean-François Palus, Group Managing Director;
- Jean-Philippe Bailly, Chief Operating Officer;
- Albert Bensoussan, Chief Executive Officer of the Luxury – Watches & Jewelry activities;
- Gregory Boutté, Chief Client and Digital Officer;
- Marie-Claire Daveu, Chief Sustainability Officer and Head of International Affairs;
- Jean-Marc Duplaix, Chief Financial Officer;
- Valérie Duport, Chief Communications and Image Officer;
- Francesca Bellettini, President and Chief Executive Officer, Saint Laurent;
- Marco Bizzarri, President and Chief Executive Officer, Gucci;
- Björn Gulden, Chief Executive Officer, PUMA SE;
- Claus-Dietrich Lahrs, President and Chief Executive Officer, Bottega Veneta;
- Béatrice Lazat, Chief People Officer;
- Roberto Vedovotto, Chief Executive Officer, Kering Eyewear.

Monthly activity and budget review meetings

The Executive Management of Kering, and the Chief Executive Officers of the major brands, hold regular meetings to assess business developments. This assessment is based on operational and financial metrics.

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 the Group's ethical principles are applied consistently.

2.6. compliance with the afep-medef code of corporate governance of listed corporations

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 concerning the strengthening of the representation of women within boards, as amended in June 2013, November 2015 and November 2016 ("the revised AFEP-MEDEF Code") and its December 2016 implementing guidelines, and has done so, in particular, for the preparation of this report. The revised AFEP-MEDEF Code is available in English on the AFEP website at http://www.afep.com/en/content/focus/corporate-governance-code-listed-corporations.

In accordance with Article 225-37-4(8°) of the French Commercial Code, Kering refers to the AFEP-MEDEF Corporate Governance Code of Listed Corporations, except as regards the following:

AFEP-MEDEF recommendations	Kering practice and explanations
Membership of the Appointments Committee (section 16.1 of the Code) – the Committee should have a majority of independent Directors.	The Committee currently comprises four Directors: Patricia Barbizet, Chair, Baudouin Prot, Yseulys Costes, and Sapna Sood. Half of the Committee's members are therefore independent. The Board of Directors considers that this does not affect the Committee's work. The Committee comprises four non-executive Directors, two of whom are independent, which ensures free discussion. In addition, the Committee's work, recommendations and decisions are written up in detailed reports and discussed by all Directors at Board meetings. It should also be noted that failure to meet the recommended 50% proportion of independent members on this Committee was not considered a material breach in the 2016 report of France's High Committee for Corporate Governance (*Haut Comité de Gouvernement d'Entreprise*). As part of its continuous improvement programme in governance matters, the Appointments Committee of February 1, 2018 decided to appoint Laurence Boone to this Committee, thereby making a majority of Directors on this Committee independent.

Consequently, since February 2018, the Company is in full compliance with all of the recommendations of the AFEP-MEDEF Code of Corporate Governance.

Attendance at Annual General Meetings

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 in Chapter 7 of this Reference Document.

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 40.88% of the capital and 57.57% of voting rights of Kering at December 31, 2017), (ii) the double voting right provided for under the Articles of Association, (iii) the Company's share buy-back programme, and (iv) the authorisations given by the Annual General Meeting to increase the capital, as expressly described in this 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.

3. regulatory information on directors and corporate officers

To the Company's knowledge:

- none of the Directors or corporate officers have been convicted for fraud in the last five years;
- none of the Directors or 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 or managing partner;
- no court order has been entered over the last five years against any of the Directors or 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 corporate officers by statutory or regulatory authorities (including designated professional bodies);
- none of the Directors or 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 or change of his or her duties or subsequent thereto;
- none of the Directors or 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 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 corporate officers are in a position of potential conflict of interest between their duties with regard to the Company and their private interests or other duties or have existing family ties with another Director or corporate officer of the Company.

In accordance with Article L. 225-37-2 of the French Commercial Code, François-Henri Pinault and Patricia Barbizet were paid a net amount of €1,252,399 and €1,689,989 respectively for 2017, in respect of positions held at Financière Pinault SCA and Artémis SA.

The amounts stated above are unrelated to the corporate office held within Kering. They are paid by the Company concerned only.

Trading in Kering securities by senior executives, their families and similar parties

Pursuant to the provisions of Article 223-26 of the AMF's General Regulations, trading in the Company's securities reported to the AMF in 2017 by management executives and equivalent as well as persons closely related to them, as referred to in Article L. 621-18-2 of the French Monetary and Financial Code (*Code monétaire et financier*), are summarised below:

	Type of transaction	Transaction date	Average price
Marco Bizzarri, member of the Company's Executive Committee	Purchase of 525 shares	March 20, 2017	€236.97
Marco Bizzarri, member of the Company's Executive Committee	Purchase of 525 shares	March 21, 2017	€236.64
Marco Bizzarri, member of the Company's Executive Committee	Purchase of 535 shares	March 22, 2017	€234.76
Marco Bizzarri, member of the Company's Executive Committee	Purchase of 530 shares	March 23, 2017	€237.28
Sapna Sood, Company Director	Purchase of 500 shares	March 27, 2017	€236.80
Marco Bizzarri, member of the Company's Executive Committee	Purchase of 525 shares	March 30, 2017	€240.82
Marco Bizzarri, member of the Company's Executive Committee	Sale of 3,173 shares	April 28, 2017	€283.63
Marco Bizzarri, member of the Company's Executive Committee	Purchase of 525 shares	April 29, 2017	€239.26
Sophie L'Hélias, Company Director	Purchase of 101 shares	November 24, 2017	€390.70

Related-party agreement

The support agreement between Kering and Artémis, which was approved in a previous fiscal year, remained in force in 2017. This agreement is described in the Statutory Auditors' report in Chapter 5 of this Reference Document.

4. remuneration of directors and corporate officers

The information contained in this document takes account of the recommendations set out in the AFEP-MEDEF Corporate Governance Code of Listed Corporations as revised in November 2016, as well as the recommendation of the French financial markets authority (*Autorité des marchés financiers* – AMF) on corporate governance and executive remuneration in listed corporations. Kering's executive remuneration policy is decided by the Board of Directors based on recommendations from the Remuneration Committee. This Committee can call on external experts to advise on executive remuneration. The Committee is also attentive to the views of institutional shareholders.

4.1. information on remuneration paid or awarded to directors and executive corporate officers for 2017

The remuneration of executive corporate officers includes 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 all remuneration 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.

	2017		2016	
Gross amounts *(in €)* François-Henri Pinault Chairman and Chief Executive Officer	Amounts payable for the year	Amounts paid during the year	Amounts payable for the year	Amounts paid during the year
Fixed remuneration	1,200,000	1,200,000	1,099,996	1,099,996
Annual variable remuneration	1,944,000	1,407,318	1,407,318	1,158,960 (1)
Multi-annual variable remuneration	-	-	-	-
Exceptional remuneration	-	-	-	-
Directors' fees *(Kering)*	67,121	64,679	64,679	74,431 (1)
Directors' fees *(subsidiaries)*	74,527	74,527	52,500	52,500
Benefits in kind (2)	6,476	6,476	17,222	17,222
Total	**3,292,124**	**2,753,000**	**2,641,715**	**2,403,109**

KMUs awarded with respect to fiscal year 2014 (corresponding to a value of €1,643,400 at the date of the award) exercisable but not cashed in during 2017	9,900 KMUs corresponding to a value of €5,571,900, at a unit price per KMU of €581 at December 31, 2017		

(1) For 2015.
(2) François-Henri Pinault is entitled to a company car.

Gross amounts *(in €)* Jean-François Palus Group Managing Director	2017 Amounts payable for the year	2017 Amounts paid during the year	2016 (restated[1]) Amounts payable for the year	2016 (restated[1]) Amounts paid during the year
Fixed remuneration[2]	1,181,747	1,181,747	984,789	984,789
Annual variable remuneration[3]	1,586,011	1,043,781	1,043,781	859,593[4]
Multi-annual variable remuneration	–	–	–	–
Exceptional remuneration	–	–	–	–
Directors' fees *(Kering)*	60,412	60,355	60,355	65,087
Directors' fees *(subsidiaries)*	125,000	125,000	130,000	132,500
Benefits in kind[2][5]	1,088,672	1,088,672	1,026,612	1,026,612
Total	**4,041,842**	**3,499,555**	**3,245,537**	**3,068,581**

(1) Data restated to reflect the 2017 exchange rate in order to provide information at comparable exchange rates.
(2) Translated into euros at the average 2017 exchange rate (0.87667).
(3) Translated into euros at the December 31, 2017 closing exchange rate (0.88723).
(4) For 2015.
(5) Benefits in kind correspond to an annual allowance for a residence in London to which the Group Managing Director has been entitled since July 1, 2013 (amounting to GBP 900,000 for the relevant fiscal year).

In the 2016 Reference Document, this data was presented as follows:[1]

Gross amounts *(in €)* Jean-François Palus Group Managing Director	2016 Amounts payable for the year	2016 Amounts paid during the year
Fixed remuneration	1,018,622	1,018,622
Annual variable remuneration	1,062,302	874,831
Multi-annual variable remuneration	–	–
Exceptional remuneration	–	–
Directors' fees *(Kering)*	60,355	65,087[2]
Directors' fees *(subsidiaries)*	130,000	132,500
Benefits in kind	1,098,257	1,098,257
Total	**3,369,536**	**3,189,297**

(1) Table provided by reference to restated data in the table above.
(2) For 2015.

In terms of remuneration due to executive corporate officers, French law No. 2016-1691 of December 9, 2016 ("Sapin II") sets out a dual role for the Shareholders' Meeting of listed companies:

- the principles and criteria for determining, allocating and awarding fixed, variable and exceptional components making up total remuneration and benefits of any kind granted to the Chairman and Chief Executive Officer and Group Managing Director, in connection with their term of office, must be approved *ex ante* by the shareholders at least once a year. This provision has been applicable since the 2017 Annual General Meeting;
- decide *ex post* on the fixed, variable and exceptional components making up total remuneration and benefits of any kind paid or granted in respect of the previous fiscal year to the Chairman and Chief Executive Officer and the Group Managing Director under the terms of different resolutions. This provision is applicable as from the 2018 Annual General Meeting.

In other words, shareholders will have a dual vote at the 2018 Annual General Meeting:

- a first binding *ex ante* vote as provided for under the Sapin II law on remuneration due to executive corporate officers. In the event shareholders reject the remuneration proposals, the previously approved principles and criteria will continue to apply;
- an *ex post* vote as provided for under the Sapin II law on fixed, variable and exceptional remuneration and benefits of any kind paid or awarded to the above for the previous year. The variable or exceptional remuneration components can only be paid once shareholders have approved the overall remuneration for the executive corporate officer concerned.

Fees payable to Directors in respect of their duties as members of the Board of Directors of Kering for 2016 were paid in February 2017 and those payable for 2017 were paid in February 2018.

For 2017, the Board of Directors set the remuneration of the Chairman and Chief Executive Officer and of the Group Managing Director drawing on the recommendations of the Remuneration Committee. The structure of remuneration (i.e., the amount of the fixed portion and the rate of the variable portion) is decided based on an analysis of market practices for senior executives of CAC 40 companies.

Fixed remuneration

Acting on recommendations of the Remuneration Committee, the Board of Directors' meeting on February 9, 2017 set the fixed remuneration of the two executive corporate officers at €1,200,000. This amount is in line with executive pay practices adopted by some of the Group's CAC 40 and (International) Luxury market peers. The companies selected for the benchmarking study are:

- CAC 40 (14 companies): Accor, Cap Gemini, Danone, Essilor International, Lafarge, Legrand, L'Oréal, LVMH, Pernod Ricard, Publicis Groupe, Safran, Solvay, Valeo, Vivendi;
- international market (13 companies): Burberry, Coach, Estée Lauder, Hermès, Hugo Boss, L'Oréal, Luxottica, LVMH, Prada, Ralph Lauren, Richemont, Swatch, Tiffany & Co.

It also takes into account the roles and responsibilities of the two senior executives (see section 1.3 of this chapter).

In accordance with the recommendations of the revised AFEP-MEDEF Code, the fixed remuneration amount may only be reviewed at relatively long intervals.

Following the relocation of the Group Managing Director's activities to London, as noted by the Board of Directors' meeting on June 18, 2013, based on a recommendation of the Remuneration Committee, Kering Netherlands BV, the Group's Dutch subsidiary and Kering International Ltd, the Group's subsidiary in the UK, each paid half of the Group Managing Director's fixed remuneration (€500,000 for Kering Netherlands BV and GBP 425,000 for Kering International Ltd). This was in accordance with the Employment Agreement and Service Agreement entered into with these two companies, respectively, covering the management of the Group's activities and the coordination of the Group's international support functions. The Employment Agreement with Kering Netherlands BV and the Service Agreement with Kering International Ltd were terminated in November 2017. Accordingly, a new Employment Agreement was signed by Kering International Ltd with effect from January 1, 2017. This new agreement set annual remuneration at €600,000 and GBP 510,000 for 2017, and includes an annual adjustment clause for the amount paid in GBP to ensure EUR/GBP parity.

As was the case for the previous agreements, this Employment Agreement is related to 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 and the Group Managing Director is based on the achievement of precisely defined targets: (i) 30% non-financial targets and (ii) 70% financial targets, set on the basis of the Group's results after the closing of the relevant fiscal year. When targets are exactly met, the variable remuneration represents 120% of 70% of the fixed portion of remuneration for the Chairman and Chief Executive Officer, and 100% of 70% of the fixed portion for the Group Managing Director. When targets are exceeded (achievement rate of 125% or more), the variable remuneration represents 150% of the target fixed portion for both the Chairman and Chief Executive Officer and the Group Managing Director.

In 2015, there were two targets, each accounting for 50% of the variable portion of remuneration: consolidated recurring operating income and consolidated free cash flow from operations.

In 2016, acting on a recommendation of the Remuneration Committee, the Board decided to introduce new equally-weighted non-financial performance criteria that would base 30% of annual variable remuneration on three areas underpinning the Group's strategy: organisation and talent management, corporate social responsibility and sustainability. From this point forward, the variable remuneration of the Chairman and Chief Executive Officer and the Group Managing Director is linked to the extent to which these targets are achieved, as follows:

Financial targets (quantitative)

Criteria	Weighting
Consolidated recurring operating income	35%
Consolidated free cash flow from operations	35%
TOTAL	**70%**

Non-financial targets (qualitative)

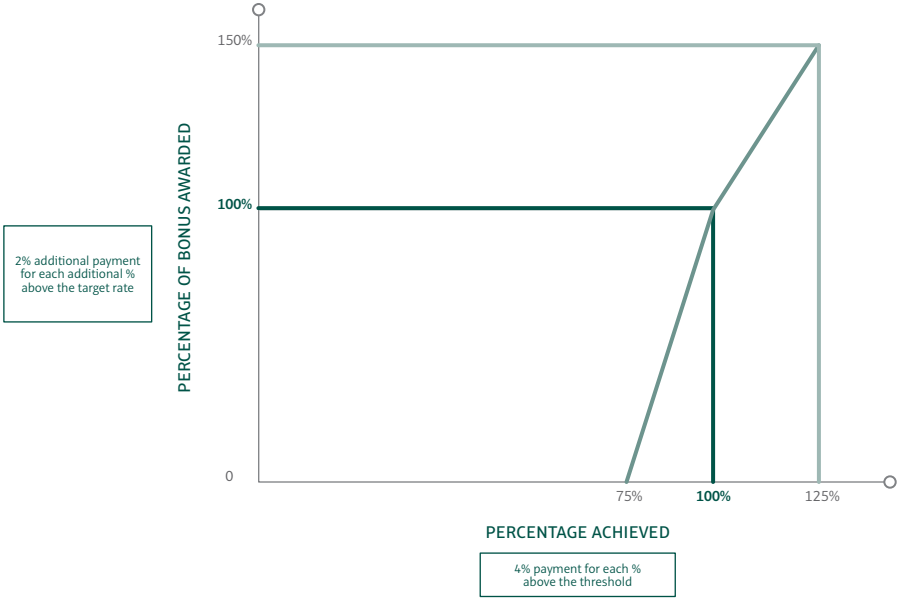
Criteria	Weighting
Organisation and talent management	10%
Corporate Social Responsibility	10%
Sustainability	10%
TOTAL	**30%**

In view of the fact that these two targets for 2015 were exceeded (consolidated recurring operating income and free cash flow from operations), 87.8% of the amount of variable remuneration due when targets are exactly met was awarded, representing payment of €1,158,960 in variable remuneration for the Chairman and Chief Executive Officer. The Group Managing Director was awarded variable remuneration of €874,831 for 2017.

In light of the new non-financial performance-linked targets for determining a portion of annual variable remuneration, the Chairman and Chief Executive Officer and the Group Managing Director were awarded variable remuneration of €1,407,318 and €1,062,302, respectively, for 2016.

The Chairman and Chief Executive Officer and the Group Managing Director were awarded variable remuneration of €1,944,000 and €1,586,011, respectively, for 2017. The rate of achievement for each of the targets is presented in the table below. The rate of achievement of each financial target must be at least 75% for variable remuneration to be paid. If targets are met exactly, the variable remuneration awarded corresponds to 100% of the target amount. If targets are exceeded by 125%, the variable remuneration awarded is increased to 150% of the target amount. Non-financial targets are assessed by the Board, after taking into account the performance of the Chairman and Chief Executive Officer and the Group Managing Director. This assessment is based on a detailed proposal prepared by the Remuneration Committee, which is strongly based on objective information reported by the Head of the Legal Department, the Head of Human Resources and the Head of Remuneration and Employee Benefits in relation to the strategic goals defined at the beginning of the year.

Rate of achievement of financial targets *(versus target)*	Percentage of bonus awarded *(versus target amount)*
< 75%	0%
100%	100%
>125%	150%



Rate of achievement of targets in 2017

François-Henri Pinault Chairman and Chief Executive Officer	Criterion	Targets	Minimum theoretical achievement	% of target achieved	% awarded	% of total bonus	Amount (€)
Consolidated recurring operating income *(in € millions)* [1]	Financial	2,073	75%	142.2	150	52.5	756,000
Consolidated cash flow from operations *(in € millions)* [1]	Financial	1,020	75%	208.1	150	52.5	756,000
Organisation and talent management [1]	Non-financial	Active support regarding implementation of the talent management policy from brand management teams and of succession plans for members of the Group Executive Committee, CEOs and Creative Directors	Assessed by the Board	100	100	10	144,000
Corporate Social Responsibility [1]	Non-financial	Dissemination of a culture of performance and integrity within the Group through personal commitment and regular communication on these issues	Assessed by the Board	100	100	10	144,000
Sustainability [1]	Non-financial	Operational implementation of the Advance 2025 plan through the definition and roll-out of action plans for each brand	Assessed by the Board	100	100	10	144,000
TOTAL						**135**	**1,944,000**
Variable remuneration achieved *(in €)*							1,944,000
Variable remuneration achieved *(as % of fixed remuneration)*							162
Target variable remuneration *(in €)*							1,440,000
Target variable remuneration *(as % of fixed remuneration)*							120

(1) Targets applicable to both the Chairman and Chief Executive Officer and the Group Managing Director.

Given the new performance-linked targets, in 2017 the Group Managing Director was awarded variable remuneration of €1,586,011. The rate of achievement for each of the targets is presented in the table below.

Rate of achievement of targets in 2017

Jean-François Palus Group Managing Director	Criterion	Targets	Minimum theoretical achievement	% of target achieved	% awarded	% of total bonus	Amount (€)[3]
Consolidated recurring operating income *(in € millions)*[1]	Financial	2,073	75%	142.2	150	52.5	616,782
Consolidated cash flow from operations *(in € millions)*[1]	Financial	1,020	75%	208.1	150	52.5	616,782
Organisation and talent management[1]	Non-financial	Active support regarding implementation of the talent management policy from brand management teams and of succession plans for members of the Group Executive Committee, CEOs and Creative Directors	Assessed by the Board	100	100	10	117,481.3
Corporate Social Responsibility[1]	Non-financial	Dissemination of a culture of performance and integrity within the Group through personal commitment and regular communication on these issues	Assessed by the Board	100	100	10	117,481.3
Sustainability[1]	Non-financial	Operational implementation of the Advance 2025 plan through the definition and roll-out of action plans for each brand	Assessed by the Board	100	100	10	117,481.3
TOTAL						**135**	**1,586,011**
Variable remuneration achieved *(in €)*[2]							1,586,011
Variable remuneration achieved *(as % of fixed remuneration)*							134.2
Target variable remuneration *(in €)*[3]							1,181,747
Target variable remuneration *(as % of fixed remuneration)*							100

(1) Targets applicable to both the Chairman and Chief Executive Officer and the Group Managing Director.
(2) Translated into euros at the December 31, 2017 closing exchange rate.
(3) Translated into euros at the average 2017 exchange rate.

Achievement of non-financial objectives in 2017

For each target, the Committee concerned drew up a list of criteria to help determine the extent to which non-financial targets had been met. Based on this, the Board of Directors then assessed the rate of achievement of each of the targets.

Targets	Basis for assessment in determining the extent to which targets are met
Sustainability: operational implementation of the "Advance 2025" plan through the definition and rollout of action plans for each brand (non-financial criterion) *Target applicable to both the Chairman and Chief Executive Officer and the Group Managing Director*	• charter on well-being of fashion models, applicable worldwide, with monitoring and regular reminders to each brand; • ongoing efforts to reduce the Group's environmental footprint and account for health risk factors in Group processes, including tanning without heavy metals; • ongoing efforts to innovate for sustainability, by seeking partnerships; • introduction of the Kering Standards, setting out all of the Group's social and environmental requirements with respect to raw materials and manufacturing processes; • regular updates on progress in sustainability policy and exchanges with the Executive Committee on.
Corporate social responsibility: dissemination of a Group-wide culture of performance and integrity through personal commitment and regular communication on these issues (non financial criterion) *Target applicable to both the Chairman and Chief Executive Officer and the Group Managing Director*	• combating corruption; – implementation of an anti-corruption policy and six associated procedures: - procedure on gifts and hospitality, - procedure on entertainment and travel, - procedure on third-party due diligence, - procedure on due diligence for acquisition transactions, - procedure on countries subject to sanctions, - procedure on donations and sponsorship, - guidelines on interactions with public officials, - new procedure on conflicts of interest, to be signed annually by a target population; – more rigorous anti-corruption checks for third parties, – launch of a worldwide e-learning programme for Group employees; • compliance with competition law – competition policy (adapted to local legislation) and a procedure for participation in professional bodies, – launch of a worldwide e-learning programme for Group employees.
Organisation and talent management: active support regarding implementation of the talent management policy by brand management teams and of succession plans for members of the Group Executive Committee, CEOs and Creative Directors (non-financial criterion) *Target applicable to both the Chairman and Chief Executive Officer and the Group Managing Director*	• development of a strategy with four priority focuses for rollout from 2017 to 2020: – identify and develop in-house talent and attract the outside talent the Group needs to fulfil its growth objectives (top management talent reviews, recruitments, including the Group Chief Client and Digital Officer, the CEOs of Brioni and Ulysse Nardin, and the Brioni Creative Director, and top management oversight of appointments made during the previous year), – increase employee commitment, – build an agile, results-focused organisation, – achieve operational excellence of the Human Resources Department; • annual meeting of the Chairman and CEO with the Creative Director, CEO and Chief Communications Officer of each brand.

Multi-annual variable remuneration

A new long-term incentive system was launched in 2013, based on Kering Monetary Units (and no longer on performance shares) known as "KMUs". The value of KMUs is indexed equally to both absolute changes in the Kering share price and to changes in the Kering share price relative to a basket of nine Luxury and Sport & Lifestyle stocks. These KMUs have a vesting period of three years as from January 1 of the year 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.

Past awards of KMUs to the Chairman and Chief Executive Officer and Group Managing Director since 2014 are presented in the table below.

At its meeting on March 10, 2017, the Board of Directors, acting on a recommendation of the Remuneration Committee, decided to maintain the KMU long-term performance bonus for the Chairman and Chief Executive Officer and Group Managing Director. As from 2017, it also set the value of this award, respectively at 100% and 80% of their total annual cash-based remuneration paid in year Y (total annual cash-based remuneration is determined by adding together the annual fixed remuneration and variable remuneration for Y-1).

In this context, a total of 10,471 and 7,196 KMUs, with a unit value of €249 as of December 31, 2016, were awarded to the Chairman and Chief Executive Officer and to the Group Managing Director, respectively, corresponding to a respective award of €2,607,279 and €1,791,804. The Group Managing Director was also granted an exceptional award of 5,000 KMUs to reflect the Group's progress in various areas (PUMA performance, integration of the Luxury activities, profitable organic growth momentum, etc.). This award was granted under the same conditions as those applicable to the plans of the Group's employees benefiting from remuneration of this type.

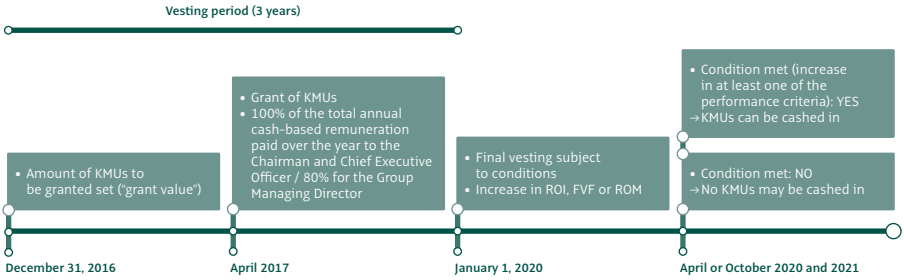
On the basis of 5,000 KMUs with a unit value of €249 as of December 31, 2016, the corresponding total value of the award was €1,245,000.

As from 2017, final vesting of the KMUs awarded to the Chairman and Chief Executive Officer and Group Managing Director is contingent on meeting performance criteria based on three indicators:

- recurring operating income (ROI);
- free cash flow from operations (FCF);
- recurring operating margin (ROM).

If an increase is observed in at least one of these three indicators between the average amount over the three-year vesting period and the amount shown in Kering's consolidated financial statements for the year preceding the year of the grant, 100% of the KMUs granted may be cashed in. Failing this, no KMUs will be cashed in.

The accounting criteria are also based on the indicators used to assess the Group's performance. The mechanism in place meets stricter requirements, since the KMU value is not in itself a performance condition but influences the amount actually paid at the exercise date.



Description of Kering Monetary Units (KMUs)

The long-term component of executive remuneration consists of KMUs, which are paid on the same basis as the long-term remuneration plans for other managerial-grade employees of the Group eligible for such remuneration. However, the exercise of KMUs is subject to the performance conditions outlined above.

The long-term remuneration plan is therefore based on Kering Monetary Units (and no longer on performance shares) whose initial value of €100 (at December 31, 2011) is indexed to changes in the Kering share price relative to a basket of nine Luxury and Sport & Lifestyle stocks. These KMUs have a vesting period of three years as from their grant date, after which they may be cashed in by the beneficiaries over a two-year period (during two windows each year), based on the value determined during the last opened window.

In accordance with the recommendations of the AFEP-MEDEF Code and of the Remunerations Committee, the Board of Directors decided on March 10, 2017 to remove the lock-in obligation on Kering shares obtained by cashing in KMUs.

Method applied to value KMUs

Changes in the KMU value are assessed on a six-monthly basis (at June 30 and December 31 each year), based on the Kering share price during the last 30 trading days. This value is then weighted for the performance of the Kering share relative to the basket of other stocks.

At the end of each six-month period, the value of a Kering Monetary Unit is calculated as follows:

$$UVs+1 = UVs \times ([1+VKs+1] + ([1+VKs+1] \times [1+VKs+1] / [1+VPVs+1])) / 2$$

Where:

UV = Unit of Value.

s+1 = the six-monthly closing date at which the unit of value is assessed (06/30 or 12/31).

s = the previous six-monthly closing.

VK = the change in the Kering share price over the six-month period, using the average share price over the 30 days preceding the six-monthly closing as the reference price.

VPV = the change in the price of a basket of stocks over the six-month period, equal to the arithmetic average change in these stocks, using the average share price over the 30 days preceding the six-monthly closing as the reference price.

The following companies were used to compile the benchmark: Adidas, Burberry, Ferragamo, LVMH, Nike, Prada, Richemont, Swatch and Tod's.

Since December 31, 2011, based on the valuation method described above, changes in the value of KMUs are as follows:

Date	KMU value
December 31, 2011	€100
June 30, 2012	€102
December 31, 2012	€131
July 21, 2013 (1)	€152
December 31, 2013	€144
June 30, 2014	€166
December 31, 2014	€167
June 30, 2015	€160
December 31, 2015	€166
June 30, 2016	€157
December 31, 2016	€249
June 30, 2017	€401
December 31, 2017	€581

(1) Date of the first award of KMUs.

The following four scenarios illustrate the sensitivity of the KMUs to the Kering share price and the value of the basket of stocks:

Option	KMU impact
-15% (Kering) vs -15% (basket)	15% decrease in KMU value
-10% (Kering) vs +5% (basket)	16.4% decrease in KMU value
+10% (Kering) vs -5% (basket)	18.7% increase in KMU value
+15% (Kering) vs +15% (basket)	15% increase in KMU value

KMU value would fall significantly in the event of a collapse in the Kering share price (e.g., of around 80%).

Summary of multi-annual variable remuneration for each executive corporate officer

KMUs

François-Henri Pinault, Chairman and Chief Executive Officer	KMUs granted [1]	Unit value *(in €)* [2]	Grant value *(in €)*	Vesting date [3]	Target/Threshold [4]	Change at the end of the exercise period	Minimum required
2014	11,372	144 [5]	1,637,568	January 2017	Average increase in EPS/Increase of 2.5% or above	-1.9%	Increase of 2.5% or above: **Not achieved**
	9,900	166 [6]	1,643,400	January 2017	No performance condition required	N/A	N/A
2015	11,153	167 [7]	1,862,551	January 2018	Average increase in EPS/Increase of 2.5% or above	21%	Increase of 2.5% or above: **Achieved**
2016	9,526	166 [8]	1,581,316	January 2019	Average increase in EPS/Increase of 2.5% or above	TBD	TBD
2017	10,471	249 [9]	2,607,279	January 2020	Increase in at least one of: ROI, FCF or ROM	TBD	TBD

For 2017, the 9,900 KMUs awarded to the Chairman and Chief Executive Officer may be cashed in between April 2017 and October 2018. These KMUs are not subject to any performance conditions. Based on the unit price of a KMU as of December 31, 2017 (€581), cashing in these 9,900 KMUs could represent up to €5,751,900.

KMUs

Jean-François Palus Group Managing Director	KMUs granted [1]	Unit value *(in €)* [2]	Grant value *(in €)*	Vesting date [3]	Target/Threshold [4]	Change at the end of the exercise period	Minimum required
2014	9,426	144 [5]	1,357,344	January 2017	Average increase in EPS/Increase of 2.5% or above	-1.9%	Increase of 2.5% or above: **Not achieved**
2015	9,758	167 [7]	1,629,586	January 2018	Average increase in EPS/Increase of 2.5% or above	21%	Increase of 2.5% or above: **Achieved**
2016	8,448	166 [8]	1,402,368	January 2019	Average increase in EPS/Increase of 2.5% or above	TBD	TBD
2017	7,196	249 [9]	1,791,804	January 2020	Increase in at least one of: ROI, FCF or ROM	TBD	TBD
	5,000	249 [9]	1,245,000	January 2020	No performance condition required	N/A	N/A

(1) The value of the KMUs awarded is equal to 70% of the total annual cash-based remuneration paid during 2014, 2015 and 2016. As from 2017, the value of the KMUs awarded is equal to 100% of total annual cash-based remuneration paid to the Chairman and Chief Executive Officer and 80% of total annual cash-based remuneration paid to the Group Managing Director.
(2) The value of the KMUs is indexed equally to both absolute changes in the Kering share price and to changes in the Kering share price relative to a basket of nine Luxury and Sport & Lifestyle stocks.
(3) The KMU vesting period is set at three years as from January 1 of the year in which they are granted.
(4) If the average increase in EPS is (i) 5% or above, all vested KMUs may be cashed in; (ii) between 2.5% and 5%, the cash-in rights are reduced; and (iii) below 2.5%, no KMUs may be cashed in.
As from 2017, 100% of the KMUs may be cashed in if, for recurring operating income, free cash flow from operations or recurring operating margin, an increase is observed between the average amount over the three-year vesting period and the amount shown in Kering's consolidated financial statements for the year preceding the year of the grant. Failing this, no KMUs may be cashed in.
(5) Unit value at December 31, 2013.
(6) Unit value at June 30, 2014.
(7) Unit value at December 31, 2014.
(8) Unit value at December 31, 2015.
(9) Unit value at December 31, 2016.

The Chairman and Chief Executive Officer and the Group Managing Director were unable to cash in the KMUs awarded in 2014 since the performance condition attached to these plans was not met. No payments were therefore made.

However, the KMUs awarded to the Chairman and Chief Executive Officer and the Group Managing Director in 2015 vested and may now be cashed in, since the attached performance condition has been met. This performance condition related to earnings per share (EPS) excluding non-recurring items, and applied as follows: the number of KMUs exercisable at the end of the three-year vesting period was to be reduced accordingly if the minimum average increase in earnings per share from continuing operations attributable to owners over the vesting period was less than 5% and no KMUs could be exercised if the average increase was 2.5% or less. In the case at hand, the average increase in EPS over the period in question (2015-2017) was 21%.

Benefits in kind

Benefits in kind accruing to the Chairman and Chief Executive Officer correspond to the provision of a company car. Since July 1, 2013, the Group Managing Director has been entitled to an annual allowance for residence in London (amounting to GBP 900,000 for the relevant fiscal year). The allowance provides the Group Managing Director and his family with a residence in London following the relocation of his coordination activities for the Group's international support functions and the management of the Group's activities. The allowance meets the standards of the London real estate market to accommodate members of the top management of an international corporation.

Termination payments

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.

Directors' fees

The amount of Directors' fees due to be paid by Kering with respect to fiscal year 2017 are (i) for François-Henri Pinault, €67,121 comprising €26,838 for the fixed portion and €40,283 for the variable portion, and (ii) for Jean-François Palus, €60,412 comprising €20,129 for the fixed portion and €40,283 for the variable portion.

In addition, Directors' fees paid by the Group's subsidiaries amounted to €74,527 for François-Henri Pinault and €125,000 for Jean-François Palus.

Supplementary pension plan

There are no supplementary defined benefit pension plans for the executive corporate officers.

Non-competition indemnities

Executive corporate officers will not be eligible for any such indemnities.

	Employment contract		Supplementary pension plan		Indemnities or benefits owed or that may be payable on termination or change of duties		Indemnities relating to a non-competition clause	
Executive corporate officers	Yes	No	Yes	No	Yes	No	Yes	No
François-Henri Pinault, Chairman and Chief Executive Officer Start of term of office: May 19, 2005 Expiry of term of office: 2021 AGM		X		X		X		X
Jean-François Palus, Group Managing Director Start of term of office: February 26, 2008 Expiry of term of office: 2021 AGM	X			X		X		X

Other information and commitments

No stock subscription or purchase options were granted to executive corporate officers in 2017, and no stock options were outstanding for François-Henri Pinault or Jean-François Palus in respect of the options exercised during 2015.

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 2017

Further to the decision by the Board of Directors to maintain the long-term incentive system based on monetary instruments, no performance shares have been granted to executive corporate officers since 2012.

In 2017, no performance shares vested for Jean-François Palus or François-Henri Pinault.

Summary of remuneration, options and performance shares granted to each executive corporate officer

Gross amounts *(in €)*

François-Henri Pinault, Chairman and Chief Executive Officer	Amounts for 2017	Amounts for 2016
Remuneration payable	3,292,124	2,641,715
Value of multi-annual variable remuneration granted during the year[1]	2,607,279	1,581,316
TOTAL	**5,899,403**	**4,223,031**

(1) This amount is based on the number of KMUs awarded during the year, at their grant value. In the consolidated financial statements, this amount is spread over the KMU vesting period, in accordance with IFRS 2.

Gross amounts *(in €)*

Jean-François Palus Group Managing Director	Amounts for 2017	Amounts for 2016
Remuneration payable	4,041,842	3,245,537
Value of multi-annual variable remuneration granted during the year[(1)]	3,036,804	1,402,368
TOTAL	**7,078,646**	**4,647,905**

(1) This amount is based on the number of KMUs awarded during the year, at their grant value. In the consolidated financial statements, this amount is spread over the KMU vesting period, in accordance with IFRS 2.

4.2. remuneration of directors and executive corporate officers

4.2.1. Structure of the 2018 remuneration policy

Acting on a recommendation of the Remuneration Committee, the Board of Directors' meeting on February 12, 2018 approved the remuneration policy for the Chairman and Chief Executive Officer and the Group Managing Director for 2018.

In compliance with the provisions of Article L. 225-37-2 of the French Commercial Code, the remuneration policy described below, which includes the principles and criteria for determining, allocating and awarding fixed, variable and exceptional components making up total remuneration and benefits of any kind granted to executive corporate officers in respect of their duties, will be submitted to the approval of Kering's 2018 Annual General Meeting.

4.2.1.1. Fixed remuneration

Shareholders are asked to maintain the fixed remuneration of the two executive corporate officers at €1,200,000.

In accordance with the recommendations of the revised AFEP-MEDEF Code, it should be noted that the fixed remuneration amount may only be reviewed at relatively long intervals.

4.2.1.2. Annual variable remuneration

4.2.1.2.1. Annual variable remuneration structure

Variable remuneration is designed to align the reward accruing to executive corporate officers with the Group's annual performance and to help drive forward the Group's strategy year after year. Variable remuneration is expressed as a percentage of annual fixed remuneration.

The variable remuneration of the Chairman and Chief Executive Officer and the Group Managing Director is based on the achievement of precisely defined targets: (i) 30% non-financial targets and (ii) 70% financial targets, set on the basis of the Group's results after the closing of the relevant fiscal year. When targets are exactly met, the variable remuneration represents 120% of 70% of the fixed portion of remuneration for the Chairman and Chief Executive Officer, and 100% of 70% of the fixed portion for the Group Managing Director. When targets are exceeded (achievement rate of 125% or more), the variable remuneration represents 150% of the target fixed portion for both the Chairman and Chief Executive Officer and the Group Managing Director.

The principles applied in 2017 aligning the criteria defining the annual variable remuneration for senior executives with those measuring the Group's performance (from both a financial and sustainability perspective) would therefore be maintained.

Total variable remuneration due for 2018 will be paid in 2019, following the Annual General Meeting's approval of the financial statements. Payment is also subject to the Annual General Meeting's approval of the 2018 remuneration policy.

4.2.1.2.2. Specific, predefined and ambitious performance criteria aligned with Kering's strategy and the interests of its investors

The financial criteria used to assess the Group's performance (free cash flow from operations and recurring operating income – each determining 35% of the award) ensure that amounts paid are aligned as closely as possible with the extent to which the Group's strategic goals have been achieved. This also applies to non-financial performance

targets (sustainability – 10%, Corporate Social Responsibility – 10% and talent management – 10%), which reflect Kering's goals in these areas.

Criteria for the non-financial targets defined for 2018 are listed below. For confidentiality reasons, the targets associated with financial criteria are not disclosed.

Financial criteria (quantitative) used to calculate annual variable remuneration	Weighting
Free cash flow from operations	35%
Recurring operating income	35%
SUB-TOTAL	**70%**

Non-financial criteria (qualitative) used to calculate annual variable remuneration	2018 targets	Weighting
Talent management	Support for the "Prometheus" project (overhaul of planning, procurement, logistics and sales processes for the Luxury activities) in terms of team change and brand reorganisation.	10%
Corporate Social Responsibility	Dissemination of a culture of performance and integrity within the Group through personal commitment and regular communication on these issues (unchanged from 2017).	10%
Sustainability	Drive to identify and implement alliances focused on innovation (including for Watches and Jewelry brands), paving the way for real technological breakthroughs, a condition for achieving the Group's environmental targets by 2025.	10%
Sub-total		**30%**
TOTAL		**100%**

Annual variable remuneration is aimed at better aligning the Group with market practices and at encouraging executive corporate officers to adopt a management approach focused on long-term value creation. Performance criteria were therefore revised with a dual aim in mind: to take into account a wide variety of indicators reflecting the actual situation and the impacts of Kering's strategy.

4.2.1.2.3. Factors determining the payment of annual variable remuneration for 2018

The factors determining payment of annual variable remuneration are the same as for 2017 and function as described in the table below, it being specified that for confidentiality reasons, specific quantified targets will only be disclosed *a posteriori* at the time of payment (rather than when targets are set).

Actual performance versus targets set	Percentage of bonus awarded
< 75%	0%
100%	100%
> 125%	150%

4.2.1.3. Multi-annual variable remuneration

4.2.1.3.1. Multi-annual variable remuneration structure

Multi-annual variable remuneration will continue to be based on Kering Monetary Units (KMUs). However, several changes are recommended:

Award

As in the previous year, the value of the multi-annual variable remuneration award for the Chairman and Chief Executive Officer will be equal to 100% of the total annual cash-based remuneration paid in year Y (compared with 70% in 2016). The number of KMUs awarded in year Y will therefore correspond to: 100% [fixed remuneration Y + annual variable remuneration due for Y-1]/Value of KMUs at December 31 of Y-1.

For the Group Managing Director, the value of the multi-annual variable remuneration award will be equal to 80% of the total annual cash-based remuneration paid in year Y (compared with 70% in 2016).

Vesting period

The KMU vesting period will continue to be three years as from January 1 of the year in which they are granted.

Cash-ins

The cash-in period will start once the vesting period is complete and will be maintained at two years, with units able to be cashed in twice per year, in April and October.

Vesting conditions

Since 2017, vesting has been subject to performance criteria based on three indicators:

- recurring operating income (ROI);
- free cash flow from operations (FCF);
- recurring operating margin (ROM).

If an increase is observed in at least one of these three indicators between the average amount over the three-year vesting period and the amount shown in Kering's consolidated financial statements for the year preceding the year of the grant, 100% of the KMUs granted may be cashed in. Failing this, no KMUs will be cashed in.

The accounting criteria are also based on the indicators used to assess the Group's performance. The mechanism in place meets stricter requirements, since the KMU value is not in itself a performance condition but influences the amount actually paid at the exercise date.

4.2.1.3.2. Kering Monetary Units (KMUs) in practice

How KMUs function in practice is described in section 4.1 of this chapter.

4.2.1.4. Exceptional remuneration

As agreed with the Board of Directors (particularly at the Board meetings focusing on strategy), management defined a strategy following the Group's exit from Retail activities. The aim of this strategy was to build an integrated group generating value for the brands across the Group and, once the Luxury business had confirmed its ability to deliver profitable organic growth, to focus the portfolio on Luxury brands. The distribution of a stock dividend representing a large portion of the PUMA shares held by Kering is part of this strategy: alongside the ability of the Luxury brands to deliver healthy and profitable growth, the turnaround at PUMA is now sufficiently advanced for the company to leverage its growth trajectory to improve profitability, and thus bolster its appeal to the financial markets. This strategy, devised by Kering's two executive corporate officers and rolled out at an optimum time, have led to a major transformation of the Group.

On this basis, the Board recommended granting the two executive corporate officers an exceptional bonus in the form of KMUs subject to the following conditions: (i) a one-year vesting period for the first tranche of KMUs (50% of the award) and a two-year vesting period for the second tranche representing the remaining 50% of the award, (ii) no performance conditions, and (iii) presence within the Group when each tranche of KMUs vests.

Following approval of the Remuneration Committee at its meeting on February 6, 2018 and ratification by the Board of Directors at its meeting on February 12, 2018, it was decided that 10,000 KMUs would be awarded to the Chairman and Chief Executive Officer, and 6,000 KMUs would be awarded to the Group Managing Director.

Based on a KMU unit value of €581 as of December 31, 2017, the value of this exceptional award would represent €5,810,000 for the Chairman and Chief Executive Officer and €3,486,000 for the Group Managing Director. The first tranche of KMUs may be cashed in as from April 2019 and the second tranche as from April 2020. The vesting of these KMUs is subject to the beneficiaries' continued presence within the Group.

4.2.1.5. Directors' fees

The Board recommends maintaining the current policy of allocating Directors' fees. Executive corporate officers receive Directors' fees for some of the offices they hold within the Group.

4.2.1.6. Allotment of stock options and/or performance shares

Since long-term incentive arrangements based on Kering Monetary Units are to be maintained, the remuneration policy for executive corporate officers in 2018 will not include any performance share or stock option awards.

4.2.1.7. Benefits for taking up a position or termination payments

Executive corporate officers will not be eligible for any benefits for taking up a position or termination payments.

4.2.1.8. Supplementary pension plan

Executive corporate officers will not be eligible for any supplementary pension plans.

4.2.1.9. Non-competition indemnities

Executive corporate officers will not be eligible for any such indemnities.

4.2.1.10. Benefits in kind

The Chairman and Chief Executive Officer will continue to benefit from a company car with a driver.

The Board recommends maintaining the Group Managing Director's residence allowance (representing a total of GBP 900,000 per year).

4.2.2. Components of remuneration

The principles outlined above are reflected in the remuneration structure, the components of which are detailed in the following table:

Overall remuneration components	Fixed remuneration	Annual variable remuneration *(bonus)*	Multi-annual variable remuneration *(KMUs)*
Grant date	Reviewed at fairly long intervals	Set in March by the Board of Directors, based on a recommendation of the Remuneration Committee	Set in March by the Board of Directors, based on a recommendation of the Remuneration Committee
Reference performance period	Current year	1 year	3 years
Instrument	Cash	Cash	Exercise of Kering Monetary Units (KMUs), paid in cash
Performance conditions determining payment	None	• Non-financial targets: sustainability (10%), Corporate Social Responsibility (10%), talent management (10%) • Financial targets: free cash flow from operations (35%), recurring operating income (35%)	• At least 1 of the 3 financial targets must be achieved: recurring operating income, free cash flow from operations, recurring operating margin • Failing this, no KMUs will be cashed in
Verification of performance conditions	N/A	By the Remuneration Committee based on the financial statements and reports drawn up by the managers concerned on the achievement of non-quantitative targets	By the Remuneration Committee based on the Company's financial statements and calculations of KMU value

4.2.3. Draft resolutions regarding executive remuneration

Pursuant to French law no. 2016-1691 of December 9, 2016 on transparency, the fight against corruption and the modernisation of the economy ("Sapin II"), the Company will ask shareholders at the Annual General Meeting of April 26, 2018 to approve the remuneration policy described in section 4.2 of this chapter, which describes the different components of fixed and variable remuneration, including any bonuses and any other benefits that may be awarded to its two executive corporate officers in respect of their duties, as set out below:

Eighth resolution

Approval of the principles and criteria for determining, distributing and allocating the fixed, variable and exceptional components of total remuneration and any other benefits awarded to François-Henri Pinault, Chairman and Chief Executive Officer

Deliberating in accordance with the rules of quorum and majority applicable to ordinary general meetings, and having reviewed the Board of Directors' report on corporate governance referred to in Article L. 225-100 of the French Commercial Code and set out in section 4.2 of this Reference Document, the Annual General Meeting approves the principles and criteria for determining, distributing and allocating fixed, variable and exceptional components of total remuneration and benefits of any kind granted to François-Henri Pinault, Chairman and Chief Executive Officer.

Ninth resolution

Approval of the principles and criteria for determining, distributing and allocating the fixed, variable and exceptional components of total remuneration and any other benefits awarded to Jean-François Palus, Group Managing Director

Deliberating in accordance with the rules of quorum and majority applicable to ordinary general meetings, and having reviewed the Board of Directors' report on corporate governance referred to in Article L. 225-100 of the French Commercial Code and set out in section 4.2 of this Reference Document, the Annual General Meeting approves the principles and criteria for determining, distributing and allocating fixed, variable and exceptional components making up total remuneration and benefits of any kind granted to Jean-François Palus, Group Managing Director.

4.3. remuneration of non-executive corporate officers – directors' fees

The Annual General Meeting on May 6, 2014 had increased the total amount of Directors' fees to be allocated to the members of the Board of Directors for 2014 from €809,000 to €877,000, due to the appointment of an additional Director. This amount remained unchanged in 2015 and 2016.

Based on recommendations of the Remuneration Committee, the Board of Directors' meeting on February 9, 2017 decided to allocate Directors' fees on the basis of the actual presence of members at meetings of the Board and its specialised Committees in 2016. In accordance with applicable legislation, members cannot use videoconference or other remote technologies to participate in meetings discussing the Annual Financial Statements and Management Report. Accordingly, Directors not physically in attendance at the Board meeting approving the financial statements are deemed absent and are not eligible for the related Directors' fees.

Out of the total amount set by the Annual General Meeting, the rule followed by the Board in order to comply with AFEP-MEDEF recommendation 20-1 for a significant variable portion is to divide the total amount between a 40% fixed portion and a 60% variable portion. The Directors' fees are allocated in the following manner:

- a fixed portion, minus a special portion corresponding to the remuneration of the Chairs of the Audit, Remuneration and Appointments Committees, respectively (€23,000 each), the balance being allocated with a coefficient of 1 by Board membership, increased by 0.5 per Committee;
- a variable portion, allocated with a coefficient of 1 (2 for the Vice-Chair) per presence at each meeting of the Board and 0.5 for each attendance of a Committee meeting.

For 2017, a total amount of €749,467 will be paid to the non-executive Directors, allocated as follows:

- €303,833 for the fixed portion, of which €69,000 for the special portion;
- €445,634 for the variable portion.

Non-voting Directors do not collect any Directors' fees in respect of their participation in meetings of the Board of Directors which they are invited to attend.

Directors' fees

The table below shows Directors' fees paid in 2016 and 2017 for fiscal years 2015 and 2016.

Members of the Board of Directors other than the Chief Executive Officer and Group Managing Director	Amounts paid during the year *(in €)* 2017	2016
Patricia Barbizet		
Directors' fees	159,115	174,870
Committee Chair	23,000	23,000
Fixed portion	36,361	48,112
Variable portion	99,754	103,758
Laurence Boone (1)		
Directors' fees	48,107	-
Committee Chair	-	-
Fixed portion	18,181	-
Variable portion	29,926	-
Luca Cordero di Montezemolo (2)		
Directors' fees	19,287	62,079
Committee Chairman	-	-
Fixed portion	6,816	27,493
Variable portion	12,469	34,586
Yseulys Costes		
Directors' fees	81,914	73,893
Committee Chair	-	-
Fixed portion	29,544	34,366
Variable portion	52,371	39,527
Jean-Pierre Denis		
Directors' fees	110,123	104,842
Committee Chairman	23,000	23,000
Fixed portion	27,271	27,493
Variable portion	59,852	54,349
Philippe Lagayette (2)		
Directors' fees	31,595	97,431
Committee Chairman	7,452	23,000
Fixed portion	9,090	27,493
Variable portion	14,963	46,938
Sophie L'Hélias (1)		
Directors' fees	68,553	-
Committee Chair	15,458	-
Fixed portion	18,181	-
Variable portion	34,914	-
Baudouin Prot		
Directors' fees	67,172	62,617
Committee Chairman	-	-
Fixed portion	27,271	20,620
Variable portion	39,901	41,997
Daniela Riccardi		
Directors' fees	57,640	48,332
Committee Chair	-	-
Fixed portion	22,726	13,746
Variable portion	34,914	34,586
Sapna Sood (1)		
Directors' fees	40,625	-
Committee Chair	-	-
Fixed portion	18,181	-
Variable portion	22,445	-
Jochen Zeitz (2)		
Directors' fees	19,287	60,146
Committee Chairman	-	-
Fixed portion	6,818	20,620
Variable portion	12,469	39,527
Sophie Bouchillou		
Directors' fees	48,549	53,273
Committee Chair	-	-
Fixed portion	13,635	13,746
Variable portion	34,914	39,527
TOTAL	**751,966**	**737,483**

(1) The terms of office of Laurence Boone, Sophie L'Helias and Sapna Sood began on April 29, 2016.
(2) The terms of office of Luca di Montezemolo, Philippe Lagayette and Jochen Zeitz expired on April 29, 2016.

Neither the Company, nor any company that it controls, has made any commitment to its Directors or corporate officers on account of the commencement, termination or change of duties or subsequent thereto.

No non-executive corporate officer or Director benefits from any particular benefit or specific pension plan. They are not entitled to any 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 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.

5. share capital and ownership structure

5.1. share capital

5.1.1. Share capital

Share capital as of December 31, 2017

As of December 31, 2017, the share capital amounted to €505,117,288 and was divided into 126,279,322 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 179,325,618 (after deducting treasury shares, which do not carry voting rights).

As of December 31, 2017, to the Company's knowledge:

- the Directors directly held 0.087% of the share capital, representing 0.120% of the voting rights (after deducting treasury shares, which do not carry voting rights);
- the Company did not hold any treasury shares, nor did it hold any shares under the liquidity agreement; none of the Company's shares were held by controlled companies.

Share capital movements over the past three years

Year	Description of transaction	Additional, paid-in capital	Nominal amount of capital changes	Aggregate amounts of Company capital (as of Dec. 31)	Aggregate number of ordinary €4 shares (as of Dec. 31)	Aggregate number of voting rights (1) (as of Dec. 31)
2017	-	-	-	**€505,117,288**	**126,279,322**	**179,325,618**
2016	-	-	-	**€505,117,288**	**126,279,322**	**179,011,319**
2015	Exercise of options	€950,080	€51,328	-	12,832	-
		€950,080	**€51,328**	**€505,117,288**	**126,279,322**	**179,001,033**

(1) Total number of voting rights, including treasury shares.

5.1.2. Treasury shares held by the Company and its subsidiaries

Acquisition of treasury shares by the Company

Pursuant to a liquidity agreement dated May 26, 2004, Kering signed an agreement with a financial broker 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.

In accordance with an amendment dated December 15, 2016, Kering maintains a credit balance of €5 million in the liquidity account with the financial broker.

The Annual General Meeting on May 6, 2014 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 €220 per share and states that the number of shares purchased may not exceed 10% of the share capital.

The authorisation given to the Board of Directors to trade in Company shares for a period of 18 months was renewed at the Annual General Meetings on April 23, 2015 (maximum purchase price of €250 per share), April 29, 2016 (maximum purchase price of €230 per share) and April 27, 2017 (maximum purchase price of €320 per share).

On April 26, 2018, the Annual General Meeting will be asked to authorise the Company to trade in its own shares under a new share buy-back programme with the same conditions as those stipulated for previous authorisations. The maximum purchase price would be raised to €480 per share.

The objectives that could be pursued within the scope of these transactions involving the buy-back by the Company of its own shares are defined in the draft resolution and include, in particular, the cancellation by the Company of its own shares, the grant of shares to the Company's employees or corporate officers within the scope of free share plans or stock purchase option plans, ensuring liquidity and maintaining the Company's share price within the framework of a liquidity agreement or retaining the shares and where applicable selling, transferring or exchanging them in external growth transactions, in accordance with accepted market practices.

Buy-backs and sales of shares during 2017 – Trading costs – Number of treasury shares held as of December 31, 2017

Share buy-backs

- 106,594 shares were bought back by the Company pursuant to the authorisation given by the Annual General Meeting on April 29, 2016, at an average price of €224.33 per share;
- 231,197 shares were bought back by the Company pursuant to the authorisation given by the Annual General Meeting on April 27, 2017, at an average price of €301.82 per share.

In 2017, Kering bought back a total of 337,791 shares at an average price of €277.37 under the aforementioned liquidity agreement.

The Company did not purchase any treasury shares outside the scope of the liquidity agreement.

The number of shares bought back represent 0.27% of the share capital.

Disposals

In 2017, Kering sold 337,791 shares at an average price of €278.07 per share under the liquidity agreement.

The number of shares sold represents 0.27% of the share capital.

Trading costs

Total share trading costs for buy-backs and sales amounted to €0.5 million in 2017.

Share cancellations in 2017

No Kering shares were cancelled during the year.

As of the end of the reporting period, the Company did not hold any treasury shares.

Buy-backs and sales of Kering shares carried out between January 1 and February 12, 2018

Since January 1, 2018, the Company has not acquired or sold any Kering shares in connection with the liquidity agreement.

As of February 12, 2018, the Company did not hold any shares under the liquidity agreement.

The Company did not acquire any Kering shares outside the scope of the liquidity agreement.

As of February 12, 2018, Kering did not therefore hold any treasury shares.

Share cancellations in 2018

No shares were cancelled between January 1 and February 12, 2018.

Use of derivatives in 2017

Kering did not buy any call options on its own shares in 2017.

As of December 31, 2017, Kering did not hold any call options on its own shares.

5.1.3. Authorisations to issue securities giving access to the share capital

Authorisations to issue shares or other securities in force as of December 31, 2017

Pursuant to the decisions of the Annual General Meetings on April 29, 2016 and April 27, 2017, 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 and/or securities giving access, either immediately or in the future, to shares or to debt securities	April 27, 2017 (13th)	26 months (June 2019)	€200 million[1]	Unused
Share capital increase via the capitalisation of reserves, profits or additional paid-in capital	April 27, 2017 (14th)	26 months (June 2019)	€200 million[3]	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 and/or securities giving access, either immediately or in the future, to shares, including as consideration for shares tendered to a public exchange offer, or to debt securities	April 27, 2017 (15th)	26 months (June 2019)	€50 million[4]	Unused
Share capital increase via the issue, without pre-emptive subscription rights, via private placement, of shares and/or securities giving access, either immediately or in the future, to shares or to debt securities	April 27, 2017 (16th)	26 months (June 2019)	€50 million[2][5]	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 5% of the share capital per year	April 27, 2017 (17th)	26 months (June 2019)	5% of the Share capital	Unused
Share capital increase in consideration for in-kind contributions, limited to 10% of the share capital	April 27, 2017 (19th)	26 months (June 2019)	€50 million[4]	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, limited to 15% of the amount of the initial issue	April 27, 2017 (18th)	26 months (June 2019)	15% of the amount of the initial issue[6]	Unused
Share capital reductions by cancelling shares				
Authorisation to reduce the share capital by cancelling shares	April 27, 2017 (12th)	24 months (April 2019)	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 and corporate officers of the Company and of the Group	April 29, 2016 (15th)	24 months (April 2018)	0.5% of the share capital at the grant date	Unused

(1) This amount represents the overall nominal cap for share capital increases that may be carried out under the authorisations given in the 13th, 15th, 16th, 17th, 18th and 19th resolutions of the Annual General Meeting of April 27, 2017. The total nominal amount of the share capital increases carried out under these resolutions is deductible from this overall cap.

(2) Limited by Article L. 225-136 of the French Commercial Code to 20% of the share capital per year in all cases.

(3) This amount may not exceed the overall €200 million cap for issues of shares and/or securities giving access to the share capital set by the 13th resolution of the Annual General Meeting of April 27, 2017.

(4) 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 13th resolution of the Annual General Meeting of April 27, 2017.

(5) This amount is deductible from the €200 million and €50 million caps for issues of shares and/or securities giving access to the share capital set by the 13th and 15th resolutions of the Annual General Meeting of April 27, 2017.

(6) Limited to 15% of the initial issue carried out under the 13th, 15th and 16th resolutions of the Annual General Meeting of April 27, 2017 and subject to the cap set in the resolutions pursuant to which the issues are decided (13th, 15th and 16th resolutions), as well as the overall cap set by the 13th resolution.

As indicated in the above table, the General Meetings on April 29, 2016 and April 27, 2017 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 authorisations 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

No new free shares have been granted since 2014.

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.

As of December 31, 2017, there were no stock subscription or purchase options outstanding.

Performance share plans

No performance shares have been granted since 2012.

The Group granted Kering Monetary Units (KMUs) instead of performance shares, as described in section 4 of this chapter.

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 and, where applicable, the Group Managing Director 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.

5.1.4. Employee share ownership

As of December 31, 2017, Company and Group employees held 313,024 shares, representing 0.25% of the share capital, under the provisions of Article L. 225-102 of the French Commercial Code (*Code de commerce*). Company employees also held 10,174 shares via an employee investment fund, representing 0.01% of the share capital.

5.1.5. Appropriation of net income – Dividends paid by the Company

Appropriation of net income

At its meeting on February 12, 2018, the Board of Directors acknowledged and proposed the following net income appropriation to the Annual General Meeting:

(in €)

Source	
Retained earnings	2,412,515,226.53
Net income for the year	3,914,991,560.20
Total for appropriation	**6,327,506,786.73**
Appropriation	
Legal reserve [1]	-
Dividend [2]	757,675,932.00
Additional stock dividend [3]	A sum equal to (i) the number of PUMA shares distributed (whether allotted to shareholders or sold owing to fractional shares) multiplied by (ii) the opening price of the PUMA share on the Xetra trading venue in Frankfurt on May 16, 2018, which will be recorded by the Board of Directors.
Retained earnings	The balance, the amount of which will be recorded by the Board of Directors.
Total	**6,327,506,786.73**

(1) No further charge to the legal reserve is proposed since the reserve stood at €51,354,910 as of December 31, 2016, i.e., above the minimum amount required by law (10% of the share capital).
(2) Representing a dividend of €6.00 per share qualifying for the 40% tax allowance, payable on May 5, 2017. This amount corresponds to the interim dividend (€2.00 per share) paid on January 17, 2018 (€252,558,664.00) plus the final dividend of €505,117,288.00, equal to €4.00 per share, calculated on the basis of the maximum number of shares carrying dividend rights.
(3) Stock dividend in the form of PUMA shares, based on one [1] PUMA share for twelve [12] Kering shares carrying dividend rights. The total number of PUMA shares to be allotted will be capped at 10,523,276 shares. For the appropriation of net income, the shares allotted will be valued at the opening price of the PUMA share on the Xetra trading venue in Frankfurt on the dividend payment date, i.e., on May 16, 2018.

The Board of Directors will propose to the Annual General Meeting of April 26, 2018 payment of a dividend of €6.00 per share carrying dividend rights as of January 1, 2017.

An interim dividend in an amount of €2.00 per share was paid on January 17, 2018 pursuant to a decision by the Board of Directors on December 14, 2017.

If this dividend is approved, the balance of €4.00 per share will have an ex-dividend date of May 14, 2017 and will be payable as from May 16, 2017.

Dividends paid out over the past three fiscal years

The following dividends have been paid out over the past three fiscal years:

Year of payment	Net dividend	Qualifying for a tax allowance of
2017	€4.60	40%
2016	€4.00	40%
2015	€4.00	40%

5.1.6. Share pledges

As of December 31, 2017, 3,050,000 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	07/25/2016	Unspecified [1]		750,000	0.59%
Artémis	CA CIB	12/07/2015	Unspecified [1]		750,000	0.59%
Artémis	CA CIB	07/23/2015	Unspecified [1]		1,550,000	1.23%

(1) Full reimbursement or payment of the receivable.
(2) Based on the share capital as of December 31, 2017, comprising 126,279,322 shares with a par value of €4 each.

5.1.7. Arrangements and agreements

To the Company's knowledge, there are no contractual arrangements or agreements 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.

5.2. share ownership structure

Change in share ownership and voting rights

	2017				2016			
	Number of shares	% of share capital	Number of voting rights [1]	% of voting rights [2]	Number of shares	% of share capital	Number of voting rights [1]	% of voting rights [2]
Artémis group	51,617,767	40.88%	103,235,534	57.57%	51,617,767	40.88%	102,770,114	57.41%
Harris Associates		see Note (4) below				see Note (4) below		
The Capital Group		see Note (4) below			8,943,087	7.08%	8,943,087	4.99%
Treasury shares	0	0.00%	0 [3]	0.00%	0	0.00%	0 [3]	0.00%
Employees	323,198	0.26%	634,623	0.35%	476,713	0.38%	904,377	0.51%
Free float	74,338,357	58.87%	75,455,461	42.08%	65,241,755	51.66%	66,393,741	37.09%
TOTAL	**126,279,322**	**100.00%**	**179,325,618**	**100.00%**	**126,279,322**	**100.00%**	**179,011,319**	**100.00%**

	2015			
	Number of shares	% of share capital	Number of voting rights [1]	% of voting rights [2]
Artémis group	51,638,516	40.89%	102,746,612	57.40%
Harris Associates [4]	6,318,723	5.00%	6,318,723	3.53%
The Capital Group [4]	6,348,513	5.03%	6,348,513	3.55%
Treasury shares	27,598	0.02%	27,598	0.00%
Employees	510,379	0.41%	929,288	0.52%
Free float	61,435,593	48.65%	62,630,299	34.99%
TOTAL	**126,279,322**	**100.00%**	**179,001,033**	**100.00%**

(1) Total number of voting rights, including treasury shares.
(2) 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 "Annual General Meetings – Double voting rights" in Chapter 7).
(3) Theoretical voting rights; in the Annual General Meeting these shares lose their voting rights.
(4) On February 11, 2016, Harris Associates reported that it had crossed below the 5% threshold of Kering's share capital. The Capital Group reported that it had crossed below the 5% threshold of Kering's share capital on September 26, 2017 and that it held as of the same date 6,133,076 shares representing an equal number of voting rights, i.e., 4.86% of the share capital and 3.42% of the Company's voting rights. This threshold was crossed as a result of a sale of Kering shares on the open market.

Artémis is wholly owned by Financière Pinault, itself controlled by the Pinault family. Artémis holds 57.57% 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.

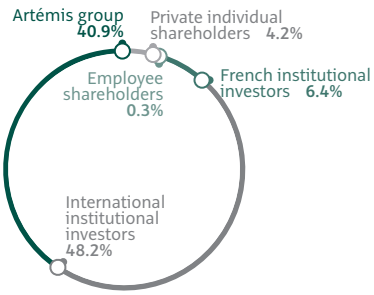
Regarding the majority shareholder's control of the Company, the following factors all contribute toward maintaining an effective balance of power:

- the organisation and operating rules of the Board and of its specialised Committees;
- the number of independent Directors – representing (i) more than half of the Board members (who oversee the prevention of conflicts of interest and regularly carry out a self-assessment), (ii) three-quarters of the Audit Committee, and (iii) three-quarters of the Remuneration Committee, it being specified that no executive corporate officer is a member of these Committees;
- general compliance with the current rules, internal rules and good governance practices.

On August 3, 2017, The Capital Group Companies, Inc.,[1] based in Los Angeles (United States), reported that it had crossed above the 5% threshold of Kering's share capital on June 29, 2017 and that it held 6,339,277 Kering shares, i.e., 5.02% of the share capital and 3.53% of the voting rights. On September 28, 2017, The Capital Group Companies, Inc. reported that it had crossed below the 5% threshold of Kering's share capital on September 26, 2017 and that it held 6,133,076 Kering shares, i.e., 4.86% of the share capital and 3.42% of the voting rights. This threshold was crossed as a result of a sale 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.

BREAKDOWN OF SHARE CAPITAL AS OF DECEMBER 31, 2017 (ROUNDED FIGURES)



As of December 31, 2017, private individual shareholders held 4.2% of the Group's share capital. Institutional investors owned 54.6% of the share capital, with 6.4% held by French institutions and 48.2% by investors residing outside France.

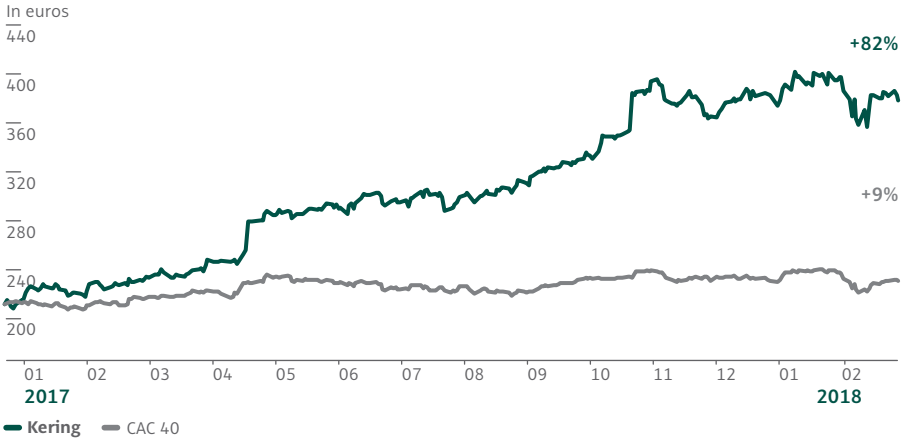
Among the international institutional investors, North American-based and UK-based shareholders held 23.1% and 12.0% of the share capital, respectively. Continental European investors (excluding France) held 7.1% of the share capital, including notably Switzerland (1.8%) and Norway (1.5%). Shareholders based in the Asia-Pacific region represented 2.8% of the share capital.

Stock market information

Kering share	
Place of listing	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	126,279,322 as of December 31, 2017
Tickers	ISIN code: FR 00 00 121 485 Reuters: KER.PA Bloomberg: KERFP

(1) Acting as an investment adviser on behalf of the funds. The Capital Group Companies, Inc. combines the positions held by Capital Research and Management Company (CRMC) and Capital Group International (CGI).

Change in the price of the Kering share compared to the CAC 40 index from January 1, 2017 to February 28, 2018



Market price and trading volume of the Kering share

	2017	2016	2015	2014	2013
High[1] *(in €)*	405.95	214.35	197.00	167.40	184.50
Low[1] *(in €)*	209.60	138.60	139.05	137.35	140.28
Price[1] as of December 31 *(in €)*	393.00	213.30	157.95	159.50	153.65
Market capitalisation as of December 31 *(in € millions)*	**49,628**	**26,935**	**19,946**	**20,140**	**19,395**
Daily average trading volume *(in number of shares)*	209,407	255,805	356,633	224,261	254,343
Number of shares as of December 31	**126,279,322**	**126,279,322**	**126,279,322**	**126,266,490**	**126,226,761**

(1) Closing price.
Source: Euronext.

Listed securities of the Group as of December 31, 2017

Securities listed on Euronext Paris	ISIN code
Equities	
Kering	FR 00 00 121 485

Securities listed on the Luxembourg Stock Exchange	ISIN code
Bonds	
Kering 3.125% April 2019	FR 00 11 236 983
Kering 2.50% July 2020	FR 00 11 535 764
Kering 1.875% October 2018	FR 00 11 584 929
Kering 2.75% April 2024	FR 00 11 832 039
Kering 1.375% October 2021	FR 00 12 199 008
Kering 0.875% March 2022	FR 00 12 648 244
Kering 1.60% April 2035	FR 00 12 669 257
Kering 1.25% May 2026	FR 00 13 165 677
Kering 1.50% April 2027	FR 00 13 248 721

Stock market data

Kering share

2016	Share price *(in €)*				Volume	
					Shares traded	
	Average [1]	High [2]	Low [2]	Monthly change	Average daily *(in number of shares)*	€m	Number of shares
January	147.90	156.50	138.65	-1.8%	317,834	938	6,356,677
February	155.00	165.35	143.20	+3.6%	399,321	1,304	8,385,740
March	161.11	167.85	153.20	-2.2%	257,553	871	5,408,622
April	153.44	162.15	146.70	-4.7%	314,685	1,012	6,608,395
May	145.05	152.70	140.35	-3.0%	188,140	600	4,139,082
June	148.65	156.70	136.55	+0.2%	293,493	958	6,456,855
July	153.21	173.30	140.55	+16.8%	233,005	763	4,893,096
August	171.98	177.00	167.85	0.0%	173,403	685	3,988,278
September	176.70	184.35	170.05	+5.6%	222,983	864	4,905,619
October	191.30	206.40	179.00	+12.5%	286,084	1,162	6,007,770
November	198.80	206.95	191.30	+1.5%	208,692	912	4,591,226
December	210.29	214.90	200.55	+4.0%	190,504	825	4,000,588

2017	Share price *(in €)*				Volume	
					Shares traded	
	Average [1]	High [2]	Low [2]	Monthly change	Average daily *(in number of shares)*	€m	Number of shares
January	222.56	232.90	208.55	+3.2%	210,569	1,028	4,632,526
February	227.09	235.00	219.40	+4.3%	202,416	920	4,048,322
March	237.12	243.10	230.65	+5.5%	227,768	1,243	5,238,655
April	255.06	288.00	239.95	+17.5%	294,994	1,368	5,309,894
May	291.40	296.95	281.00	+3.5%	242,648	1,517	5,338,249
June	300.84	313.05	289.65	+1.3%	215,173	1,424	4,733,816
July	303.84	314.50	292.25	-0.9%	202,661	1,289	4,255,885
August	307.23	318.35	293.20	+6.7%	165,832	1,167	3,814,136
September	327.98	337.20	313.45	+6.9%	159,959	1,099	3,359,136
October	361.51	398.25	335.80	+16.7%	251,818	2,032	5,539,995
November	389.86	408.35	371.80	-5.3%	229,497	1,965	5,048,943
December	387.73	399.70	367.85	+5.4%	192,902	1,396	3,665,134

2018	Share price *(in €)*				Volume	
					Shares traded	
	Average [1]	High [2]	Low [2]	Monthly change	Average daily *(in number of shares)*	€m	Number of shares
January	403.66	417.40	381.50	+3.8%	203,529	1,782	4,477,629
February	387.41	408.90	383.80	-4.9%	265.887	2,037	5,317,732

(1) Closing price.
(2) Intra-day price.
Source: Euronext.

Financial communications policy

Kering's Financial Communications Department is committed to disseminating 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 various media and tools to keep themselves informed on the Group and events affecting its shares. These include the twice-yearly Letter to Shareholders, the Shareholders' Guide (in French only), the shareholders' hotline (+33 1 45 64 65 64) and email address (actionnaire@Kering.com), financial notices in the press and on the Group's website, 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 a meeting 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 French financial markets authority (*Autorité des marchés financiers* – AMF).

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 under conditions guaranteeing the security of the communication and information. Accordingly, Kering's Financial Communications Department has chosen to work with a professional communications agency satisfying the communication criteria set by EU Regulation 596/2014 on market abuse and the AMF's General Regulations. The communication agency is included on the list published by the AMF, thus benefiting from a presumption of full and effective communication.

2018 shareholders' agenda

April 24, 2018	**First-quarter 2018 revenue**
April 26, 2018	**Annual General Meeting**
July 2018	**First half results 2018**
October 2018	**Third-quarter 2018 revenue**

The Board of Directors.

chapter 5
financial information

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1. activity report

1.1. changes in group structure and highlights of the year

Kering Eyewear – A strategic partnership with the Richemont group

On June 1, 2017, Kering announced the close of the partnership deal agreed on March 21 between Kering Eyewear and the Maison Cartier (owned by Compagnie Financière Richemont) to develop the Eyewear category. The strategic rationale behind the partnership is to join forces and grow in scale to create a high-performing platform for the development, manufacture and worldwide distribution of Cartier eyewear.

Under the terms of the agreement, Richemont acquired a minority stake in Kering Eyewear, a specialised company fully dedicated to the eyewear activity of the 12 brands of the Kering group (Gucci, Bottega Veneta, Saint Laurent, Alexander McQueen, Brioni, Christopher Kane, McQ, Stella McCartney, Tomas Maier, Boucheron, Pomellato and PUMA). Kering Eyewear has also integrated the Manufacture Cartier Lunettes entity in Sucy-en-Brie, France.

The Cartier 2018 Spring-Summer collection, which was presented at the Silmo International Optics and Eyewear Exhibition held in Paris between October 6 and 9, 2017, marked the official launch of the partnership.

Manufacture Cartier Lunettes has been consolidated in the Group's financial statements since the second half of 2017.

Change in management and creative responsibility – Other Luxury brands

On March 17, 2017, Kering announced the appointment of Fabrizio Malverdi as CEO of Brioni. On June 15, 2017, Kering announced the appointment of Nina-Maria Nitsche as Brioni's new Creative Director with responsibility for the House's collections and image.

On August 17, 2017, Kering announced the appointment of Patrick Pruniaux as CEO of Swiss watchmaking House Ulysse Nardin.

Appointment and corporate governance at Kering

On December 4, 2017, Kering announced that Grégory Boutté had been appointed as Chief Client and Digital Officer and a member of the Group's Executive Committee. His responsibilities are to lead the Group's digital transformation and drive the development of e-commerce, CRM and data management.

Bond issue

On March 28, 2017, Kering carried out a €300 million issue of ten-year bonds with a fixed-rate coupon of 1.50%. The bonds were settled and delivered on April 5, 2017.

1.2. 2017 business review

Definitions of Kering's non-IFRS financial indicators are presented at the end of this chapter on page 230.

Key figures

Condensed consolidated income statement

(in € millions)	2017	2016	Change
Revenue	15,477.7	12,384.9	+25.0%
Recurring operating income	2,948.0	1,886.2	+56.3%
as a % of revenue	*19.0%*	*15.2%*	*+3.8 pts*
EBITDA	3,464.4	2,318.2	+49.4%
as a % of revenue	*22.4%*	*18.7%*	*+3.7 pts*
Other non-recurring operating income and expenses	(241.7)	(506.0)	-52.2%
Finance costs, net	(242.6)	(201.8)	+20.2%
Corporate income tax	(591.0)	(296.1)	+99.6%
Share in earnings (losses) of equity-accounted companies	(2.0)	(2.2)	-9.1%
Net income from continuing operations	1,870.7	880.1	+112.6%
o/w attributable to owners of the parent	*1,791.2*	*825.1*	*+117.1%*
o/w attributable to non-controlling interests	*79.5*	*55.0*	*+44.5%*
Net income (loss) from discontinued operations	(5.6)	(11.6)	-51.7%
Net income attributable to owners of the parent	1,785.6	813.5	+119.5%
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent	2,001.9	1,281.9	+56.2%

Earnings per share

	2017	2016	Change
Earnings per share attributable to owners of the parent	€14.17	€6.46	+119.3%
Earnings per share from continuing operations (excluding non-recurring items) attributable to owners of the parent	€15.89	€10.17	+56.2%

Operating investments

(in € millions)	2017	2016	Change
Gross operating investments	752.0	611.0	+23.1%

Free cash flow from operations

(in € millions)	2017	2016	Change
Free cash flow from operations	2,318.3	1,189.4	+94.9%

Revenue

(in € millions)	2017	%	2016	%	Reported change	Comparable change[1]
Luxury	10,795.8	70%	8,469.4	69%	+27.5%	+29.9%
Sport & Lifestyle	4,381.9	28%	3,883.7	31%	+12.8%	+14.7%
Corporate and other	300.0	2%	31.8	0%	N/A	N/A
Total revenue	**15,477.7**	**100%**	**12,384.9**	**100%**	**+25.0%**	**+27.2%**

(1) On a comparable Group structure and exchange rate basis.

Consolidated revenue for 2017 amounted to €15,478 million, up 25.0% on 2016 as reported and 27.2% based on a comparable Group structure and exchange rates.

Exchange rate fluctuations shaved €221 million off the overall 2017 revenue figure, including €56 million due to the depreciation of the US dollar and €63 million due to the depreciation of the Japanese yen.

Revenue by region

(in € millions)	2017	%	2016	%	Reported change	Comparable change[1]
Western Europe	5,077.1	33%	3,885.9	31%	+30.7%	+32.3%
North America	3,306.0	21%	2,740.5	22%	+20.6%	+22.9%
Japan	1,291.2	8%	1,226.3	10%	+5.3%	+10.9%
Sub-total – mature markets	**9,674.3**	**62%**	**7,852.7**	**63%**	**+23.2%**	**+25.8%**
Eastern Europe, Africa and the Middle East	1,023.9	7%	814.3	7%	+25.7%	+24.9%
South America	594.7	4%	514.3	4%	+15.6%	+19.1%
Asia Pacific (excluding Japan)	4,184.8	27%	3,203.6	26%	+30.6%	+32.7%
Sub-total – emerging markets	**5,803.4**	**38%**	**4,532.2**	**37%**	**+28.0%**	**+29.8%**
Total revenue	**15,477.7**	**100%**	**12,384.9**	**100%**	**+25.0%**	**+27.2%**

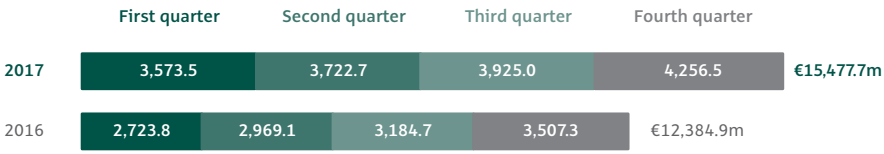
(1) On a comparable Group structure and exchange rate basis.

Comparable revenue growth was just as strong in mature markets (led by Western Europe and North America) as in emerging markets, whose sales contributed 38% of the consolidated total, with Asia Pacific (excluding Japan) accounting for 27%.

Revenue generated outside the eurozone represented 78% of the consolidated total in 2017.

Quarterly revenue data

Consolidated revenue by quarter



Quarterly revenue by activity

(in € millions)	First quarter	Second quarter	Third quarter	Fourth quarter	Total 2017
Gucci	1,354.0	1,478.5	1,553.8	1,824.9	6,211.2
Bottega Veneta	280.4	310.0	280.7	305.2	1,176.3
Yves Saint Laurent	364.4	346.4	383.7	406.9	1,501.4
Other Luxury brands	418.3	479.2	459.6	549.8	1,906.9
Luxury	**2,417.1**	**2,614.1**	**2,677.8**	**3,086.8**	**10,795.8**
PUMA	1,008.9	972.1	1,125.7	1,045.0	4,151.7
Other Sport & Lifestyle brands	55.2	50.3	65.6	59.1	230.2
Sport & Lifestyle	**1,064.1**	**1,022.4**	**1,191.3**	**1,104.1**	**4,381.9**
Corporate and other	**92.3**	**86.2**	**55.9**	**65.6**	**300.0**
KERING TOTAL	**3,573.5**	**3,722.7**	**3,925.0**	**4,256.5**	**15,477.7**

(in € millions)	First quarter	Second quarter	Third quarter	Fourth quarter	Total 2016
Gucci	894.2	1,053.3	1,088.3	1,342.5	4,378.3
Bottega Veneta	267.9	303.3	293.8	308.4	1,173.4
Yves Saint Laurent	269.2	278.7	326.1	346.2	1,220.2
Other Luxury brands	372.4	438.9	406.7	479.5	1,697.5
Luxury	**1,803.7**	**2,074.2**	**2,114.9**	**2,476.6**	**8,469.4**
PUMA	855.9	830.5	994.1	961.7	3,642.2
Other Sport & Lifestyle brands	57.2	53.2	70.3	60.8	241.5
Sport & Lifestyle	**913.1**	**883.7**	**1,064.4**	**1,022.5**	**3,883.7**
Corporate and other	**7.0**	**11.2**	**5.4**	**8.2**	**31.8**
KERING TOTAL	**2,723.8**	**2,969.1**	**3,184.7**	**3,507.3**	**12,384.9**

(comparable change)[1]	First-quarter change	Second-quarter change	Third-quarter change	Fourth-quarter change	Full-year 2017
Gucci	+48.3%	+39.3%	+49.4%	+42.6%	+44.6%
Bottega Veneta	+2.3%	+1.7%	+0.9%	+4.7%	+2.4%
Yves Saint Laurent	+33.4%	+23.7%	+22.2%	+22.9%	+25.3%
Other Luxury brands	+11.1%	+9.1%	+17.0%	+18.8%	+14.1%
Luxury	**+31.6%**	**+25.3%**	**+32.3%**	**+30.5%**	**+29.9%**
PUMA	+15.3%	+16.1%	+17.3%	+14.6%	+15.8%
Other Sport & Lifestyle brands	-6.3%	-7.4%	-3.2%	+4.2%	-3.2%
Sport & Lifestyle	**+14.0%**	**+14.7%**	**+15.9%**	**+14.0%**	**+14.7%**
Corporate and other	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
KERING TOTAL	**+28.6%**	**+24.6%**	**+28.4%**	**+27.4%**	**+27.2%**

(1) On a comparable Group structure and exchange rate basis.

Recurring operating income

The Group's gross margin for 2017 amounted to €10,133 million, up €2,343 million or 30.1% on the previous year as reported. Operating expenses increased by 21.7% as reported.

(in € millions)	2017	2016	Change
Luxury	2,911.0	1,936.0	+50.4%
Sport & Lifestyle	244.0	123.2	+98.1%
Corporate and other	(207.0)	(173.0)	-19.7%
Recurring operating income	**2,948.0**	**1,886.2**	**+56.3%**

Kering's recurring operating income totalled €2,948 million in 2017, up 56.3% on 2016 as reported. Consolidated recurring operating margin came to 19.0%, fuelled by Luxury activities whose recurring operating margin widened significantly to 27.0%. Recurring operating margin for the Group's Sport & Lifestyle activities came to 5.6%.

EBITDA

(in € millions)	2017	2016	Change
Recurring operating income	**2,948.0**	**1,886.2**	**+56.3%**
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets	516.4	432.0	+19.5%
EBITDA	**3,464.4**	**2,318.2**	**+49.4%**

(in € millions)	2017	2016	Change
Luxury	3,275.3	2,255.4	+45.2%
Sport & Lifestyle	320.4	190.0	+68.6%
Corporate and other	(131.3)	(127.2)	-3.2%
EBITDA	**3,464.4**	**2,318.2**	**+49.4%**

The EBITDA margin widened by 3.7 points on a reported basis to 22.4% from 18.7%.

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.

This item represented a net expense of €242 million in 2017, significantly lower than the €506 million net expense recorded for 2016. The 2017 figure primarily corresponded to €219 million in asset impairment losses, of which €185 million related to write-downs of goodwill and a brand within Other Luxury brands as well as a write-down of the Volcom brand.

The net expense for 2016 mainly comprised €335 million in asset impairment losses, of which €297 million concerned write-downs of goodwill and a brand within Other Luxury brands.

Other non-recurring operating income and expenses also included the losses recorded by Kering Eyewear during its ramp-up phase prior to it being granted the Gucci licence on January 1, 2017. Since that date, Kering Eyewear's results of operations have been presented under Recurring operating income.

(See Note 9 – Other non-recurring operating income and expenses, to the consolidated financial statements).

Finance costs, net

(in € millions)	2017	2016	Change
Cost of net debt	(128.2)	(128.3)	-0.1%
Other financial income and expenses	(114.4)	(73.5)	+55.6%
Finance cost, net	**(242.6)**	**(201.8)**	**+20.2%**

The Group's cost of net debt was €128 million in 2017, unchanged from 2016 as the sharp decrease in its average outstanding net debt during the year was fully offset by unfavourable interest rates. This situation stemmed from changes in the Group's net debt profile following the repayment of very short-term debt (commercial paper) which had extremely low interest rates and was partly refinanced by the issue of long-term bonds in 2016 and 2017 (which pay a higher rate of interest but secure the Group's financing over the long term). In addition, the situation was exacerbated by the fact that, due to ongoing negative interest rates, there was hardly any return on the strong cash flows generated from the Group's revenue growth.

Other financial income and expenses represented a net expense of €114 million in 2017, up 55.6% on the €74 million net expense recorded for 2016. This year-on-year growth was chiefly due to the impact of restatements carried out in connection with applying IAS 39. The carrying cost of currency hedges was adversely impacted by higher interest rates in the United States, the volatility of Asian rates and negative interest rates in the eurozone.

(See Note 10 – Finance costs (net), to the consolidated financial statements).

Corporate income tax

(in € millions)	2017	2016	Change
Tax on recurring income	(622.0)	(345.3)	+80.1%
Tax on non-recurring items	31.0	49.2	-37.0%
Total tax charge	**(591.0)**	**(296.1)**	**+99.6%**
Effective tax rate	**24.0%**	**25.1%**	**-1.1 pt**
Recurring tax rate	**23.0%**	**20.5%**	**+2.5 pts**

Kering's effective tax rate decreased to 24.0% in 2017 from 25.1% in 2016 due to a higher amount of permanent differences relating mainly to non-recurring expenses. Adjusted for the effect of non-recurring items and the related taxes, the recurring tax rate rose to 23.0% from 20.5%.

The year-on-year increase is partly attributable to business growth in regions or countries with higher average tax rates. It is also the result of overhauling supply chain and logistics structures and processes in order to adapt the brands' business models to new constraints arising from the Group's development of the omnichannel approach as well as from shorter lead times for designing and manufacturing products. The opening of Gucci ArtLab – an excellence centre for Leather Goods and Shoes based near Florence – is a prime example of this new way of working.

The above-described operational restructuring should lead in the coming years to a gradual increase in the recurring tax rate, which will be partially offset by tax cuts planned for several countries.

The Group is currently analysing the potential impacts of the recent tax reform in the United States and at this stage does not think it likely that the reform will significantly impact the Group's future tax rates. The Group remeasured its deferred tax assets and liabilities in line with the US tax cuts and recognised these remeasurements in its consolidated financial statements for the year ended December 31, 2017.

Lastly, on November 29, 2017, the Italian financial police (*Guardia di Finanza*) searched Gucci's Milan and Florence offices as part of an investigation by Milan's public prosecutor into suspected tax evasion. Gucci has announced that it is cooperating fully with the authorities in the investigation. The related tax risk cannot be measured reliably at this point in the proceedings and therefore no specific provision was recorded in 2017. However, as in previous years, the Group adopted a prudent approach for measuring its tax liabilities.

(See Note 11 – Income taxes, to the consolidated financial statements).

1.3. operating performances by brand

Information concerning the breakdown of revenue (by region, product, distribution channel) is set out in Chapter 2 of this Reference Document.

Luxury activities

(in € millions)	2017	2016	Change
Revenue	**10,795.8**	**8,469.4**	**+27.5%**
Recurring operating income	**2,911.0**	**1,936.0**	**+50.4%**
as a % of revenue	***27.0%***	***22.9%***	***+4.1 pts***
EBITDA	3,275.3	2,255.4	+45.2%
as a % of revenue	*30.3%*	*26.6%*	*+3.7 pts*
Gross operating investments	486.9	380.6	+27.9%
Average FTE headcount	23,423	21,559	+8.6%

In 2017, the worldwide Luxury Goods market (as presented and defined in Chapter 2 of this Reference Document) picked up sharply, growing 5% on a reported basis and 6% at constant exchange rates, after having contracted slightly in 2016 on both a reported basis and at constant exchange rates according to data published by Bain Altagamma.

In line with the gradual upward pattern observed during the course of 2016, spending by Chinese customers on Luxury Goods rose considerably in 2017, which lifted not only the domestic market (up 18% at constant exchange rates based on Bain Altagamma's data) but also markets in tourist destinations.

The market upswing in Mainland China boosted overall performance in the Asia Pacific region, where business began to trend upwards in Hong Kong and Macao and remained firm throughout most of the region.

Growth was also robust in Western Europe (up 7% at constant exchange rates according to Bain Altagamma) thanks to high tourist numbers and spending by domestic customers. Based on data published by Global Blue, sales to tourists climbed 8% during 2017. However, having kept up extremely robust momentum in the first six months and despite tourist numbers picking up again in France, the pace of growth slowed as from August 2017 in view of a high basis of comparison in the United Kingdom.

Luxury Goods sales in North America were weighed down by the persistently lacklustre US market which posted the weakest growth amongst the main regions, in large part due to sluggish sales in US department stores, a key distribution channel for Luxury Goods players. Worldwide, department stores were the only distribution channel to turn in a flat performance in 2017 (edging down 1% at constant exchange rates according to Bain Altagamma).

In Japan, the market swung upwards in the second half of 2017, following a sluggish start to the year. For the full twelve months growth reached 8% at constant exchange rates according to Bain Altagamma, fuelled by a recovery in tourism during the year.

The picture was mixed across product categories. Accessories, Jewelry and, to a certain extent, Ready-to-Wear fared well, and the timepieces sector began to pick up although performance was volatile depending on the schedule of deliveries to distributors.

In terms of distribution channels, 2017 saw an acceleration in e-commerce sales as well as steady growth for travel retail in airports. Based on Bain Altagamma data, stores directly operated by Luxury Goods brands seemed to experience more modest growth but this reflects a highly polarised market with very diverse performances between the various players.

In addition, 2017 saw Millennials increasingly becoming customers of Luxury Goods brands. According to Bain Altagamma, they contributed an overall 30% to the industry's revenue, and even more in key markets such as China and the United States.

Finally, whereas the first six months of 2017 saw relatively little volatility for the world's major currencies, the second half of the year was affected by the euro gradually gaining strength against its peers. Accordingly, for Kering's Luxury activities, while reported growth for the first six months of the year was 140 basis points higher than growth at constant exchange rates, in the second half it was 580 points lower.

Revenue

The Group's Luxury activities (whose scope of consolidation remained unchanged during 2017) posted stellar revenue growth of 27.5% on a reported basis for the year and 29.9% at comparable exchange rates, topping €10 billion to reach €10,796 million and once again significantly outperforming the market.

Organic growth for the second half of the year came to 31.3% on a comparable basis, outstripping the 28.3% recorded for the first six months and achieved despite a higher basis of comparison than for 2016. Quarter-on-quarter growth for the second half was very evenly balanced.

Retail sales in directly operated stores and online advanced 35.3% on a comparable basis to €8,110 million, propelled by excellent in-store performances from Gucci, Yves Saint Laurent and Balenciaga, and by the rapid development of online sales (which surged more than 70% during the year).

Directly operated stores accounted for 75.1% of total revenue generated by the Group's Luxury activities in 2017, versus 72.3% in 2016. This increase reflects the strategy implemented by all of the Luxury brands to take greater control of their distribution and reinforce their exclusivity, as well as measures to prudently manage the expansion of the directly operated store network. It also illustrates the Group's objective of retaining and, where appropriate, developing, a network of high-quality wholesalers for a select number of brands and product categories and in certain regions.

Wholesale sales for 2017 were 16.7% higher year on year on a comparable basis, with all of the Group's main wholesale markets posting strong growth, including the United States. This performance reflects the strong appeal of the Group's brands, resulting in them being showcased by wholesalers, which have generally become increasingly selective in their purchasing choices. Consequently, the brands were able to win further market share during the year.

Revenue by region

As in 2016, revenue growth for the Group's Luxury activities in 2017 was generally balanced across mature and emerging markets.

Sales in emerging markets climbed 32.8% compared with 2016, with the Asia Pacific region posting a 33.4% rise. All of the region's main markets saw very strong growth, except for Taiwan where momentum was less brisk. Revenue in Mainland China jumped 37.7% and sales in Hong Kong and Macao swung upwards with double-digit growth. Despite the tensions that put strain on tourist numbers during the year, sales levels in South Korea – which is the Group's second largest emerging market – remained very strong, with growth of around 40%.

In mature markets, revenue was up 28.1% based on comparable data, with growth breaking down as follows by region:

- up 32.7% in Western Europe, with very even revenue rises across all of the main markets and consumer nationalities;
- up 27.1% in North America, primarily driven by excellent showings from Gucci, Yves Saint Laurent and Balenciaga;
- up 15.5% in Japan, spurred by a sharp sales recovery in the second half (up by more than 20% on a comparable basis).

Revenue by product category

The weighting of product categories within Luxury activities' overall revenue is becoming increasingly balanced, reflecting the strategic fit of the brands in the portfolio.

Apart from Watches, revenue climbed steeply for each of the main product categories. Sales of Watches nevertheless increased, having been held back for several years by the sluggish timepieces market.

After stagnating in 2016, revenue from royalties rose significantly in 2017 led by the strong momentum for Gucci eyewear following the transfer of the Gucci licence to Kering Eyewear.

Recurring operating income

Recurring operating income for the Group's Luxury activities totalled €2,911 million in 2017, up by a steep 50.4% as reported year on year, and recurring operating margin reached a record 27.0%, up 410 basis points as reported. This achievement was mainly attributable to the sharp increases in recurring operating margin posted by Gucci and Yves Saint Laurent, whose sales growth far exceeded the rise in their cost bases resulting from the in-store expenses and communication costs incurred in connection with their expansion projects.

The combined effects of exchange rate fluctuations and currency hedges did not have a significant impact on recurring operating income in 2017 in light of the intrinsic rise in recurring operating margin.

EBITDA topped the €3 billion mark, leaping 45.2% to €3,275 million, and the EBITDA margin widened by 370 basis points to 30.3%.

Store network and operating investments

Luxury activities' gross operating investments totalled €487 million in 2017, €106 million higher than in 2016 but unchanged from 2016 as a proportion of revenue (4.5%).

As of December 31, 2017, Luxury activities had a network of 1,388 directly operated stores, including 846 (61%) in mature markets and 542 in emerging markets. Net store additions during the year totalled 83, which was largely attributable to the planned expansion of the Yves Saint Laurent network and targeted store openings at Bottega Veneta.

Gucci

(in € millions)	2017	2016	Change
Revenue	**6,211.2**	**4,378.3**	**+41.9%**
Recurring operating income	**2,124.1**	**1,256.3**	**+69.1%**
as a % of revenue	***34.2%***	***28.7%***	***+5.5 pts***
EBITDA	2,331.0	1,424.5	+63.6%
as a % of revenue	*37.5%*	*32.5%*	*+5.0 pts*
Gross operating investments	248.5	184.7	+34.5%
Average FTE headcount	11,543	10,253	+12.6%

Gucci had an excellent 2017 in all respects, far outperforming the Luxury Goods market as a whole, exceeding its own financial targets and methodically pursuing the rollout of action plans geared to supporting the brand's long-term growth.

The main highlights of 2017 were as follows:

- Gucci continued to rework its product offering, almost entirely completing the process by the end of the year. In all categories, older styles have been replaced by the new aesthetic brought to the brand by Alessandro Michele. The reaction of both customers and distributors has been extremely positive, as illustrated by Gucci's sales figures. However, the in-depth work of Gucci's merchandising teams is ongoing as the brand needs to be able to maximise each category's growth potential over the longer term by constantly honing the product offering;
- the fashion shows (which now combine menswear and womenswear in one show) and collections presented by Gucci during the year were once again extremely well received, consolidating the brand's leading position in the world of fashion and luxury;
- thanks to Gucci's renewed brand appeal and the success of its reworked offering, it has not run any promotional offers in its stores since the last quarter of 2016;
- the ramp-up programme for the new store concept was continued throughout the course of the year, with 66 stores developed around or converted to the concept during the period;
- Gucci's new image was also relayed through in-store events, measures to further enhance the customer experience, and the launch of more consistent and better targeted communication campaigns. The brand has forged several new partnerships as a launching pad for these initiatives, covering distribution, design and content creation. As such, Gucci has invested heavily in the production of images and films in order to regularly enrich its digital communication;
- digital technology remained at the heart of Gucci's omnichannel strategy, and in early July the brand launched its e-commerce activity in China. Overall, Gucci's online sales in 2017 advanced by over 80%;
- finally, Gucci continued to reorganise and rescale its production capacities and supply chain with a view to making them more agile, responsive and able to absorb rising demand. The new Gucci ArtLab – an excellence centre for Leather Goods and Shoes based near Florence that is due to open in early 2018 – is a prime example of the brand's overhaul of its supply chain and represents a major investment.

Revenue

Gucci's revenue topped the €6 billion mark in 2017, reaching €6,211 million. Revenue growth was an outstanding 41.9% as reported and 44.6% based on comparable exchange rates.

Second-half revenue leapt 45.7%, outpacing the 43.7% recorded for the first six months and achieved despite a very high basis of comparison.

Retail sales generated in directly operated stores shot up 47.0% at constant exchange rates, fuelled by increasingly higher footfall and improved productivity in the brand's stores.

Sales generated in the wholesale network advanced 34.7% on a comparable basis. Excluding the more mixed performances from the Watches category – whose product offering is still being repositioned – sales for this distribution channel rose at the same pace as those generated in directly operated stores. All of the brand's main markets saw sales growth during the year and Gucci won further market share amongst distributors.

Revenue by region

In view of the proportion of Gucci's sales that are generated in directly operated stores (84.6% in 2017), the most relevant revenue analysis by region concerns in-store business.

In the brand's mature markets, Western Europe posted the highest increase in revenue from directly operated stores, with growth coming in at 57.6% on a comparable basis. Thanks to its broader and younger customer base, Gucci was able to reap the benefits of the upturn in spending by domestic customers in the region and, as a result of its renewed appeal, was able to position itself as one of the most purchased brands by tourists visiting Europe.

In North America, having accelerated sharply in the second half, comparable-basis sales jumped 43.9% for the year as a whole, driven by the brand's success both amongst Millennials and a more traditional clientele, thanks to the depth and breadth of Gucci's product offering.

In Japan, in-store sales advanced by a brisk 21.4% on a comparable basis. This performance reflects how domestic customers have increasingly signed up to the brand's new look, as well as the fact that tourist numbers began to pick up again in the second half of the year.

In emerging markets, revenue vaulted 48.9% at constant exchange rates, with all regions contributing to this excellent performance, including Asia Pacific which delivered a 48.4% revenue hike on the back of dynamic markets in China and South Korea and sales upturns in Hong Kong and Macao.

Revenue by product category

Against a backdrop of Gucci having more or less completed the overhaul of its product offering, all of the brand's main product categories contributed to sales growth in directly operated stores in 2017.

For Leather Goods, the work on revisiting the product offering and replacing older collections was completed for Gucci's handbag lines in 2016. The sales figure for handbags in 2017 attests to the success of the new lines and carryovers designed by Alessandro Michele. The designs of small leather goods and luggage collections were reworked later on in the brand's transformation process, but the steep sales increase in 2017 demonstrates that the measures undertaken to reposition the product offering have been warmly received by the brand's customers.

Sales of Ready-to-Wear collections surged once again across all regions, with a menswear offering that now has a broader clientele and is enjoying very strong growth.

The remarkable sales momentum experienced by the Shoes category continued in 2017, driven by the success encountered by the vast majority of new lines presented by the brand.

Royalties returned to growth in 2017, led by the remodelling of the brand's eyewear offering since the Gucci licence was transferred to Kering Eyewear on January 1, 2017. In the Perfume and Cosmetics category, the launch in the second half of the year of the first perfume created with Alessandro Michele – *Gucci Bloom* – also helped royalties get back on the growth track.

Recurring operating income

Gucci's recurring operating income soared 69.1% on a reported basis in 2017, coming in at €2,124 million, and its recurring operating margin widened by 550 basis points to a record 34.2%.

This year-on-year jump was partly due to a slight rise in gross margin powered by excellent sales volumes in directly operated stores and the absence of promotional offers during the year. However, the main growth driver was the favourable leverage effect as revenue grew at a much higher rate than operating expenses. This was the case despite the fact that Gucci continued to make the necessary investments during the year to support the brand's development by raising the budget for in-store expenses on communications and information systems in line with the sector's accelerating digital transformation. The impact of these initiatives was offset by strict cost control measures for other expense items. The resulting effect was particularly favourable in the second half, when recurring operating margin gained 640 basis points (compared with 440 in the first six months).

Gucci's EBITDA for 2017 stood at €2,331 million, and the EBITDA margin was almost 37.5%.

Store network and operating investments

As of December 31, 2017, Gucci operated 529 stores directly, including 222 in emerging markets. A net nine stores were opened during the year, including five that were formerly operated by a franchisee in Thailand. The brand now has an overall network that is adapted to its operations in terms of store numbers and its current focus is on increasing organic growth by pursuing its refurbishment programme for existing stores.

Gucci's gross operating investments amounted to €249 million in 2017, up 34.5% on 2016. The 2017 figure mostly corresponds to the refurbishment programme aimed at gradually introducing the new store concept across the brand's entire network. As anticipated, Gucci's operating investments programme was particularly focused on the second half of the year.

At end-2017, around 29% of the store network had adopted the new concept and a large number of stores that have not yet been refurbished were fitted out and furnished along the lines of the brand's new design aesthetic.

Bottega Veneta

(in € millions)	2017	2016	Change
Revenue	**1,176.3**	**1,173.4**	**+0.2%**
Recurring operating income	**294.0**	**297.4**	**-1.1%**
as a % of revenue	***25.0%***	***25.3%***	***-0.3 pt***
EBITDA	337.3	341.7	-1.3%
as a % of revenue	*28.7%*	*29.1%*	*-0.4 pt*
Gross operating investments	51.0	42.8	+19.2%
Average FTE headcount	3,381	3,417	-1.1%

In 2017, Bottega Veneta's management team expanded and stepped up the action plans undertaken in 2016 and aimed at:

- re-energising the Leather Goods offering, whose trademark remains the *intrecciato* technique but which has been enriched with new distinctive styles that have proven very popular;
- developing other product categories – first and foremost Shoes. The year's fashion shows also spotlighted a very attractive Ready-to-Wear offering;
- guaranteeing Bottega Veneta's exclusivity by optimising distribution. Measures taken to reduce the number of wholesale points of sale and close certain stores directly operated by the brand were offset by the opening of new higher-end stores designed to more effectively showcase the product offering;
- increasing the brand's penetration amongst local customers in mature markets and young customers through more effective, digital communications.

Against a more favourable market backdrop for Luxury Goods, Bottega Veneta delivered a satisfactory performance in 2017 and there are encouraging signs that attest to the quality of its action plans and the speed of their implementation.

However, the benefits of these plans will be felt over the longer term and 2017 was above all a year of transition and consolidation for Bottega Veneta.

Revenue

In 2017, Bottega Veneta's revenue rose 2.4% year on year on a comparable basis. Based on reported data, it edged up 0.2%.

With a view to preserving its high-end positioning and exclusivity, Bottega Veneta's preferred distribution channel is its directly operated stores, which accounted for 82.9% of the brand's total sales in 2017. Revenue generated in directly operated stores increased by a solid 3.6% in the first six months of the year and 4.4% in the second half, based on constant exchange rates. This performance was achieved despite the decision to significantly reduce the scope and scale of in-store promotions in order to protect the brand's exclusivity.

Sales generated in the wholesale network contracted 4.5% in 2017, with a particularly marked decline in the first six months of the year. As in 2016, Bottega Veneta continued to reorganise this distribution channel in a bid to avoid the risk of saturation in points of sale and only work with the highest-quality partners.

Revenue by region

In view of the proportion of Bottega Veneta's sales that are generated in directly operated stores, the following revenue analysis by region only concerns in-store business.

Western Europe was the region where Bottega Veneta experienced the fastest sales momentum in 2017, with revenue up 7.3% on a comparable basis driven by a sharp increase in sales to domestic customers in the region's main markets. Sales tailed off towards the end of the year, however, under the effect of lower tourist numbers.

In Japan, whereas the downward trend experienced in 2016 continued into the first half of 2017, business picked up in the second part of the year, spurred by renewed growth for sales to Chinese tourists, with sales to domestic customers remaining more or less stable. Overall, this pushed up full-year revenue by 3.7% at constant exchange rates.

In North America the brand's sales retreated by 2.3% as they continued to be adversely affected by low tourist numbers and the aggressive promotional strategies of department stores, despite more encouraging trends as from the second quarter.

In emerging markets, Bottega Veneta's sales rose 3.9% year on year based on comparable data. Sales growth was solid in Mainland China, Macao, South Korea and Singapore in spite of relatively high bases of comparison for some of these markets and a drastic reduction in promotions compared with 2016. Meanwhile, market conditions remained challenging in Hong Kong – where Bottega Veneta's performances were particularly affected by the change in customer profile in view of the brand's high-end price positioning – and the brand's performance also continued to come under pressure in Taiwan.

Revenue by product category

All Bottega Veneta product categories registered sales rises in directly operated stores in 2017. Growth was particularly buoyant for Ready-to-Wear and Shoes, demonstrating how the development measures put in place over the past few years for these categories are now paying off.

In the Leather Goods category (which is still Bottega Veneta's core business, accounting for 84.6% of the brand's total sales including to wholesalers), handbag sales rose year on year, fuelled by the brand's latest launches and a successful new strategy for its iconic lines.

Overall, the brand's decision to revise its sales promotion policy has weighed on the short-term performance of the Leather Goods category.

Recurring operating income

Bottega Veneta's recurring operating income for 2017 totalled €294 million, down just €3 million on 2016. Recurring operating margin came in at 25.0%, representing a 30 basis-point decrease. This slight decrease was attributable to the targeted and controlled increase in certain operating expenses arising from the initiatives undertaken to enable Bottega Veneta to enter a new phase in its expansion and ensure that it will be in a position to use its current transition period as a springboard for future growth.

EBITDA totalled €337 million and EBITDA margin narrowed 40 basis points to 28.7%, which is still nevertheless a very high margin for the sector.

Store network and operating investments

As of December 31, 2017, Bottega Veneta had 270 directly operated stores, including 120 in emerging markets. There were 15 net store openings during the year. Bottega Veneta has put in place a programme to streamline its store network which includes not only store closures but also relocating certain stores, opening a select number of flagship stores, and expanding the brand's presence in a number of regions or networks (such as travel retail).

Within this context and in view of the need to refurbish its existing store network, Bottega Veneta has increased its operating investment budget. In 2017, the brand's gross operating investments amounted to €51 million, up €8 million on 2016, when the level of operating investments was particularly low. However, as a percentage of the brand's total sales, these investments were still relatively contained for the year (4.3% of revenue).

Yves Saint Laurent

(in € millions)	2017	2016	Change
Revenue	**1,501.4**	**1,220.2**	**+23.0%**
Recurring operating income	**376.9**	**268.5**	**+40.4%**
as a % of revenue	***25.1%***	***22.0%***	***+3.1 pts***
EBITDA	422.1	312.2	+35.2%
as a % of revenue	*28.1%*	*25.6%*	*+2.5 pts*
Gross operating investments	73.0	57.8	+26.3%
Average FTE headcount	2,594	2,204	+17.7%

Yves Saint Laurent has been the Group's second-largest Luxury brand in terms of revenue since 2016, and in 2017 it continued down the growth path both for sales and profitability. The brand's sales growth remained evenly balanced across its different distribution channels and product categories.

Since his appointment in April 2016 as Creative Director, Anthony Vaccarello has revisited the product offering, in keeping with the brand's traditions and history, particularly thanks to his mastery of tailoring techniques and the precision of his cuts. In 2017, Anthony Vaccarello's collections replaced the brand's older styles, beginning with the 2017 Summer collection which was delivered to stores towards the end of 2016.

The brand also continued to invest in its retail network, not only opening new stores but also launching a new version of YSL.com.

Revenue

Despite a high basis of comparison, the brand's revenue growth in 2017 came to 23.0% as reported and 25.3% at constant exchange rates, very close to the 25.5% growth recorded for 2016. With a year-on-year increase of 23.0% in the fourth quarter, Yves Saint Laurent's revenue growth has now exceeded 20% for seventeen quarters in a row.

Revenue from retail sales in directly operated stores climbed 27.3% on a comparable basis during 2017, led by another very strong increase in same-store sales. This performance is first and foremost due to Yves Saint Laurent's timeless brand appeal and the quality of its store network, in which it has invested heavily over the past five years or so. It also reflects the success of the measures put in place to efficiently allocate and restock items within the store network and ensure that customers have an excellent in-store experience.

Wholesale sales were up 20.1% based on comparable data, despite some volatility from one quarter to another due to different delivery schedules in relation to 2016. The wholesale channel is still obviously strategically important for Yves Saint Laurent as it represents a perfect fit with its retail business.

Revenue by region

In view of the increasing proportion of Yves Saint Laurent's sales that are generated through directly operated stores (68.6% in 2017), the following revenue analysis by region only concerns in-store business.

Yves Saint Laurent notched up revenue rises across all of its geographic regions in 2017.

Sales in Yves Saint Laurent's heritage markets rose 22.5% based on comparable data, fuelled by higher numbers of domestic customers and increased customer loyalty, as well as by the brand's cachet amongst tourists. Western Europe led the way, with a 27.1% revenue hike in directly operated stores. Performance remained robust in North America, where year-on-year growth reached 18.9%. In Japan, sales advanced 16.0%, gathering pace throughout the year as customers gradually bought into the brand's new creative direction.

In emerging markets, where the brand's recognition and appeal has become stronger, in-store sales surged 36.2%. In the Asia Pacific region (excluding Japan) – which accounted for three quarters of the brand's total sales in emerging markets – growth was extremely robust in all of the brand's main markets.

Performances delivered by the wholesale network were consistent across regions, with a particularly good showing in North America where the brand outperformed market trends.

Revenue by product category

All of Yves Saint Laurent's main product categories once again posted very solid sales growth in 2017.

The Leather Goods offering – which the brand strives to constantly renew and refresh, with a dedicated creative team – remained highly popular, both with long-standing and new customers. This category recorded the highest year-on-year increase for 2017.

Ready-to-Wear sales – which continued to occupy an essential place in the brand's product offering – saw a fairly balanced weighting of sales between women's and men's collections. Although revenue increased, 2017 marked a transition period for this category, with the successful launch of collections designed by Anthony Vaccarello and the gradual withdrawal during the year of certain styles based on past collections.

The brand's third leading product category – Shoes – registered a strong sales rise, thanks to the work launched by Anthony Vaccarello on re-energising the offering.

Revenue from licensed product categories rose at a similar pace to that from directly managed product categories, with royalties once again boosted during the year by the extensive reworking of offerings carried out by L'Oréal for perfumes and cosmetics and by Kering Eyewear for eyewear collections.

Recurring operating income

Yves Saint Laurent ended 2017 with recurring operating income of €377 million, versus €269 million in 2016, representing a year-on-year increase of 40.4%. Recurring operating margin widened by 310 basis points as reported to 25.1%, topping the 25% mark for the first time. This further year-on-year rise demonstrates how the brand has now reached critical mass, enabling it to capitalise on its operating leverage without straining its capacity to finance certain operating expenses that are essential for its short- and medium-term expansion. This is illustrated in Yves Saint Laurent's heavy investment in distribution and communication as part of an omnichannel approach.

EBITDA rose by €110 million to €422 million and the EBITDA margin was 28.1%.

Store network and operating investments

As of December 31, 2017, the Yves Saint Laurent brand directly operated 184 stores, including 78 in emerging markets. There were 25 net store openings during the year, including a large number of retail concessions in department stores as well as airport duty free stores, in phase with the brand's store network expansion plan which encompasses the travel retail sector.

Yves Saint Laurent's gross operating investments amounted to around €73 million in 2017, €15 million higher than in 2016. As a percentage of sales, however, they were contained to 5%, enabling the brand going forward to pursue its drive of opening new stores and refurbishing its oldest points of sale.

Other Luxury brands

(in € millions)	2017	2016	Change
Revenue	**1,906.9**	**1,697.5**	**+12.3%**
Recurring operating income	**116.0**	**113.8**	**+1.9%**
as a % of revenue	***6.1%***	***6.7%***	***-0.6 pt***
EBITDA	184.9	177.0	+4.5%
as a % of revenue	*9.7%*	*10.4%*	*-0.7 pt*
Gross operating investments	114.4	95.3	+20.0%
Average FTE headcount	5,905	5,685	+3.9%

Revenue

Sales generated by the Other Luxury brands – whose scope of consolidation remained unchanged during the year – totalled €1,907 million, rising 12.3% year on year as reported and 14.1% at constant exchange rates.

The Couture & Leather Goods brands posted an excellent 17.8% revenue increase on a comparable basis, despite a slightly negative contribution from Brioni.

Sales of Watches & Jewelry brands rose by a very solid 8.7% based on comparable data.

The wholesale network was once again the main distribution channel for Other Luxury brands, accounting for 51.5% of sales. This proportion reflects the differing stages of development of the Couture & Leather Goods brands as well as the specific distribution characteristics for Watches & Jewelry. Sales generated in the wholesale network increased 7.4% year on year on a comparable basis, fuelled by a very good showing from Balenciaga, although the overall growth trajectory was hampered by the revenue dip experienced by Brioni as this brand is in the process of restructuring its distribution system.

Retail sales in directly operated stores leapt 26.3%, with all brands trending upwards – including Brioni which posted sharp growth of close to 10%. Balenciaga was the star performer, with all of its regions and product categories seeing faster paces of growth, propelling the brand's growth rate to the top of the list for the Group's Luxury activities.

Revenue by region

Sales of the Other Luxury brands were up across all of the main host regions in 2017.

In North America, having been weighed down in the first six months of the year by low volumes of purchases in US department stores, sales picked up in the second half, rising 1.7%, largely due to Balenciaga's performance in its directly operated stores.

Western Europe posted a 17.0% revenue increase, powered by brisk sales momentum in the United Kingdom, an upswing in France, and good showings in the region's other main markets.

Japan also turned in a very positive performance, with revenue up 19.9% thanks to an excellent second half and strong demand by Japanese customers for Demna Gvasalia's collections at Balenciaga.

In emerging markets, year-on-year growth was 15.3%, closely reflecting the trends seen in Asia Pacific (excluding Japan) where sales advanced 16.9%. Performance in this region was fuelled by an ongoing sales upturn in Mainland China (which saw almost 30% growth) and South Korea, as well as improved business volumes in Hong Kong and Macao.

Revenue by product category

The Watches market seemed to stabilise overall in 2017 although the situation remained volatile from one month to the next. Against this backdrop and in light of all the measures put in place to improve the performance of the Group's Watches brands, sales of this product category picked up during the second half of the year and led to an increase for the year as a whole.

All other product categories also reported sales growth for 2017, with Ready-to-Wear and Shoes in the vanguard.

Recurring operating income

Recurring operating income for the Other Luxury brands rose by €2 million year on year to €116 million in 2017 while recurring operating margin narrowed by 60 basis points to 6.1%.

This margin decrease was mainly due to a higher cost base for Boucheron and to a lesser extent Pomellato, as a result of the Group's decision to invest in its Jewelry brands and cultivate their organic growth by strengthening their structures, increasing their marketing and communications expenses, and – on a more long-term basis – supporting their store opening strategy. Brioni – which is still in its transformation phase – posted losses for the year, but Balenciaga and Alexander McQueen reported very solid recurring operating margins.

In addition, in light of Balenciaga's rapid expansion and ensuing operating leverage, the decrease was highly concentrated in the first six months of the year (210 basis-point decline) whereas the second half saw an increase of 70 basis points.

EBITDA for Other Luxury brands came in at €185 million, up 4.5% on 2016 as reported, and the EBITDA margin narrowed by 70 basis points to 9.7%.

Store network and operating investments

The network of directly operated stores owned by Other Luxury brands totalled 405 units as of December 31, 2017, representing an increase of 34 stores compared with one year earlier. This rise was due to openings carried out by Balenciaga, Alexander McQueen and Stella McCartney as part of their strategy to gradually and prudently expand their exclusive distribution network.

As of December 31, 2017, the network comprised 283 stores in mature markets and 122 in emerging markets.

Overall gross operating investments for Other Luxury brands amounted to €114 million, representing a €19 million (or 20%) increase compared with 2016.

In terms of operating investments, Brioni considerably reduced its outlay in 2017 after relocating two of its major stores, in Paris and New York, in 2016, whereas the Group's Other Luxury brands stepped up their investment projects during the year. This was particularly the case for Jewelry brands, whose ambitious rollout strategy requires additional points of sale.

Other Luxury brands performed as follows in 2017, beginning with Couture & Leather Goods brands:

Alexander McQueen's focus was on rebalancing the product offer within the House between daywear, tailoring and evening, while building a strong core collection. The House saw a repositioning of the accessory offer, and increased communication through runway shows and social media. The reworked, on-trend offering and new points of sale that were opened pushed up sales growth in stores directly operated by the brand, with a marked acceleration in the fourth quarter. Wholesale sales growth was solid, especially in Western Europe. The overall brand – which also includes the McQ line, positioned in the accessible luxury segment – once again posted a very satisfactory recurring operating margin.

The Balenciaga collections, designed by Demna Gvasalia, have been very well received by the media and customers since 2016, and the fashion House is widely recognised for its creative edge. The brand's cachet is reflected in its record high revenue growth – mainly driven by the Ready-to-Wear and Shoes categories – which fuelled a very sharp rise in recurring operating margin.

Brioni recorded a slight sales decline, primarily with wholesalers, reflecting the brand's ongoing measures to streamline its distribution channels and restructure its production processes. While, trends for revenue generated by Brioni's directly operated stores were highly encouraging, this improvement was not sufficient to shore up recurring operating margin which remained very eroded.

For Christopher Kane – a brand with highly creative content – 2017 was a year in which synergies with the Group continued to be developed from 2016 and organisational and distribution structures were consolidated, although for the brand's smaller lines the positive impacts of these measures were weighed down by a weak US market.

After several years of strong growth, Stella McCartney recorded a more modest revenue rise in 2017. Sales momentum remained buoyant overall, however, positively impacting all of the main distribution channels. 2017 was a year of consolidation for the brand, marked by moves to strengthen its organisational structures and processes. This led to a lower recurring operating margin, although it is still at a good level considering the brand's size.

For the Jewelry brands, 2017 saw expansion and investment, in line with their respective strategic plans.

Over the past several years, Boucheron has built up a very coherent offering of jewelry and high-jewelry collections, including its iconic lines the *Serpent Bohème* and *Quatre*, and in 2017 the brand reported very solid sales growth despite the partial closure of its Place Vendôme store in Paris for refurbishment works. This flagship store will reopen in 2018 for the brand's 160th anniversary celebrations. The actions undertaken to penetrate new markets and introduce a new store concept pushed down Boucheron's recurring operating margin over the short term.

Revenue generated by the Pomellato and Dodo brands rose sharply again in 2017, particularly in the brands' heritage markets in Western Europe. Pomellato used the occasion of its fiftieth anniversary celebrations to successfully round out and refresh its product offering. Combined recurring operating margin for Pomellato and Dodo remained very satisfactory, in spite of all the expenses incurred for sustaining the recognition of these brands and enabling them to reach out to new markets.

Qeelin had an excellent year in 2017, registering high sales growth driven by the brand's fast expansion in Mainland China and growing repute in Greater China.

For the Girard-Perregaux and Ulysse Nardin watchmaking brands, 2017 was a year of consolidation and sales growth, albeit somewhat moderate. These two brands continued to streamline their organisational structures and successfully innovate – as demonstrated by the acclaim for their products at the prestigious SIHH international luxury watch show held in Geneva. Thanks to improved sales and continuing measures to reduce the cost base, the Watches division was able to significantly reduce its losses.

Sport & Lifestyle activities

(in € millions)	2017	2016	Change
Revenue	**4,381.9**	**3,883.7**	**+12.8%**
Recurring operating income	**244.0**	**123.2**	**+98.1%**
as a % of revenue	***5.6%***	***3.2%***	***+2.4 pts***
EBITDA	320.4	190.0	+68.6%
as a % of revenue	*7.3%*	*4.9%*	*+2.4 pts*
Gross operating investments	130.9	92.0	+42.3%
Average FTE headcount	12,144	11,873	+2.3%

Revenue

Kering's Sport & Lifestyle activities generated revenue of €4,382 million in 2017, up 12.8% as reported and 14.7% based on a comparable Group structure and exchange rates. This increase was powered by an excellent performance from PUMA, whose revenue advanced 15.8% year on year.

Overall revenue growth for Sport & Lifestyle activities was steady throughout the course of 2017, with the second-half increase (15.0% on a comparable basis) very much in line with the 14.3% rise recorded for the first six months.

The reported growth figure was lower than at constant exchange rates because the currency effect switched from positive to negative during the year, particularly hitting second-half performance. This adverse impact was related to the euro gaining strength against the currencies of the countries that correspond to PUMA and Volcom's key markets (notably North America, which accounts for 27.5% of the two brands' revenue).

In line with the upturn that began in 2014, wholesale sales climbed 12.7% on a comparable basis.

Retail sales in directly-operated stores progressed 21.9% based on comparable data, led by very solid same-store growth and a 51% surge in online sales.

Revenue by region

Revenue generated by Sport & Lifestyle activities rose across all of the main host regions.

At 21.3%, sales growth was very strong in Western Europe, propelled by excellent momentum in the region's main markets (Germany, France and the United Kingdom). Despite the contraction in the region's action sport market (which particularly penalised Volcom) and the difficulties encountered by department stores and specialised distributors in the United States, North America turned in a very solid performance with revenue up 11.0% on 2016. Conversely, 2017 was a mediocre year for Sport & Lifestyle activities in Japan where revenue retreated 3.8%.

In emerging markets, Sport & Lifestyle activities posted dynamic sales growth of 16.5%. All regions experienced very robust sales rises, spurred by PUMA's increasing appeal in Mainland China and expansion of its heritage markets in South America.

Revenue by product category

By product category, Footwear sales rose by a sharp 23.3% on a comparable basis, with this category enjoying its fourteenth consecutive quarter of sales growth.

The Apparel category delivered a very solid showing, with comparable-basis sales up 8.5% despite the contraction reported by Volcom.

Revenue from Accessories picked up pace during the year, rising 8.4%.

Recurring operating income

Recurring operating income for Sport & Lifestyle activities amounted to €244 million in 2017, up by €121 million, or 98.1%, on 2016. Recurring operating margin widened by 240 basis points to 5.6%, boosted by a very favourable operating leverage effect at PUMA.

EBITDA totalled €320 million, representing a year-on-year increase of 68.6%.

Store network and operating investments

Gross operating investments for Sport & Lifestyle activities totalled €131 million in 2017, €39 million higher than in 2016 when the level of operating investments was very contained. Despite the year-on-year increase, this outlay only represented 3.0% of revenue for 2017.

PUMA

(in € millions)	2017	2016	Change
Revenue	**4,151.7**	**3,642.2**	**+14.0%**
Recurring operating income	**243.9**	**126.6**	**+92.7%**
as a % of revenue	***5.9%***	***3.5%***	***+2.4 pts***
EBITDA	314.4	187.2	+67.9%
as a % of revenue	*7.6%*	*5.1%*	*+2.5 pts*
Gross operating investments	124.3	84.3	+47.4%
Average FTE headcount	11,389	11,128	+2.3%

Following a period of overhauling its product offering and organisational structure, PUMA is now in a position to fully capitalise on the partnerships and alliances it has entered into or renewed in recent years.

Prime examples of the brand's vitality and communications strength can be seen in its sponsorship agreements with several prestigious football clubs in Europe and South America, its long-standing partnership with Usain Bolt and athletics in general, its choice of sports stars to act as ambassadors (Antoine Griezmann, for example), as well as the alliances it has forged in the fashion world, such as with Selena Gomez and Cara Delevingne, and its collaboration with Rihanna.

PUMA's results for 2017 – marked by strong sales growth and an upturn in recurring operating income and margin, testify to how it has entered a new phase in its recovery and is increasingly affirming its position as a leading player in its field.

Revenue

PUMA's revenue totalled €4,152 million in 2017, making tremendous strides both on a reported basis (up 14.0%) and at constant exchange rates (15.8% increase). Growth was very evenly balanced from one half of the year to the next.

Wholesale sales – which accounted for 76.5% of the brand's total revenue in 2017 – climbed 14.0% on a comparable basis. The quality of PUMA's product offering and its renewed brand appeal enabled it to extend its wholesale network, be more selective in its choice of distributors and win market share with key accounts.

Revenue posted by PUMA's directly operated stores advanced 22.9%, fuelled by higher same-store sales and ongoing brisk growth for online sales.

Revenue by region

In PUMA's more mature markets, revenue was up 15.3% year on year based on comparable data.

Growth came in at a very strong 22.3% in Western Europe, where the brand's exposure was considerably heightened amongst major distributors. In volume terms, the United Kingdom, France and Germany were the main contributors to the region's overall revenue rise.

In North America (the brand's largest market), despite some US banners encountering difficulties in developing their business models in the face of mounting competition from online distribution, PUMA has managed to consistently record revenue rises over the past few financial years. 2017 was no exception, with PUMA delivering a 13.8% revenue hike on a comparable basis, driven by the brand's robust sales momentum in the region, which has enabled it to gain market share.

PUMA fared less well in Japan where sales retreated 4.1% based on comparable data. However, action plans have been launched to re-energise the brand's offering and distribution in this country.

In emerging markets sales advanced 16.8% overall on a comparable basis, led by the Asia Pacific region whose sales jumped 21.1%. In Mainland China, revenue surged 41.0% and PUMA also posted very solid performances in the brand's heritage markets, especially South America.

Revenue by product category

Sales of Footwear, which at 47.6% once again made up the highest proportion of PUMA's revenue, rose 23.5% based on comparable data, marking the fourteenth consecutive quarter of growth for this key category.

Apparel sales climbed 10.0% on a comparable basis, which was a very robust showing in view of the extremely unfavourable basis of comparison with 2016, a year that saw a host of sporting events.

Sales of Accessories continued down the growth track (up 9.2%) despite no specific product launches or commercial initiatives taking place during the year for this category as communication and marketing expenditure was focused on other key categories.

Recurring operating income

PUMA's contribution to the Group's recurring operating income shot up €118 million to €244 million in 2017, representing an almost twofold increase year on year. PUMA's recurring operating margin climbed 240 basis points to hover just beneath 6%, at 5.9%.

The brand's higher profitability, both in absolute value and percentage terms, was partly attributable to a higher gross margin, which widened by 150 basis points as reported and even more at constant exchange rates. This performance reflects PUMA's streamlined offering and greater marketability as well as the increased efficiency of its sourcing structure, which have all helped to optimise procurement conditions and pricing in spite of the negative currency effect. As a result, PUMA's gross margin is now back on a par with other main players in its sector.

Above all, the brand's improved profitability stems from its operating leverage, with revenue growth coming in significantly higher than the increase in its operating expenses. Although PUMA continued to invest in communication and marketing campaigns during the year in order to support its growth, it managed to contain the rise in its cost base.

PUMA's EBITDA leapt 67.9% to €314 million and its EBITDA margin came in at 7.6%.

Store network and operating investments

As of December 31, 2017, PUMA's directly operated retail network included 703 stores, representing 39 net openings compared with December 31, 2016. More than two-thirds of existing stores and the majority of the new stores opened during the year are in emerging markets where this distribution channel is growing and is delivering good margins.

PUMA's gross operating investments amounted to €124 million in 2017, up 47.4% on 2016. This year-on-year increase – following several years of lower operating investments – was due to several major projects carried out by PUMA, including the modernisation of its IT systems and the expansion of its head office.

Other Sport & Lifestyle brands

(in € millions)	2017	2016	Change
Revenue	**230.2**	**241.5**	**-4.7%**
Recurring operating income	**0.1**	**(3.4)**	**+102.9%**
as a % of revenue	***0.0%***	***-1.4%***	***+1.4 pt***
EBITDA	6.0	2.8	+114.3%
as a % of revenue	*2.6%*	*1.2%*	*+1.4 pt*
Gross operating investments	6.6	7.7	-14.3%
Average FTE headcount	755	745	+1.3%

Revenue

"Other Sport & Lifestyle brands" now comprises only Volcom, as Electric was sold at the beginning of 2016.

Volcom recorded €230 million in revenue in 2017, down 4.7% as reported and down 3.2% at constant exchange rates. Sales were firmer in the second half, however, inching up 0.2% on a comparable basis.

As in 2016, operating conditions in the surfwear and action sport market remained very challenging, with major distributors in the United States suffering revenue declines which led them to streamline their store networks.

Despite this tough operating environment, Volcom strove to protect the integrity and positioning of its brand by focusing on the quality of its distribution and product offering. It put in place numerous marketing and communications initiatives during the year, which had a very positive effect on fostering the brand's appeal and reputation.

Volcom recorded a further decrease in wholesale sales in 2017 (down 5.6%), but the decline was more contained on a same-store basis and trends improved towards the end of the year.

Sales in directly operated stores advanced 6.4%.

Revenue by region

Volcom's sales are still highly concentrated on mature markets, especially North America, which in 2017 was once again the brand's leading market, accounting for 63.2% of its total sales despite the region's contraction in revenue. Western Europe contributed 19.1% to Volcom's overall revenue for the year.

Revenue by product category

Volcom is currently focusing its investments and other efforts on the Apparel product category, which represented around 86% of its total revenue in 2017.

Recurring operating income

Volcom's recurring operating income was at break-even for 2017 whereas in 2016 it recorded a recurring operating loss of €3 million. This turnaround is a real achievement given that sales retreated by €12 million (on a reported basis), and was due to Volcom's persistent efforts to reduce its cost base and streamline its organisational structure.

Store network and operating investments

Volcom's directly operated store network comprised 86 stores as of December 31, 2017, including eight in emerging markets. This represents 16 more points of sale than as of December 31, 2016, primarily due to opening or taking over shops-in-shops within department stores in Europe.

Volcom's gross operating investments amounted to €7 million in 2017, €1 million lower than in 2016.

Corporate and other

The Corporate and other segment comprises (i) Kering's corporate departments and headquarters teams, (ii) Shared Services, which provide a range of services to the brands, (iii) the Kering Sustainability Department, and (iv) Kering's Sourcing Department (KGS), a profit centre for services that it provides on behalf of non-Group brands, such as the companies making up the former Redcats group.

In addition, since January 1, 2017, Kering Eyewear's results have been reported within the Corporate and other segment. 2017 was the first year of operating the Gucci licence, which currently represents a very substantial proportion of Kering Eyewear's business. During the ramp-up period of this business (from 2014-2016), the operating losses associated with Kering Eyewear were recognised as non-recurring operating expenses and the revenue generated from other brand licences was not recognised.

In 2017, Kering Eyewear experienced swift momentum, with a sales figure of €352 million, with sales concentrated in the first half of the year. This business contributed €272 million to Kering's consolidated revenue (after eliminating intra-group sales and royalties paid to the brands) and 2.2 points to the Group's overall organic growth at constant exchange rates.

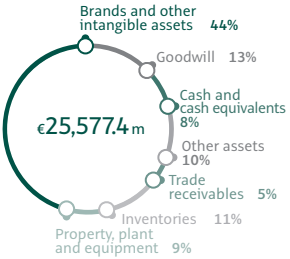
Despite recognising the amortisation expense on the portion of the compensation paid to Safilo for the early termination of the Gucci licence – which was capitalised in the Group's balance sheet in an amount of €57 million as of December 31, 2016 and is being amortised over approximately four years as from January 1, 2017 – Kering Eyewear made a positive (albeit slight) contribution to the Group's recurring operating income. This was achieved thanks to good sales volumes for the year and to the well-controlled rise in operating expenses.

Overall, net costs recorded by the Corporate and other segment in 2017 totalled €207 million, €34 million higher than the 2016 figure. Two-thirds of this year-on-year increase is attributable to the cost of long-term incentive plans, including those of corporate officers, in line with the rise in Kering's share price which was up 84% year on year.

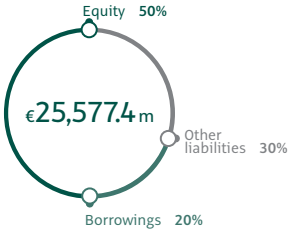
Gross operating investments recorded by the Corporate and other segment came to €134 million, €4 million lower than in 2016. However, adjusted for the €30 million compensation paid to Safilo for the early termination of the Gucci licence in 2016, they rose by €26 million, reflecting the faster pace of projects to upgrade IT systems, increased capacity of the Group's logistics base and the fact that the figure now includes Kering Eyewear's operating investments.

1.4. financial structure as of december 31, 2017

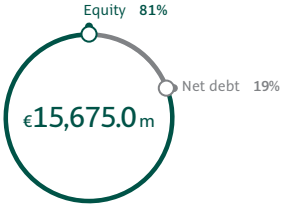
ASSETS



EQUITY AND LIABILITIES



CAPITAL EMPLOYED



Condensed statement of financial position

(in € millions)	Dec. 31, 2017	Dec. 31, 2016	Change
Goodwill	3,421.2	3,533.5	-112.3
Brands and other intangible assets	11,159.0	11,272.7	-113.7
Property, plant and equipment	2,267.6	2,206.5	+61.1
Investments in equity-accounted companies	48.6	48.3	+0.3
Other non-current assets	1,364.3	1,437.8	-73.5
Non-current assets	**18,260.7**	**18,498.8**	**-238.1**
Inventories	2,699.1	2,432.2	+266.9
Trade receivables	1,366.5	1,196.4	+170.1
Cash and cash equivalents	2,136.6	1,049.6	+1,087.0
Other current assets	1,114.5	962.0	+152.5
Current assets	**7,316.7**	**5,640.2**	**+1,676.5**
TOTAL ASSETS	**25,577.4**	**24,139.0**	**+1,438.4**
Equity attributable to owners of the parent	11,948.2	11,269.7	+678.5
Equity attributable to non-controlling interests	678.2	694.2	-16.0
Total equity	**12,626.4**	**11,963.9**	**+662.5**
Non-current borrowings	4,245.5	4,185.8	+59.7
Other non-current liabilities	2,942.9	3,090.7	-147.8
Non-current liabilities	**7,188.4**	**7,276.5**	**-88.1**
Current borrowings	939.7	1,234.5	-294.8
Other current liabilities	4,822.9	3,664.1	+1,158.8
Current liabilities	**5,762.6**	**4,898.6**	**+864.0**
TOTAL EQUITY AND LIABILITIES	**25,577.4**	**24,139.0**	**+1,438.4**

Net debt

(in € millions)	Dec. 31, 2017	Dec. 31, 2016	Change
Gross borrowings	5,185.2	5,420.3	-235.1
Cash	(2,136.6)	(1,049.6)	-1,087.0
Net debt	**3,048.6**	**4,370.7**	**-1,322.1**

Capital employed

(in € millions)	Dec. 31, 2017	Dec. 31, 2016	Change
Total equity	12,626.4	11,963.9	+662.5
Net debt	3,048.6	4,370.7	-1,322.1
Capital employed	**15,675.0**	**16,334.6**	**-659.6**

1.5. comments on the group's financial position

Goodwill and brands

GOODWILL

BRANDS

As of December 31, 2017, brands net of deferred tax liabilities amounted to €8,001 million, compared with €8,068 million as of December 31, 2016.

Operating infrastructure

		Owned outright	Finance leases	Operating leases	2017	2016
Stores	Luxury	3	2	1,383	1,388	1,305
	Sport & Lifestyle	5	0	784	789	734
Logistics units	Luxury	3	0	79	82	80
	Sport & Lifestyle	5	0	41	46	41
Production units & other	Luxury	39	1	74	114	97
	Sport & Lifestyle	1	0	2	3	4

Current assets, net

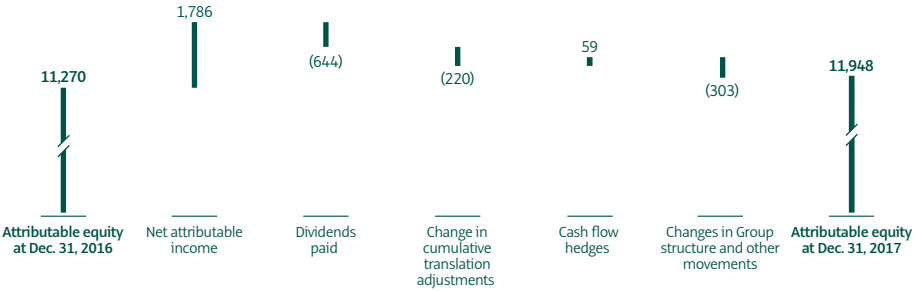
(in € millions)	Dec. 31, 2017	Dec. 31, 2016	Change
Inventories	2,699.1	2,432.2	+266.9
Trade receivables	1,366.5	1,196.4	+170.1
Trade payables	(1,240.7)	(1,098.5)	-142.2
Current tax receivables/payables	(736.8)	(292.9)	-443.9
Other current assets and liabilities	(1,537.8)	(1,158.8)	-379.0
Current assets, net	**550.3**	**1,078.4**	**-528.1**

As of December 31, 2017, movements in exchange rates, and notably the appreciation of the euro over the year, had a negative €151 million impact on the value of net current assets. This particularly impacted items such as inventories (€145 million) and trade receivables (€79 million), which are mostly located outside the eurozone. In contrast, the currency impact was far smaller for trade payables (€28 million). Excluding changes in exchange rates and in Group structure, the increase in inventories (€402 million) and trade receivables (€246 million) reflected strong business growth during the year.

Since it was mostly located in geographic regions and countries with higher average tax rates, business growth also drove a significant increase in net current tax liabilities (€450 million, excluding changes in exchange rates). The change in this item also reflects significantly higher payables for variable remuneration components, in line with the Group's strong performance.

Equity

As of December 31, 2017, equity attributable to owners of the parent totalled €11,948 million, up by more than €678 million compared with December 31, 2016.



As of December 31, 2017, Kering SA's share capital amounted to €505,117,288, comprising 126,279,322 fully paid-up shares with a par value of €4 each, unchanged from December 31, 2016. As of December 31, 2017 and December 31, 2016, Kering held no shares in treasury as part of the liquidity agreement.

See Note 25 – Equity, to the consolidated financial statements.

As of December 31, 2017, equity attributable to non-controlling interests stood at €678 million (versus €694 million as of December 31, 2016), and mainly concerned PUMA.

1.6. comments on movements in net debt

Breakdown of net debt

The Group's net debt stood at €3,049 million as of December 31, 2017, down sharply on the December 31, 2016 figure of €4,371 million and breaking down as follows:

(in € millions)	Dec. 31, 2017	Dec. 31, 2016	Change
Bonds	4,096.1	4,180.9	-84.8
Bank borrowings	318.5	335.1	-16.6
Commercial paper	-	350.1	-350.1
Other borrowings	770.6	554.2	+216.4
Gross borrowings	**5,185.2**	**5,420.3**	**-235.1**
Cash and cash equivalents	(2,136.6)	(1,049.6)	-1,087.0
Net debt	**3,048.6**	**4,370.7**	**-1,322.1**

As of December 31, 2017, the Group's gross borrowings included €386 million concerning put options granted to non-controlling interests (compared with €95 million as of December 31, 2016).

New borrowings during the year mainly comprised a €300 million issue on April 5, 2017 of ten-year bonds with a fixed-rate annual coupon of 1.50%. Debt redemptions and repayments relate mainly to debt issued by Kering SA in 2009 which matured in June 2017 and November 2017 for €150 million and €200 million, respectively.

The most significant repayments of borrowings mainly concerned commercial paper.

Solvency

The Group has a very sound financial structure and on May 2, 2017 Standard & Poor's upgraded Kering's long-term BBB rating from a stable outlook to a positive outlook.

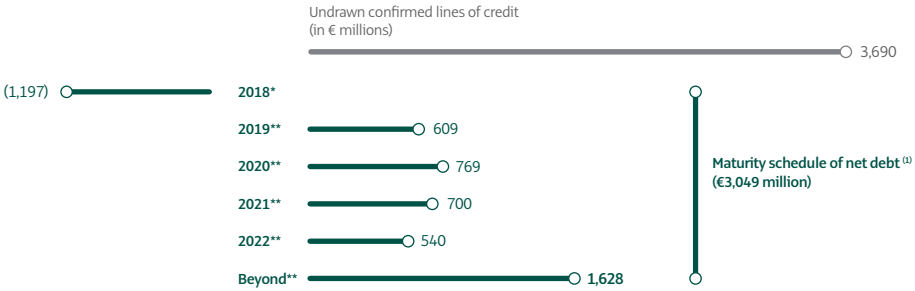
Its bank borrowing facilities are subject to just one financial covenant which provides that the solvency ratio (net debt to EBITDA, calculated annually on a *pro forma* basis at the year-end) must not exceed 3.75.

Liquidity

As of December 31, 2017, the Group had cash and cash equivalents totalling €2,137 million (€1,050 million as of December 31, 2016), as well as confirmed lines of credit totalling €3,747 million (€4,189 million as of December 31, 2016). The balance of confirmed undrawn lines of credit amounted to €3,690 million at end-December 2017 (€4,153 million as of December 31, 2016).

Cash and cash equivalents exclusively comprise cash instruments and money-market funds (UCITS) that are not subject to any risk of changes in value.

MATURITY SCHEDULE OF NET DEBT



* *Gross borrowings after deduction of cash equivalents.*
** *Gross borrowings.*

The portion of the Group's gross borrowings maturing within one year corresponded to 18.1% as of December 31, 2017 (22.8% as of December 31, 2016).

In view of the above, the Group is not exposed to any liquidity risk.

The Group's loan agreements feature standard *pari passu*, cross default and negative pledge clauses.

The Group's debt contracts do not include any rating trigger clauses.

(See Note 29 - Borrowings, to the consolidated financial statements).

Changes in net debt

(in € millions)	2017	2016	Change
Net debt as of January 1	**4,370.7**	**4,679.4**	**-308.7**
Free cash flow from operations	(2,318.3)	(1,189.4)	-1,128.9
Dividends paid	615.9	541.4	+74.5
Net interest paid and dividends received	195.5	172.6	+22.9
Net acquisitions (disposals) of Kering shares	(0.2)	(0.5)	+0.3
Other acquisitions and disposals	373.4	169.7	+203.7
Other movements	(188.4)	(2.5)	-185.9
Net debt at the period end	**3,048.6**	**4,370.7**	**-1,322.1**

(1) Net debt is defined on page 86.

Free cash flow from operations

Cash flow from operating activities

(in € millions)	2017	2016	Change
Cash flow from operating activities before tax, dividends and interest	**3,479.3**	**2,171.8**	**+60.2%**
Change in working capital (excluding tax)	(94.3)	(84.4)	+11.7%
Corporate income tax paid	(364.9)	(295.5)	+23.5%
Net cash from operating activities	**3,020.1**	**1,791.9**	**+68.5%**

Changes in working capital gave rise to a net cash outflow of €94 million in 2017 (€84 million net cash outflow in 2016). In view of the Group's strong business growth, the relatively slight €10 million increase in working capital over the year reflects the following factors:

- a €172 million adverse impact resulting from a higher increase in inventories in 2017, particularly due to the robust growth momentum at Gucci and PUMA;
- a €181 million unfavourable year-on-year impact arising from a higher increase in trade receivables, particularly for PUMA, due to growth in sales to wholesalers and to Kering Eyewear taking over the Gucci licence from January 1, 2017;
- offset by a €343 million positive effect from a strong increase in trade payables (taxes, lease payments and variable remuneration), as a direct result of the Group's business growth.

Operating investments

(in € millions)	2017	2016	Change
Net cash from operating activities	**3,020.1**	**1,791.9**	**+68.5%**
Purchases of property, plant and equipment and intangible assets	(752.0)	(611.0)	+23.1%
Proceeds from disposals of property, plant and equipment and intangible assets	50.2	8.5	+490.6%
Free cash flow from operations	**2,318.3**	**1,189.4**	**+94.9%**

Gross operating investments by activity

(in € millions)	2017	2016	Change
Luxury	486.9	380.6	+27.9%
Sport & Lifestyle	130.9	92.0	+42.3%
Corporate and other	134.2	138.4	-3.0%
Gross operating investments	**752.0**	**611.0**	**+23.1%**

In 2017, 51% of the Group's gross operating investments concerned the store network (versus 48% in 2016). Out of the total year-on-year increase in gross operating investments for Luxury activities, 33% related to store opening programmes and 38% to store conversions and refurbishments.

Available cash flow

(in € millions)	2017	2016	Change
Free cash flow from operations	**2,318.3**	**1,189.4**	**+94.9%**
Interest and dividends received	8.0	14.0	-42.9%
Interest paid and equivalent	(203.5)	(186.6)	+9.1%
Available cash flow	**2,122.8**	**1,016.8**	**+108.8%**

Dividends paid

The cash dividend paid by Kering SA to its own shareholders in 2017 amounted to €581 million (including the interim dividend paid on January 18, 2017), up 15% on the €505 million cash dividend paid in 2016.

Dividends paid in 2017 included €35 million to minority shareholders of consolidated subsidiaries (€36 million in 2016), of which €15 million related to PUMA and its subsidiaries (€20 million in 2016).

Other acquisitions and disposals

In 2017, transactions with non-controlling interests amounted to €328 million (versus €34 million in 2016) and mainly concerned the remeasurement of put options written over non-controlling interests. Other acquisitions and disposals in 2017 also included financing transactions carried out with non-controlled or equity-accounted companies, as well as cash flows related to discontinued operations (representing €6 million compared with €18 million in 2016).

Other movements

This item includes the €186 million negative impact of fluctuations in exchange rates in 2017 (€3 million negative impact in 2016).

1.7. results and share capital of the parent company

The parent company ended 2017 with net income of €3,915 million compared with €683 million in 2016. The 2017 figure includes €3,839 million in dividends received from subsidiaries (versus €863 million in 2016).

As of December 31, 2017, Kering's share capital comprised 126,279,322 shares with a par value of €4 each.

Payment of a cash dividend

At its February 12, 2018 meeting, the Board decided to ask shareholders to approve a €6.00 per share cash dividend for 2017 at the Annual General Meeting to be held to approve the financial statements for the year ended December 31, 2017.

An interim cash dividend of €2.00 per share was paid on January 17, 2018 pursuant to a decision by the Board of Directors on December 14, 2017.

The total cash dividend payout in 2018 would thus amount to €757.7 million.

Kering's goal is to maintain 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.

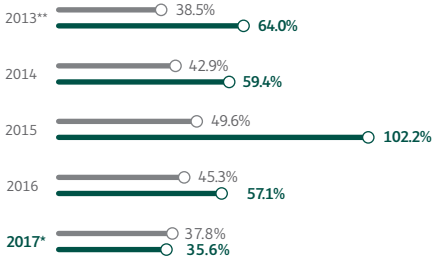
Payment of an exceptional dividend in the form of PUMA shares

At its January 11, 2018 meeting, Kering's Board of Directors decided to also ask shareholders at the Annual General Meeting of April 26, 2018 to approve the payment of a stock dividend in the form of PUMA SE ("PUMA") shares representing 70.40% of PUMA's shares outstanding, out of the 86.25% owned by the Group as of December 31, 2017. Upon completion of this operation, Kering would retain 2,368,558 PUMA shares, or 15.85% of its shares outstanding and voting rights. If this stock dividend is approved, the ex-dividend date will be May 14, 2018 before market and the payment date will be May 16, 2018.

DIVIDEND PER SHARE (IN €)

* *Subject to the approval of the Annual General Meeting.*

PAYOUT RATIOS



* *Subject to the approval of the Annual General Meeting.*
** *Reported data, not restated.*

1.8. transactions with related parties

Transactions with related parties in 2017 are described in Note 35 – Transactions with related parties, to the consolidated financial statements.

1.9. subsequent events

Payment of an exceptional dividend in the form of PUMA shares

At its January 11, 2018 meeting, Kering's Board of Directors has decided to submit to its shareholders at the Annual General Meeting of April 26, 2018, to be held to approve the financial statements for the year ended December 31, 2017, the payment of an exceptional stock dividend in the form of PUMA SE ("PUMA") shares, with the allocation of 1 PUMA share for 12 Kering shares held. If this stock dividend is approved, the ex-dividend date will be May 14, 2018 before market and the payment date will be May 16, 2018. Upon completion of this operation, Kering would retain 15.85% of PUMA's shares outstanding and voting rights. The main consequence of this distribution of PUMA shares will be that Kering will cease to exercise control over PUMA as of the dividend payment date.

This loss of control over PUMA results from a decision taken after the end of the reporting period and after Kering's Board of Directors had considered the various scenarios for selling or distributing the Group's stake in PUMA, based on favourable market conditions at this date. Accordingly, this transaction does not meet the criteria set out in IFRS 5. However, in accordance with IAS 10.21 and 22 (a) on material events after the reporting period, the estimated main impacts of this future loss of control over PUMA would be:

- the recognition of a capital gain or loss net of current and deferred taxes equal to (i) the number of PUMA shares distributed, multiplied by the PUMA share price as of May 16, 2018, the dividend payment date, less (ii) the share in the consolidated net carrying amount of PUMA as of this date, including transaction fees net of tax;
- the recognition of a capital gain or loss net of deferred taxes as a result of remeasuring the interest retained in PUMA at the opening price for PUMA shares as of May 16, 2018.

For example, based on the PUMA share price as of December 29, 2017 and a consolidated net carrying amount for PUMA as of December 31, 2017, the net capital gain realised would total €316.2 million. However, taking into account PUMA share price volatility in January 2018, the net capital gain or loss would fluctuate as shown below:

PUMA share price from 01/01/2018 to 01/31/2018	Net capital gain (loss) *(in € millions)*
High: €363.50 (01/05/2018)	322.4
Average: €341.54	51.0
Low: €318.50 (01/12/2018)	(233.8)

It should be noted that the net capital gain or loss that will be ultimately realised in Kering's consolidated financial statements as of June 30, 2018 will depend on the PUMA share price at the dividend payment date, i.e., the share price as of May 16, 2018, as well as changes in PUMA's net carrying amount between December 31, 2017 and May 16, 2018, including the impact of movements in the exchange rates to which PUMA is exposed in conducting its business.

The future classification and accounting treatment applicable to the interest retained in PUMA recorded within non-current assets will be determined based on PUMA's governance arrangements, to be finalised upon completion of the operation:

- in accordance with IFRS 9 applicable as of January 1, 2018, if no significant influence can be demonstrated, the interest retained in PUMA will be shown within "Available-for-sale financial assets" and remeasured to fair value, either directly against equity (other comprehensive income) or against financial income/loss, until that interest is sold;
- if significant influence can be demonstrated, the interest retained in PUMA will be shown within "Investments in equity-accounted companies" for an amount relating to the Group's share in equity and net income.

The expected impact of the loss of control over PUMA on the operating lines of the consolidated income statement can be seen in the 2017 *pro forma* consolidated income statement set out below for illustrative purposes only. This *pro forma* consolidated income statement was drawn up based on the accounting records used to prepare the consolidated financial statements of Kering SA for the year ended December 31, 2017, and simulates the impacts of the loss of control over PUMA as though the operation had taken place as of January 1, 2017:

(in € millions)	2017 Reported	PUMA contribution	Other adjustments	2017 *Pro forma*
Revenue	**15,477.7**	**(4,151.7)**		**11,326.0**
Cost of sales	(5,344.7)	2,208.1		(3,136.6)
Gross margin	**10,133.0**	**(1,943.6)**		**8,189.4**
Payroll expenses	(2,443.6)	545.6		(1,898.0)
Other recurring operating income and expenses	(4,741.4)	1,154.1	(0.5)	(3,587.8)
Recurring operating income	**2,948.0**	**(243.9)**	**(0.5)**	**2,703.6**

The impact of the loss of control over PUMA on other financial lines of the consolidated statements of financial position and cash flows can be assessed in Note 4 – Operating segments.

1.10. outlook

Positioned in structurally high-growth markets, Kering enjoys very solid fundamentals and a balanced portfolio of complementary, high-potential brands with clearly focused priorities.

As in 2017, the Group's Luxury activities will focus on achieving same-store revenue growth in 2018 while ensuring a targeted and selective expansion of their store network. In parallel, they will leverage all aspects of their businesses in order to durably strengthen operating margins.

In the Group's Sport & Lifestyle activities, PUMA expects to deliver another year of strong growth in revenue and recurring operating margin. If Kering's shareholders approve the resolution that will be put to them at the Annual General Meeting to pay an exceptional dividend in the form of 70.40% of PUMA's shares outstanding, the Group's exposure to this business will be automatically reduced.

The Group's operating environment remains unsettled – from both an economic and a geopolitical standpoint – and is exposed to events that could influence consumer trends and tourism flows.

In addition, the recent currency fluctuations – especially for the euro which has gained ground against most of its peers – may weigh on the Group's performance indicators.

Against this backdrop, during the course of 2018 the Group will continue to implement the measures it successfully actioned in 2017, namely rigorously managing and allocating resources in order to further enhance operating performance, keep up a high level of cash flow generation and grow its return on capital employed.

1.11. definitions of non-ifrs financial indicators

"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 refers to 2016 revenue adjusted as follows by:

- neutralising the portion of revenue corresponding to entities divested in 2016;
- including the portion of revenue corresponding to entities acquired in 2017;
- remeasuring 2016 revenue at 2017 exchange rates.

These adjustments give rise to comparative data at constant scope and exchange rates, which serves to measure organic growth.

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' financial performance. Other non-recurring operating income and expenses may include impairment of property, plant and equipment, goodwill and other intangible assets, gains or losses on disposals of non-current assets, restructuring costs and costs relating to employee adaptation measures.

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.

Recurring operating income is an intermediate line item intended to facilitate the understanding of the Group'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.

Recurring operating income at comparable exchange rates for 2016 takes into account the currency impact on revenue and Group acquisitions, the effective portion of currency hedges and the impact of changes in exchange rates on the translation of the recurring operating income of consolidated entities located outside the eurozone.

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.

EBITDA at comparable exchange rates is defined using the same principles as for recurring operating income at comparable exchange rates.

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.

Net debt

As defined by CNC recommendation No. 2009-R-03 of July 2, 2009, net debt comprises gross borrowings, including accrued interest, less cash and cash equivalents.

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.

Recurring tax rate

The recurring tax rate corresponds to the effective tax rate, excluding tax effects relating to "Other non-recurring operating income and expenses".

2. investment policy

Kering's investment policy is designed to support and enhance the Group's growth potential on its markets and is focused on financial investments (acquisitions and disposals of assets) and investments related to operations (organic growth).

Financial investments reflect the Group's strategy of reinforcing profitable high-growth activities in the Luxury market by acquiring attractive brands with strong growth potential and market positions that perfectly complement its existing assets.

Operating investments are designed to accelerate organic growth for the Group's brands. This is achieved by, for example, developing and renovating the store network and by investing in logistics centres and IT systems.

2.1. financial investments

The Group has a balanced portfolio of complementary brands and did not undertake any major investments in 2017 or 2016. Financial investments provided net cash inflows of €1.6 million for the year (compared to €10.2 million in net cash outflows for 2016), following the consolidation of the cash and cash equivalents of Manufacture Cartier Lunettes under the strategic partnership agreement signed with the Richemont group.

The cash impact of the sale of discontinued businesses (mainly Sergio Rossi and the retail businesses – Conforama, Fnac and Redcats) restated in accordance with IFRS 5 is shown on the line "Net cash used in discontinued operations" and represented a cash outflow of €6.3 million in 2017 (compared to a cash outflow of €17.7 million in 2016).

(See Note 12 – Discontinued operations, to the consolidated financial statements.)

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 €752 million in 2017, up 23.1% from the previous year. For Luxury activities, the 27.9% increase in investments reflects the continued focus on consolidating the existing store network and achieving organic growth, and selective store openings. Gross operating investments in Sport & Lifestyle activities amounted to €131 million in 2017, up 42.3% compared with 2016.

In 2017, 51% of the Group's gross operating investments concerned the store network (versus 45% in 2016).

Gross operating investments recorded by the "Corporate and other" segment came to €134 million, €4 million less than in 2016. In 2017, this covered the finalisation of the head offices of Kering in Paris and Gucci in Milan, as well as the Group's IT systems transformation projects.

Luxury activities

Luxury activities' gross operating investments amounted to €487 million in 2017, €106 million (or 27.9%) higher than in 2016. As a proportion of revenue, gross operating investments remained stable and represented 4.5% in 2017 (versus 4.5% in 2016).

As of December 31, 2017, Luxury activities had a network of 1,388 directly operated stores, of which 846 (61%) were in mature markets and 542 in emerging markets. Net store additions during the year totalled 83, compared with 41 in 2016. The stores added in 2017 were mainly due to planned network expansions for Yves Saint Laurent (a net increase of 25 stores) and, to a lesser extent, for Bottega Veneta, Alexander McQueen and Stella McCartney.

Gucci

As of December 31, 2017, Gucci operated 529 stores directly, including 222 in emerging markets. A net nine stores were opened during the year, including the bringing of certain stores under direct management in emerging markets. The brand has an overall network that is adapted in terms of store numbers and is continuing to focus on organic growth by pursuing its refurbishment programme for existing stores.

Gucci's gross operating investments amounted to €249 million in 2017, up 34.5% on 2016. The figure for 2017 includes the refurbishment programme aimed at introducing the new store concept at the brand's most strategic stores. Gucci had set itself the goal of bringing the total number of stores with the new concept to 150 by the end of 2017. This objective was reached as 152 stores sporting the brand's new aesthetic had either been newly opened or refurbished since 2015. The objective of keeping investments below the threshold of 5% of revenue was also met, as gross operating investments represented 4% of sales.

Bottega Veneta

In order to focus its action plans on achieving organic growth, as from 2015 the brand decided to restructure its directly owned store network. The programme to streamline the store network includes not only store closures but also relocating certain stores, opening a select number of flagship stores, and expanding the brand's presence in a number of regions or networks (such as travel retail). This strategy was continued in mature markets in 2017, while some stores in emerging markets were brought under direct management. As of December 31, 2017, Bottega Veneta had 270 directly operated stores, including 120 in emerging markets. There were 15 net store additions during the year, versus 4 in 2016.

In 2017, Bottega Veneta's gross operating investments amounted to €51 million, up €8 million (or 19.2%) on 2016, when the level of operating investments was particularly low.

Yves Saint Laurent

As of December 31, 2017, Yves Saint Laurent directly operated 184 stores, including 78 in emerging markets. There were 25 net store openings during the year, including flagship stores in strategic countries or cities where the brand was not yet present and a high number of concessions in department stores.

Yves Saint Laurent's gross operating investments amounted to €73 million in 2017, €15 million (or 26.3%) higher than in 2016. As a percentage of sales, however, they were contained at approximately 5%, enabling the brand going forward to pursue its drive of opening new stores and refurbishing its oldest points of sale.

Other Luxury brands

The network of stores directly operated by Other Luxury brands totalled 405 stores as of December 31, 2017. There were 34 net store additions during the year. As of December 31, 2017, the network comprised 283 stores in mature markets and 122 in emerging markets.

Overall gross operating investments for Other Luxury brands amounted to €114 million, representing a €19 million (or 20.0%) increase compared with 2016. In terms of operating investments, Brioni considerably reduced its outlay in 2017 after relocating two of its major stores, in Paris and New York, during 2016, whereas the Group's Other Luxury brands stepped up their investment projects during the year. This was particularly the case for Jewelry brands, whose ambitious rollout strategy requires additional points of sale.

Sport & Lifestyle activities

Gross operating investments in Sport & Lifestyle activities amounted to €131 million in 2017, up €39 million (or 42.3%) compared with 2016. This year-on-year increase was due to expenditure incurred for the Sport & Lifestyle brands in the areas of distribution, information systems and the supply chain, especially for PUMA whose renewed growth needs to be sustained.

As of December 31, 2017, the network of stores operated directly by the brands of the Sport & Lifestyle activities had 789 points of sale. There were 55 net additions during the year in terms of points of sale, most of which (43 net) were in emerging markets.

PUMA

PUMA's gross operating investments amounted to €124 million in 2017, up 47.4% on 2016. This year-on-year increase – following several years of lower operating investments – was due to several major projects carried out by PUMA, including the modernisation of its IT systems and the expansion of its head office.

As of December 31, 2017, PUMA's directly operated retail network included 703 stores, representing 39 net openings compared with December 31, 2016. Around two-thirds of existing stores and the majority of the new stores opened during the year are in emerging markets where this distribution channel is growing and delivering good margins.

Other Sport & Lifestyle brands

Volcom's gross operating investments amounted to €7 million in 2017, €1 million lower than in 2016.

Volcom's directly operated store network comprised 86 stores as of December 31, 2017, including 8 in emerging markets. This represents 16 more points of sale than as of December 31, 2016, primarily due to opening or taking over shop-in-shops within department stores in Europe.

3. risk management

Risk management forms part of the ongoing identification and evaluation process of Group risks (see Chapter 6, section 1 "Internal control and risk management procedures implemented by the Company", page 364 of this Reference Document).

3.1. financial risks

The 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 the necessary 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 business, Kering 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 its 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 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.

Additional information on equity risk is provided in Note 30.3 to the consolidated financial statements.

Foreign exchange risk

The Group uses derivative hedging instruments to reduce its exposure to currency risk based on the specific requirements of each of the Luxury and Sport & Lifestyle activities.

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 activities primarily hedge the foreign exchange risk generated by highly probable purchases and sales of foreign currency. Hedging 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 activities' 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 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 80%-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 currency 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.

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.

Note 30.2 to the consolidated financial statements sets out the nature of the hedging instruments held by the Group and its exposure to foreign exchange risk (see page 299, "Exposure to foreign exchange risk").

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 consolidated gross 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 mainly set up through Kering Finance SNC, in close liaison with Kering's Executive Management. Kering mainly uses (i) interest rate swaps to convert all or a portion of its fixed-rate bonds to a floating rate and (ii) caps and collars 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 30.1 to the consolidated financial statements sets out the nature of the hedging instruments held by the Group and its exposure to interest rate risk (see page 296, "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 €3,690.3 million as of December 31, 2017 compared to €4,153.1 million as of December 31, 2016.

Kering has a Euro Medium Term Notes (EMTN) programme filed with the AMF for its bond issuances, representing €6 billion. As of December 31, 2017, €4,100.2 million of this amount had been used, of which €250.2 million issued in US dollars. The EMTN programme was extended on November 24, 2017 for a further one-year period. Kering's short-term debt is rated "A-2" by Standard & Poor's, while its long-term debt is rated "BBB" with a positive 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 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.

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: net financial debt/EBITDA less than or equal to 3.75 (see Note 29.5.3 to the consolidated financial statements). This ratio is calculated based on *pro forma* data. As of December 31, 2017, Kering and Kering Finance SNC had not drawn down any of the confirmed lines of credit subject to this covenant.

Bond issues under the EMTN programme are not subject to any financial ratio covenants.

The Group was in compliance with all these covenants as of December 31, 2017 and there is no foreseeable risk of breach.

Information relating to liquidity risk is presented in Note 29 to the consolidated financial statements, including the breakdown of Group debt by maturity and currency, and in Note 30.6 to the 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

Growth of the Luxury and Sport & Lifestyle markets is closely linked to growth in the world economy. More particularly, these markets are driven by trends in "discretionary" consumption, which accounts for a varying percentage of total household spending depending on the maturity of an economy, and therefore differs between developed and emerging markets.

Discretionary consumption is sensitive to any weakness in global economic growth or a deterioration in the macroeconomic or geopolitical environment of a given country or region. This can impact consumer confidence, and lead consumers to limit or postpone any "non-essential" purchases.

These spending decisions can also be influenced by factors such as political instability, security threats, exchange rate volatility, and changes in customs or tax policies which can alter consumers' expectations and purchasing behaviour, for example by impacting their purchasing power and disrupting tourist flows.

In 2017, Kering continued to benefit from a favourable business environment, enjoying sustained growth throughout the main geographic regions. In Europe, the market was driven by local customers while sales to foreign customers were robust, after a difficult year in 2016. North America was lifted by continued growth in domestic spending, while certain distribution channels (wholesale) showed a mixed performance. Strong growth in the Asia Pacific region was driven by Chinese demand, which is increasingly focused on the domestic market and, more broadly, on the region as a whole. Overall, Japan and the other Asian countries performed well.

The balanced geographical coverage of the Luxury and Sport & Lifestyle activities limits the Group's exposure to exchange rate volatility and to uncertainties or even a deterioration in the economic conditions or security profile of a given country. The distribution network also enjoys balanced geographical coverage: sales of Luxury products are made through a network of 1,388 directly operated stores including 846 stores in mature markets and 542 in emerging countries, while sales of Sport & Lifestyle products are made via a network of 789 directly-operated stores, of which 497 in emerging markets. Direct sales are supplemented by sales to third party distributors, and the Group's broad spectrum of products makes it less dependent on any single category.

Both the Group's market positioning and strategy (see page 8 *et seq.* for more details) help limit the impacts of macroeconomic cycles and uncertainty on its activities.

As explained in the overviews (pages 16 and 44) describing the Luxury and Sport & Lifestyle markets, besides cyclical factors, the Group is also exposed to structural medium-term growth patterns related to the increase in the world's population and changes in the population mix. Over the next few decades, the number of people belonging to the "global middle class" is set to almost double, with Asia accounting for the bulk of this growth (source: OECD Observatory). More particularly, according to the Economist Intelligence Unit (EIU), the upper middle class in China is expected to grow at an average of 9% per annum between 2015 and 2030, to stand at 480 million people in 2030 (35% of the Chinese population), compared to 132 million people in 2015 (10% of the Chinese population), representing 350 million potential new consumers.

Raw materials and strategic skills

To meet their customers' expectations, the Luxury activities require unhindered availability of raw materials that comply with the Group's quality criteria, and sustained skill levels across its production teams. To this end, the Group has forged special partnerships with key suppliers, and pursues a policy of actively seeking new partners. It also develops vertical integration throughout the production chain by means of acquisitions or strategic business partnerships in the subcontracting market.

To maintain the know-how of its Luxury activities' businesses over the long term, Kering runs personnel training and skills preservation initiatives, and internalises a number of functions that were previously subcontracted.

Fluctuation in raw materials prices

Volatility in the prices of raw materials used by the Luxury activities correlates with the high demand for leather, skins and precious stones.

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 activities are 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 structured in order to regularly seek new suppliers capable of meeting its requirements on these issues.

Commercial appeal and brand value

The Group's activities are underpinned by powerful global brands in the Luxury and Sport & Lifestyle businesses. 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 (CSR) principles.

Consequently, as well as investments in communication, advertising and R&D spending, operating investments concern store improvements, developments and refurbishments (see also the section on operating investments, page 231).

The accounting impacts of impairment losses are described in Note 19 to the consolidated financial statements for the year ended December 31, 2017, on page 280.

Consumer expectations

The brands' creative leadership and the success of its collections and resulting commercial appeal are managed by Creative Departments and their world-renowned designers, and perpetuated 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 the Group's business development. To counter this risk, Kering endeavours to streamline the supply cycle, cutting lead times between product design and launch phases.

The Group also encourages its Luxury and Sport & Lifestyle activities to stay ahead of consumer trends by keeping a constant watch over market trends (attending trade fairs, working with trend forecasting agencies, running consumer surveys, etc.).

Key partnerships

Partnerships with celebrities, athletes, sports teams and other brands make a significant contribution to enhancing the Group's image. Putting in place these partnerships is likely to be costly, particularly in terms of marketing and communication, which may not provide the benefits that are expected (increased business, enhanced brand image, etc.).

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 125 to 128.

Kering's Luxury and Sport & Lifestyle activities have "product" crisis management units. In the event of a 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 section 3.4 "Main existing insurance programmes" page 241).

Image and reputation, respect for ethical rules and integrity

The Group carefully safeguards its image and reputational assets.

Unfavourable or erroneous media coverage on the Group's products or practices, or negative discussions on social networks, could damage its image and reputation as well as give consumers a misleading perception of the Group's performance, potentially leading to a slowdown in sales.

Consequently, the Group seeks to ensure that no incident arises due to unethical behaviour on the part of individuals or entities under its control or those with whom or which it has business dealings.

To this end, each of Kering's activities has a crisis management policy and unit that liaises with head office.

The Group also monitors adherence by personnel to the Kering group Charter, which defines the framework for the decentralisation of the organisation, and to its Code of Ethics (the third edition of which is available in 12 languages and was circulated to all of the Group's employees in 2013). A Group Ethics Committee has been established and is supported by two regional counterparts, the Asia Pacific Ethics Committee and the Americas Ethics Committee. All three Committees can be contacted via a hotline from 74 countries, operating in 12 languages.

The Group regularly examines ways to adapt these documents to its organisation, ensures that suppliers adhere to the Group Suppliers' Charter, which they are required to promote within their production units, and monitors compliance by means of social audits at production sites (see Chapter 3 "Sustainability" of the Reference Document, pages 119 to 125).

All of the Luxury activities implement appropriate methods and steps to ensure their activities comply with the Group's Corporate Social Responsibility (CSR) standards: SA8000 and RJC certification, social audits and supplier training programmes are examples of the actions and programmes that the brands have put in place in their day-to-day operations.

The Sport & Lifestyle activities also ensure that their suppliers respect the Group's CSR standards. PUMA, for example, monitors suppliers' observance of its Social Accountability and Fundamental Environmental (SAFE) standards, which prohibit child labour, unethical employment conditions, environmental damage and any business relationships with criminal organisations.

Identity theft and false information

As a listed company on a regulated market, Kering is particularly exposed to the risk of the circulation of false information, the spreading of unfounded rumours and the risk of identity theft. A significant increase in the risk of external fraud has been observed in a variety of forms, including fake president fraud, supplier fraud, and ransomware. The majority of these attacks are cyber-attacks, linked to phishing (or spear phishing) risks and Distributed Denial of Service (DDoS) attacks, which require increased IT security and high awareness among employees.

The Group's websites are also subject to hacking risks. In such instances, it is usually only the homepages that are affected and not the site data, so the systems can be swiftly restored.

To counter these growing risks, the Group has put in place a large number of control and protection measures, setting out processes and procedures and developing targeted IT security systems. In 2017, all employees were trained to detect malicious emails.

In addition, Kering participates in peer working groups in order to reduce exposure to these risks.

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 activities. This portfolio constitutes intellectual property and is a strategic asset for the Group.

The distribution of brand products could be threatened if the Group's intellectual property rights were to come into conflict with the rights of certain competitors.

The Group's legal departments therefore 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 the 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 among the stores. These costs are however relatively insignificant at 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 licence 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 34.2.1 and 34.2.3 to the 2017 consolidated financial statements on pages 314 and 315.

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 and advisors, 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 2017 consolidated financial statements to cover all of the above-mentioned 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 methods and procedures 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 methods and procedures.

Furthermore, the Group has granted various sellers' representations and warranties in connection with disposals of controlling interests in subsidiaries made over the last ten years (see Note 34.1 to the 2017 consolidated financial statements, on page 312).

As regards the laws and regulations applicable to the Group's activities (excluding possible international sanctions that may be imposed against certain countries but have no impact on 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 or more, 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 issuer or the Group.

Legal risks

The Group has a vast array of brands and domain names, as well as know-how and production processes that are unique to Kering. In particular, Kering has established licensing agreements with its subsidiaries and partners who use its intellectual property rights, which make up a significant portion of the Group's assets.

Kering works to protect its rights and is active in the fight against counterfeiting, as this can have an impact on revenue and damage the reputation of the Group and its products. Initiatives are carried out by the Group's Legal Department and its brands with the help of external advisors and in conjunction with the relevant local authorities.

The Company, aware that some of its employees have access to confidential information, ensures that they receive information on best practices and the Internal Control Charter, which help minimise this risk, particularly with regard to the use of information systems and social media.

Lastly, the Group has formed legal organisations at the regional (Asia, the Americas and Europe), local (subsidiaries) and central levels in order to monitor its observance of various applicable laws and regulations.

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 staff's employability, to encourage internal mobility and to open up prospects for professional and personal development (see Chapter 3 "Sustainability" of this Reference Document, pages 67 to 70).

Special attention is given to the creative teams, in order to develop powerful, lasting brand identities.

There is a close relationship between a Luxury brand and its Creative Director, whose attitude has to reflect the values of the brand and respect the Group's own values. The departure of a Creative Director leads to a period of uncertainty that could have a significant impact on the brand (particularly in terms of image and reputation, asset writedowns, etc.). However, all Luxury Goods companies have had to face and manage this risk at some time. Kering's brand portfolio nevertheless helps limit the impact of this risk at Group level. Highly talented Creative Directors have recently been appointed by the Group, including Alessandro Michele at Gucci and Demna Gvasalia at Balenciaga. Others have left the Group, such as Hedi Slimane at Yves Saint Laurent. However, in appointing Anthony Vaccarello, Kering will pursue the strategy adopted over the past four years, providing a solid platform from which to build a successful brand over the long term. And Anthony Vaccarello's style is perfectly in tune with Yves Saint Laurent.

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 Luxury and Sport & Lifestyle activities' 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 is not exposed to customer payment risks. This is true of direct customer sales by the Luxury activities. For sales through wholesalers, there is no strong dependency whereby loss of particular customers might have a significant impact on the Group's business or earnings.

The Sport & Lifestyle activities are more exposed to payment default risks because a significant proportion of their products is distributed through wholesalers. They manage these risks by constantly monitoring outstanding receivables. As applicable, provisions are set aside against the value of their assets. Credit risk is also minimised by appropriate insurance coverage.

Seasonality of sales

Following the disposals of the retail businesses in 2012 and 2013, the Group has focused on the Luxury and Sport & Lifestyle sectors. The seasonality of the Group's activities has decreased since this repositioning and 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 businesses generally revolves around the twice yearly nature of their collections and changes in delivery dates to wholesalers can result in sales being deferred from one quarter to the next.

Exceptional factors likely to have major consequences on the political or macro-economic environment of one or more of the Group's main markets can also impact the Group's activities and quarterly results and consequently change the usual seasonality pattern in a given fiscal year.

Crisis management

Certain major events such as natural disasters, terrorist attacks and pandemics could materially impact the Group's operations.

The risks related to the materialisation of such events are mitigated by the geographic balance of the Group's distribution network, the worldwide locations of its brands and the various crisis management units and policies described earlier in this section.

Crisis management exercises are organised each year under the supervision of the Group's Security Department in order to raise awareness among those involved in and responsible for these processes.

Climate change

The physical effects of climate change are susceptible to impact the Group's activities. While its own activities (production and distribution) are relatively unexposed due to their low carbon footprint (Kering's activities are not subject to carbon emissions quota regulations), this is not the case for the supply chain. The growing frequency of extreme weather events (drought, flooding, etc.) could have a direct impact on the availability and quality of key raw materials such as cotton, cashmere and silk, which would translate into greater price volatility. A November 2015 report jointly authored with BSR, the global non-profit organization that works with a network of member companies and partners to build a sustainable world, analyses exposure to climate risk. Entitled *Climate Change: Implications and Strategies for the Luxury Fashion Sector*, it analyses current and future climate risks for cotton, cashmere, vicuña wool, silk and cow-, calf-, sheep- and lambskin leather. In order to mitigate these risks, Kering is acting to make its supply chain more resilient, starting with the Environmental P&L (EP&L). The EP&L allows Kering to measure its environmental impacts, including its carbon footprint, throughout the value chain and to monetise them. Beyond the risk management dimension, the EP&L is also used as a management tool to orient the Group towards sustainable sourcing solutions and to assess the raw materials used in product design.

Property

Due to the extent of the Group's activity on the property market and the highly competitive environment, the Group is exposed to the risk that it may not be able to negotiate and rent certain locations for its brands under the best possible conditions.

More generally, the risks inherent to its property business relate to (i) the term of contractual commitments, (ii) the involvement of third party intermediaries in both property

transactions and development, and (iii) the lack of control over sales or economic factors.

However, the Group has set up various measures to limit these risks, including (i) systematic reviews of contracts, (ii) separate invoicing, (iii) steering committees for major projects, and (iv) the creation of a special department for project management.

The Group's property activities are placed under the responsibility of dedicated, pooled teams that are not integrated into a specific subsidiary.

These teams are responsible for five different tasks: (i) providing assistance to brands in connection with site openings, closures and relocations, (ii) acquiring property, (iii) managing works in stores and offices, (iv) managing owned or leased sites for Kering Corporate, and (v) operating various outlets.

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 the Luxury and Sport & Lifestyle activities with a regulatory intelligence 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, risk prevention, protection of people and property, and safety and business continuity plans.

The Group's 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 based on:

- achieving the best economic balance between risk coverage, premiums and self-insurance;

and,

- the insurance available, insurance market constraints and local regulations.

Coverage is based on the "all risks except those specifically excluded" 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 third-party 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 affecting its own property: property, furnishings, equipment, merchandise, IT installations, and 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 transit;
- 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, refurbishments, etc.);

- liability for bodily or property damage to third parties by motorised vehicles belonging to the different companies;
- liability under general and environmental civil liability for "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 retailers, 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.

Insurance coverage concerns all Group companies.

The levels of coverage in place for the main potential risks facing the Group as a whole as of January 1, 2017, were as follows:

- damage, fire, explosions or water damage and the ensuing operating losses: €300 million;
- civil liability: €145 million;
- damage to or loss of goods in transit: €25 million;
- fraud and acts of malice to goods and valuables: €20 million.

The total risk financing cost for Kering includes three main items (in addition to "physical" protection and prevention expenditure) and breaks down as follows:

- cost of deductibles and non-insured losses retained or self-insured by the subsidiaries in 2017: €1.450 million;
- claims covered by the Group itself through its reinsurance company in 2017: €3.6 million (total estimated at year-end 2017).

  Taking out self-insurance through the Group's reinsurance subsidiary reduces insurance costs and enhances performance because (i) frequently occurring risks are pooled within the Group and insured for an amount that is fixed per claim and (ii) exceptionally frequent claims made in a given year are covered by reinsurance.

  Since July 1, 2017, the Group's reinsurance company has covered damage and operating losses of up to €5 million per claim (for the period from July 1 to June 30):
- insurance premiums and management fees including engineering visits and brokers' fees, etc. (final 2017 expenses): €16.298 million.

Specific additional policies may also be taken out by certain companies 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, 2017

4.1. consolidated income statement for the years ended december 31, 2017 and 2016

(in € millions)	Notes	2017	2016
CONTINUING OPERATIONS			
Revenue	**5**	**15,477.7**	**12,384.9**
Cost of sales		(5,344.7)	(4,595.3)
Gross margin		**10,133.0**	**7,789.6**
Payroll expenses	6-7	(2,443.6)	(1,983.7)
Other recurring operating income and expenses		(4,741.4)	(3,919.7)
Recurring operating income	**8**	**2,948.0**	**1,886.2**
Other non-recurring operating income and expenses	9	(241.7)	(506.0)
Operating income		**2,706.3**	**1,380.2**
Finance costs, net	10	(242.6)	(201.8)
Income before tax		**2,463.7**	**1,178.4**
Corporate income tax	11	(591.0)	(296.1)
Share in earnings (losses) of equity-accounted companies		(2.0)	(2.2)
Net income from continuing operations		**1,870.7**	**880.1**
o/w attributable to owners of the parent		1,791.2	825.1
o/w attributable to non-controlling interests	15	79.5	55.0
DISCONTINUED OPERATIONS			
Net loss from discontinued operations	**12**	**(5.6)**	**(11.6)**
o/w attributable to owners of the parent		(5.6)	(11.6)
o/w attributable to non-controlling interests			
Net income of consolidated companies		**1,865.1**	**868.5**
o/w attributable to owners of the parent		1,785.6	813.5
o/w attributable to non-controlling interests	15	79.5	55.0

(in € millions)	Notes	2017	2016
Net income attributable to owners of the parent		**1,785.6**	**813.5**
Earnings per share *(in €)*	13.1	14.17	6.46
Fully diluted earnings per share *(in €)*	13.1	14.17	6.46
Net income from continuing operations attributable to owners of the parent		**1,791.2**	**825.1**
Earnings per share *(in €)*	13.1	14.22	6.55
Fully diluted earnings per share *(in €)*	13.1	14.22	6.55
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent		**2,001.9**	**1,281.9**
Earnings per share *(in €)*	13.2	15.89	10.17
Fully diluted earnings per share *(in €)*	13.2	15.89	10.17

4.2. consolidated statement of comprehensive income for the years ended december 31, 2017 and 2016

(in € millions)	Notes	2017	2016
Net income		**1,865.1**	**868.5**
Actuarial gains and losses [1]		20.1	(3.2)
Total items not reclassified to income		**20.1**	**(3.2)**
Foreign exchange gains and losses		(249.5)	29.3
Cash flow hedges [1]		45.2	31.5
Available-for-sale financial assets [1]		3.9	4.9
Total items to be reclassified to income		**(200.4)**	**65.7**
Other comprehensive income (loss), net of tax	**14**	**(180.3)**	**62.5**
Total comprehensive income		**1,684.8**	**931.0**
o/w attributable to owners of the parent		1,648.7	866.8
o/w attributable to non-controlling interests		36.1	64.2

(1) Net of tax.

4.3. consolidated statement of financial position as of december 31, 2017 and 2016

Assets

(in € millions)	Notes	Dec. 31, 2017	Dec. 31, 2016
Goodwill	16	3,421.2	3,533.5
Brands and other intangible assets	17	11,159.0	11,272.7
Property, plant and equipment	18	2,267.6	2,206.5
Investments in equity-accounted companies	20	48.6	48.3
Non-current financial assets	21	364.3	480.4
Deferred tax assets	11.2	964.6	927.0
Other non-current assets		35.4	30.4
Non-current assets		**18,260.7**	**18,498.8**
Inventories	22	2,699.1	2,432.2
Trade receivables	23	1,366.5	1,196.4
Current tax receivables	11.2	78.6	105.6
Other current financial assets	24-30	155.6	131.0
Other current assets	24	880.3	725.4
Cash and cash equivalents	28	2,136.6	1,049.6
Current assets		**7,316.7**	**5,640.2**
TOTAL ASSETS		**25,577.4**	**24,139.0**

Equity and liabilities

(in € millions)	Notes	Dec. 31, 2017	Dec. 31, 2016
Share capital		505.2	505.2
Capital reserves		2,428.3	2,428.3
Treasury shares		-	-
Translation adjustments		(131.7)	87.8
Remeasurement of financial instruments		76.0	16.8
Other reserves		9,070.4	8,231.6
Equity attributable to owners of the parent	**25**	**11,948.2**	**11,269.7**
Non-controlling interests	15	678.2	694.2
Total equity	**25**	**12,626.4**	**11,963.9**
Non-current borrowings	29	4,245.5	4,185.8
Other non-current financial liabilities	30	0.7	19.6
Provisions for pensions and other post-employment benefits	26	125.7	142.6
Other non-current provisions	27	55.5	74.0
Deferred tax liabilities	11.2	2,712.2	2,854.5
Other non-current liabilities		48.8	-
Non-current liabilities		**7,188.4**	**7,276.5**
Current borrowings	29	939.7	1,234.5
Other current financial liabilities	24-30	367.6	285.9
Trade payables	24	1,240.7	1,098.5
Provisions for pensions and other post-employment benefits	26	10.7	8.2
Other current provisions	27	182.4	143.7
Current tax liabilities	11.2	815.4	398.5
Other current liabilities	24	2,206.1	1,729.3
Current liabilities		**5,762.6**	**4,898.6**
TOTAL EQUITY AND LIABILITIES		**25,577.4**	**24,139.0**

4.4. consolidated statement of cash flows for the years ended december 31, 2017 and 2016

(in € millions)	Notes	2017	2016
Net income from continuing operations		**1,870.7**	**880.1**
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets		516.4	432.0
Other non-cash income and expenses		72.1	295.0
Cash flow from operating activities	**33.2**	**2,459.2**	**1,607.1**
Interest paid/received		198.4	179.3
Dividends received		(1.2)	(0.7)
Net income tax payable	11.1	822.9	386.1
Cash flow from operating activities before tax, dividends and interest		**3,479.3**	**2,171.8**
Change in working capital requirement		(94.3)	(84.4)
Corporate income tax paid	11.2.1	(364.9)	(295.5)
Net cash from operating activities		**3,020.1**	**1,791.9**
Purchases of property, plant and equipment and intangible assets		(752.0)	(611.0)
Proceeds from disposals of property, plant and equipment and intangible assets		50.2	8.5
Acquisitions of subsidiaries, net of cash acquired		1.6	(4.2)
Proceeds from disposals of subsidiaries and associates, net of cash transferred		-	(6.0)
Purchases of other financial assets		(69.1)	(87.4)
Proceeds from disposals of other financial assets		36.0	16.4
Interest and dividends received		8.0	14.0
Net cash used in investing activities		**(725.3)**	**(669.7)**
Dividends paid to owners of the parent company		(580.9)	(504.9)
Dividends paid to non-controlling interests		(35.0)	(36.5)
Transactions with non-controlling interests		(27.8)	(0.2)
Treasury share transactions		0.2	0.5
Bond issues	29-33.3	321.7	570.5
Debt redemptions/repayments	29-33.3	(410.1)	(51.9)
Increase/decrease in other borrowings	29-33.3	(363.4)	(1,054.7)
Interest paid and equivalent		(203.5)	(186.6)
Net cash used in financing activities		**(1,298.8)**	**(1,263.8)**
Net cash used in discontinued operations	12	(6.3)	(17.7)
Impact of exchange rate variations		152.1	13.9
Net increase (decrease) in cash and cash equivalents		**1,141.8**	**(145.4)**
Cash and cash equivalents at beginning of year	**33.1**	**757.5**	**902.9**
Cash and cash equivalents at end of year	**33.1**	**1,899.3**	**757.5**

4.5. consolidated statement of changes in equity for the years ended december 31, 2017 and 2016

(Before appropriation of net income) (*in € millions*)	Number of shares outstanding[1]	Share capital	Capital reserves	Treasury shares	Cumulative translation adjustments	Remeasurement of financial instruments	Other reserves and net income attributable to owners of the parent	Equity		
								Owners of the parent	Non-controlling interest	Total
As of January 1, 2016	**126,251,724**	**505.2**	**2,428.3**	**(5.1)**	**63.6**	**(9.9)**	**7,966.2**	**10,948.3**	**674.8**	**11,623.1**
Total comprehensive income					**24.2**	**26.7**	**815.9**	**866.8**	**64.2**	**931.0**
Increase/ Decrease in share capital										
Treasury shares[3]	27,598			5.1			(4.6)	0.5		0.5
Valuation of share-based payment							0.2	0.2		0.2
Dividends paid and interim dividends							(504.9)	(504.9)	(36.5)	(541.4)
Changes in Group structure and other changes							(41.2)	(41.2)	(8.3)	(49.5)
As of December 31, 2016	**126,279,322**	**505.2**	**2,428.3**	**-**	**87.8**	**16.8**	**8,231.6**	**11,269.7**	**694.2**	**11,963.9**
Total comprehensive income					**(219.5)**	**59.2**	**1,809.0**	**1,648.7**	**36.1**	**1,684.8**
Increase/ decrease in share capital									50.1	50.1
Treasury shares[3]							(0.1)	(0.1)		(0.1)
Valuation of share-based payment							(1.6)	(1.6)	(0.3)	(1.9)
Dividends paid and interim dividends							(644.1)	(644.1)	(39.1)	(683.2)
Changes in Group structure and other changes							(324.4)	(324.4)	(62.8)	(387.2)
As of December 31, 2017[2]	**126,279,322**	**505.2**	**2,428.3**	**-**	**(131.7)**	**76.0**	**9,070.4**	**11,948.2**	**678.2**	**12,626.4**

(1) Shares with a par value of €4 each.
(2) Number of shares outstanding as of December 31, 2017: 126,279,322.
(3) Net of tax.

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note 1 – introduction

Kering, the Group's parent company, is a *société anonyme* (French company) with a Board of Directors, incorporated under French law, whose registered office is located at 40, rue de Sèvres, 75007 Paris, France. It is registered with the Paris Trade and Companies Registry under reference 552 075 020 RCS Paris, and is listed on the Euronext Paris stock exchange.

The consolidated financial statements for the year ended December 31, 2017 reflect the accounting position of Kering and its subsidiaries, together with its interests in associates and joint ventures.

On February 12, 2018, the Board of Directors approved the consolidated financial statements for the year ended December 31, 2017 and authorised their publication. 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, 2017 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 Standards Interpretations Committee (IFRS IC).

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 IFRS IC on the date these financial statements were prepared.

All accounting standards and guidance adopted by the European Union may be consulted on the European Union law website at: http://eur-lex.europa.eu/homepage.html.

2.2. IFRS basis adopted

2.2.1. Standards, amendments and interpretations adopted by the European Union and effective as of January 1, 2017

The Group has applied the following amendments in its consolidated financial statements:

- the amendments to IAS 7, IAS 12, and IFRS 12.

Applying these amendments did not have any impact on the Group's consolidated financial statements.

2.2.2. Standards, amendments and interpretations adopted by the European Union but not mandatorily applicable as of January 1, 2017

The Group has elected not to early adopt the following standards:

- IFRS 9 – *Financial Instruments*, published in November 2016, which sets out the recognition and disclosure principles for financial assets and financial liabilities. These principles will supersede those contained in IAS 39 – *Financial Instruments*, as from January 1, 2018;
- IFRS 15 – *Revenue from Contracts with Customers*, published in September 2016, which establishes new revenue recognition principles and will supersede IAS 18 – Revenue, as from January 1, 2018;
- IFRS 16 – *Leases*, published in November 2017, which establishes an accounting model for the recognition of leases and will supersede IAS 17 – *Leases*. The IASB indicates that IFRS 16 will be mandatorily applicable as from January 1, 2019.

2.2.3. Standards, amendments and interpretations that have not yet been adopted by the European Union

The standards and amendments that have not yet been adopted by the European Union are as follows:

- the amendments contained in the Annual Improvements to IFRSs 2014-2016 Cycle, which the IASB indicates are mandatorily applicable as from January 1, 2017 and January 1, 2018;
- the amendments contained in the Annual Improvements to IFRSs 2015-2017 Cycle, which the IASB indicates will be mandatorily applicable as from January 1, 2019;

- the various amendments to IFRS 2, which the IASB indicates will be mandatorily applicable as from January 1, 2018, and the amendments to IAS 28 and IFRS 9, which the IASB indicates will be mandatorily applicable as from January 1, 2019;
- the interpretations IFRIC 22 and IFRIC 23, which the IASB indicates will be mandatorily applicable as from January 1, 2018 and January 1, 2019, respectively.

2.2.4. Expected impacts of future standards, amendments and interpretations

IFRS 9 – *Financial Instruments*, applicable as of January 1, 2018

Kering has chosen to apply all chapters of IFRS 9 as of January 1, 2018. The main impacts of each chapter are described below:

- phase 1 – *Classification and measurement of financial assets and liabilities*: based on analyses carried out, this has no impact on the consolidated financial statements;
- phase 2 – *Impairment methodology*: IFRS 9 requires application of an impairment model based on "expected" losses (as opposed to "known" losses under IAS 39). For its trade receivables, the Group chose to adopt the provision matrix approach available under IFRS 9. The bad debt risk on Kering's receivables in its mainly-retail Luxury activities is extremely low. The Group takes out credit risk insurance covering the majority of trade receivables in its wholesale business. Accordingly, this phase has no impact on the consolidated financial statements;
- phase 3 – *Hedge accounting*: the Group chose to adopt the hedge accounting provisions set out in IFRS 9 with effect from January 1, 2018. The main change with respect to IAS 39 concerns the accounting for foreign currency derivatives classified as cash flow hedges. Under IFRS 9, changes in the time value of options and changes in prices of the underlying on futures transactions are to be recognised in equity over the term of the transactions and taken to financial income/loss when the hedged item is settled. A negative impact of around €8 million will be recognised as of January 1, 2018 in "Remeasurement of financial instruments" with an offsetting entry to "Other reserves".

IFRS 15 – *Revenue from Contracts with Customers*, applicable as of January 1, 2018

In 2017, the Group carried out an in-depth review of the different types of commercial relationships that could potentially be affected by IFRS 15. This review confirmed that IFRS 15 does not have a significant impact on the Kering group owing to the nature of its business activities. Luxury activities are mostly retail businesses with the exception of the Watches & Jewelry brands and Kering Eyewear. IFRS 15 would have had an estimated negative impact on 2017 consolidated revenue of less than 0.20% for example. A negative impact of around €10 million will be recognised in equity ("Other reserves") as of January 1, 2018. The Group will therefore apply the "cumulative catch-up" transition method, as it considers that this will not distort comparability between 2017 and 2018 data.

IFRS 16 – *Leases*, applicable as of January 1, 2019

The application of IFRS 16 – *Leases*, as of January 1, 2019, will have a material impact on Kering's consolidated financial statements since retail operations are a predominant part of its Luxury activities. Virtually all of the Group's leases are property leases. With this in mind, Kering set up a cross-functional project team including representatives from the different departments concerned (finance, real estate, IT and legal) and identified a pilot brand and country to support the roll-out of the requisite future reporting processes and associated IT tools. In 2017, this team completed its analysis of all leases in light of IFRS 16. It also reviewed the various existing software solutions able to provide fully integrated monitoring of leases from both an operational and financial standpoint. An approach for determining interest rates was introduced at the same time and is currently being finalised.

The main issue for the Kering group as regards the interpretation and hence the application of IFRS 16 is identifying the lease term, since property leasing practices vary hugely from one market or country to the next. Determining the lease term to be taken into account under IFRS 16 is not always clear-cut owing to the particulars of certain lease agreements. A constructive approach must therefore be defined based on the economic substance of the underlying transactions in order to better reflect the Group's commitment by lease type (directly operated stores, shop-in-shops, travel retail, etc.).

The Group has not yet decided which transition method to adopt. This will be determined during the first half of 2018 by reference to feasibility criteria based on technical capabilities and expected changes in Group structure over the period.

At December 31, 2017, minimum lease payments calculated in accordance with IAS 17 amounted to €3,880.5 million (€3,732.3 million at end-2016) and are set out in Note 34 – Contingent liabilities, contractual commitments not recognised and other contingencies.

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;
- defined benefit plan assets measured at fair value;
- liabilities in respect of cash-settled share-based payments (share appreciation rights) measured at fair value;
- 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 Group 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 financial instruments. The Group notably uses discount rate assumptions based on market data to estimate the value of its 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 19 – Impairment tests on non-financial assets;
- Note 26 – Employee benefits;
- Note 27 – Provisions;
- Note 30 – Exposure to interest rate, foreign exchange, equity and precious metals price risk;
- Note 31 – 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 IFRSs 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 appropriate accounting treatment for acquisitions of additional shares in a subsidiary after control is obtained is prescribed by IFRS. 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 IFRS 3 – *Business Combinations 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 derecognised, with an offsetting entry to the 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 the present value of the strike price. Subsequent changes in the value of the commitment are recorded by an adjustment to goodwill.

Put options granted after January 1, 2009

The Group records a financial liability at the present value of the strike price in respect of the put options granted to holders of non-controlling interests in the entities concerned.

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 case of continued access at present to the entity's 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 case where access to the entity's economic benefits is no longer available by virtue of the put option, 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 derecognised non-controlling interests is recorded as a deduction from equity attributable to owners of the parent.

Subsequent changes in the value of the commitment are recorded by an adjustment to 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 Kering group consolidated financial statements include the financial statements of the companies listed in Note 36 – List of consolidated subsidiaries. They 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 structured entities) over which the Group exercises control. Control is defined according to three criteria: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to exert power over the investee to affect the amount of the investor's returns. This definition of control implies that power over an investee can take many forms other than simply holding voting rights. The existence and effect of potential voting rights are considered when assessing control, if the rights are substantive. Control generally implies directly or indirectly holding more than 50% of the voting rights but can also exist when less than 50% of the voting rights are held.

Subsidiaries are consolidated from the effective date of control.

Inter-company assets and liabilities and transactions between 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 or joint control; this 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 (losses) of equity-accounted companies", 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 equity-accounted companies" 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. Business combinations

Business combinations, where the Group acquires control of one or more other activities, are recognised using the acquisition method.

Business combinations are recognised and measured in accordance with the provisions of the revised IFRS 3. Accordingly, the consideration transferred (acquisition price) 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 generally 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 plus the amount of any non-controlling interest in the acquiree over the net fair value of the identifiable assets and liabilities acquired is recognised as goodwill. If the difference is negative, the gain on the bargain purchase is immediately recognised in income.

The Group may choose to measure any non-controlling interests resulting from each business combination at fair value (full goodwill method) or at the proportionate share in the identifiable net assets acquired, which are also generally measured at fair value (partial 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.

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 its 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 closing exchange rate at the end of each reporting period. 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 exchange 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.

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 into the Group's presentation currency at the closing exchange rate, and any resulting differences are 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 designated as a net investment in a foreign subsidiary are 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 2.4.3 – Business combinations.

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.

Impairment tests are described in Note 2.10 – Asset impairment.

2.7. Brands and other intangible assets

Intangible assets are recognised at cost less accumulated amortisation and impairment losses.

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.

Intangible assets are amortised over their useful lives where this is finite and are tested for impairment when there is an indication that they may be impaired. 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.

Brands, which represent a predominant category of the Group's intangible assets, are accounted for 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. Most of the Group's brands are intangible assets with indefinite useful lives.

Impairment tests are described in Note 2.10 – Asset impairment.

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 price 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 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 Group. Inventories are valued using the first-in-first-out (FIFO) retail method 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

For the purposes of impairment testing, assets are grouped into cash-generating units (CGUs), i.e., the smallest group of assets that generates cash inflows from continuing use, that are largely independent of the cash inflows from other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

CGUs comprising goodwill and/or intangible assets with indefinite useful lives, such as certain brands, are tested for impairment at least annually during the second half of each reporting period.

An impairment test is also performed for all CGUs when events or circumstances indicate that they 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 of the assets.

Impairment tests seek to determine whether the recoverable amount of a CGU is less than its net carrying amount.

The recoverable amount of a CGU 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, 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 corresponds to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These values are determined based on market data (comparison with similar listed companies, values adopted in recent transactions and stock market prices).

When the CGU's recoverable amount is less than its net carrying amount, an impairment loss is recognised.

Impairment is charged first to goodwill where appropriate, and recognised under "Other non-recurring operating income and expenses" in the income statement as part of operating income.

Impairment losses recognised in respect of property, plant and equipment and other intangible assets may be reversed at a later date if there is an indication that the impairment loss no longer exists or has decreased. 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 transaction 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.

They primarily comprise eligible money-market funds (OPCVMs) classified as current assets under cash equivalents, as well as derivatives not designated as hedging instruments within a hedging relationship.

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. For short-term receivables without a stated interest rate, fair value and amortised cost approximate 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 an impairment loss. An impairment loss is recognised if the carrying amount exceeds the estimated recoverable amount.

Loans and receivables due from non-consolidated investments, deposits and guarantees, trade receivables and other short-term receivables are included in this category and are presented in non-current financial assets, trade receivables and other current financial assets in the statement of financial position.

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 a 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 shares 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 the definitions of other financial asset categories. 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 Note 2.11.4 – 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 debt 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 the equity component;
- 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 the value of the option 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 financial assets and liabilities depending on their maturity and accounting classification, and are valued at fair value as of the transaction 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 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 reclassified 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 in the statement of financial position at fair value with respect to the hedged risk. Fair value gains and losses are recorded in the income statement and are 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 in the statement of cash flows and in the statement of financial position is provided in Note 33 – Statement of cash flows.

2.11.6. Definition of 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 the French accounting standards authority (*Autorité des normes comptables* – ANC) recommendation no. 2013-03. 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.

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 equity attributable to owners of the parent. On disposal, the consideration received for these shares, net of transaction costs and the related tax impacts, is recognised in equity attributable to owners of the parent.

2.13. Treasury share options

Treasury share options are accounted for as derivative instruments, equity instruments or non-derivative financial liabilities, as appropriate based on their characteristics.

Options classified as derivatives are recognised at fair value through the income statement. Options classified as equity instruments are recorded in equity for their initial amount, and any changes in their value are not recognised. The accounting treatment of financial liabilities is described in Note 2.11.2 – Financial liabilities.

2.14. Share-based payment

The Group may award free share plans, stock purchase plans and stock subscription plans 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.

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.

The Group may also award share-based payment plans systematically settled in cash, which 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 year comprises the current and deferred tax charges.

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 and certain other exceptions. 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 claims and litigation, 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, the amount of which can be reliably estimated.

Provisions maturing in more than one year are valued at their 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 entity. 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 immediately 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 (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 and discontinued operations

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 a group that generates cash flows that can be clearly distinguished from the rest of the group and represents a separate major line of business or geographical area of operations. For all periods presented, the net income or 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, when recovery is reasonably assured and when the probability of the goods being returned can be estimated with sufficient reliability.

Services such as those 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 agent 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 consist of items which, by their nature, amount or frequency, could distort the assessment of Group entities' operating performance. Other non-recurring operating income and expenses may include:

- impairment of goodwill and of other intangible assets and property, plant and equipment;
- gains or losses on disposals of non-current assets;
- restructuring costs and costs relating to employee retraining measures.

2.21. Earnings per share

Earnings per share are 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 are 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 by 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 the Group Managing Director – the Group's chief operating decision makers – 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 – changes in group structure and other highlights

3.1. Changes in Group structure

Kering Eyewear – A strategic partnership with the Richemont group

On June 1, 2017, Kering announced the close of the partnership deal agreed on March 21 between Kering Eyewear and the Maison Cartier (owned by Compagnie Financière Richemont) to develop the Eyewear category. The strategic rationale behind the partnership is to join forces and grow in scale to create a high-performing platform for the development, manufacture and worldwide distribution of Cartier eyewear.

Under the terms of the agreement, Richemont acquired a minority stake in Kering Eyewear, a specialised company fully dedicated to the eyewear activity of the 12 brands of the Kering group (Gucci, Bottega Veneta, Saint Laurent, Alexander McQueen, Brioni, Christopher Kane, McQ, Stella McCartney, Tomas Maier, Boucheron, Pomellato and PUMA). Kering Eyewear has also integrated the Manufacture Cartier Lunettes entity in Sucy-en-Brie, France.

The Cartier 2018 Spring-Summer collection, which was presented at the Silmo International Optics and Eyewear Exhibition held in Paris between October 6 and 9, 2017, marked the official launch of the partnership.

Manufacture Cartier Lunettes has been consolidated in the Group's financial statements since the second half of 2017.

3.2. Other highlights

Change in management and creative responsibility – Other Luxury brands

On March 17, 2017, Kering announced the appointment of Fabrizio Malverdi as CEO of Brioni. On June 15, 2017, Kering announced the appointment of Nina-Maria Nitsche as Brioni's new Creative Director with responsibility for the House's collections and image.

On August 17, 2017, Kering announced the appointment of Patrick Pruniaux as CEO of Swiss watchmaking house Ulysse Nardin.

Appointment and corporate governance at Kering

On December 4, 2017, Kering announced that Grégory Boutté had been appointed as Chief Client and Digital Officer and a member of the Group's Executive Committee. His responsibilities are to lead the Group's digital transformation and drive the development of e-commerce, CRM and data management.

Bond issue

On March 28, 2017, Kering carried out a €300 million issue of ten-year bonds with a fixed-rate coupon of 1.50%. The bonds were settled and delivered on April 5, 2017.

note 4 – operating segments

The policies applied to determine the operating segments presented are set out in Note 2.22 – Operating segments.

Information provided on operating segments is prepared in accordance with the same accounting rules as used for 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.

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.

4.1. Information by segment

(in € millions)	Gucci	Bottega Veneta
2017		
Revenue [1]	6,211.2	1,176.3
Recurring operating income (loss)	**2,124.1**	**294.0**
Recurring charges to depreciation, amortisation and provisions on non-current operating assets	206.9	43.3
Other non-cash recurring operating income and expenses	(95.9)	(32.0)
Purchases of property, plant and equipment and intangible assets, gross	248.5	51.0
Segment assets at December 31, 2017	**8,790.0**	**859.7**
Segment liabilities at December 31, 2017	**2,307.8**	**241.3**
2016		
Revenue [1]	4,378.3	1,173.4
Recurring operating income (loss)	**1,256.3**	**297.4**
Recurring charges to depreciation, amortisation and provisions on non-current operating assets	168.2	44.3
Other non-cash recurring operating income and expenses	(55.7)	(15.9)
Purchases of property, plant and equipment and intangible assets, gross	184.7	42.8
Segment assets at December 31, 2016	**8,494.8**	**829.0**
Segment liabilities at December 31, 2016	**2,062.0**	**209.9**

(1) Non-Group.

Yves Saint Laurent	Other brands	Luxury activities	PUMA	Other brands	Sport & Lifestyle activities	Corporate and other	Total
1,501.4	1,906.9	**10,795.8**	4,151.7	230.2	**4,381.9**	300.0	**15,477.7**
376.9	**116.0**	**2,911.0**	**243.9**	**0.1**	**244.0**	**(207.0)**	**2,948.0**
45.2	68.9	**364.3**	70.5	5.9	**76.4**	75.7	**516.4**
0.4	(23.3)	**(150.8)**	19.2	(1.9)	**17.3**	127.2	**(6.3)**
73.0	114.4	**486.9**	124.3	6.6	**130.9**	134.2	**752.0**
1,534.9	**2,899.7**	**14,084.3**	**6,360.7**	**307.2**	**6,667.9**	**1,076.9**	**21,829.1**
399.0	**632.4**	**3,580.5**	**1,933.8**	**87.9**	**2,021.7**	**470.0**	**6,072.2**
1,220.2	1,697.5	**8,469.4**	3,642.2	241.5	**3,883.7**	31.8	**12,384.9**
268.5	**113.8**	**1,936.0**	**126.6**	**(3.4)**	**123.2**	**(173.0)**	**1,886.2**
43.7	63.2	**319.4**	60.6	6.2	**66.8**	45.8	**432.0**
(5.0)	(9.2)	**(85.8)**	4.5	(2.0)	**2.5**	105.7	**22.4**
57.8	95.3	**380.6**	84.3	7.7	**92.0**	138.4	**611.0**
1,446.5	**2,978.9**	**13,749.2**	**6,258.9**	**404.0**	**6,662.9**	**985.0**	**21,397.1**
344.8	**625.2**	**3,241.9**	**1,828.8**	**139.3**	**1,968.1**	**356.9**	**5,566.9**

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 these assets largely consist of goodwill and brands, which are analysed based on the revenue generated in each region, and not based on their geographic location.

(in € millions)	2017	2016
Western Europe	5,077.1	3,885.9
North America	3,306.0	2,740.5
Japan	1,291.2	1,226.3
Sub-total – mature markets	**9,674.3**	**7,852.7**
Eastern Europe, Middle East and Africa	1,023.9	814.3
South America	594.7	514.3
Asia Pacific (excluding Japan)	4,184.8	3,203.6
Sub-total – emerging markets	**5,803.4**	**4,532.2**
Revenue	**15,477.7**	**12,384.9**

4.3. Reconciliation of segment assets and liabilities

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Goodwill	3,421.2	3,533.5
Brands and other intangible assets	11,159.0	11,272.7
Property, plant and equipment	2,267.6	2,206.5
Other non-current assets	35.4	30.4
Non-current segment assets	**16,883.2**	**17,043.1**
Inventories	2,699.1	2,432.2
Trade receivables	1,366.5	1,196.4
Other current assets	880.3	725.4
Segment assets	**21,829.1**	**21,397.1**
Investments in equity-accounted companies	48.6	48.3
Non-current financial assets	364.3	480.4
Deferred tax assets	964.6	927.0
Current tax receivables	78.6	105.6
Other current financial assets	155.6	131.0
Cash and cash equivalents	2,136.6	1,049.6
TOTAL ASSETS	**25,577.4**	**24,139.0**

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Deferred tax liabilities on brands	2,625.4	2,739.1
Trade payables	1,240.7	1,098.5
Other current liabilities	2,206.1	1,729.3
Segment liabilities	**6,072.2**	**5,566.9**
Total equity	12,626.4	11,963.9
Non-current borrowings	4,245.5	4,185.8
Other non-current financial liabilities	0.7	19.6
Other non-current liabilities	48.8	-
Non-current provisions for pensions and other post-employment benefits	125.7	142.6
Other non-current provisions	55.5	74.0
Other deferred tax liabilities	86.8	115.4
Current borrowings	939.7	1,234.5
Other current financial liabilities	367.6	285.9
Current provisions for pensions and other post-employment benefits	10.7	8.2
Other current provisions	182.4	143.7
Current tax liabilities	815.4	398.5
TOTAL EQUITY AND LIABILITIES	**25,577.4**	**24,139.0**

note 5 – revenue

(in € millions)	2017	2016
Net sales of goods	15,285.9	12,170.5
Net sales of services	3.6	3.4
Revenue from concessions and licences	145.5	167.1
Other revenue	42.7	43.9
TOTAL	**15,477.7**	**12,384.9**

note 6 – payroll expenses and headcount

6.1. Payroll expenses by activity

Payroll expenses primarily include fixed and variable remuneration, payroll taxes, charges relating to employee profit-sharing and other incentives, training costs, share-based payment expenses (as detailed in Note 7 – Share-based payment) and expenses relating to employee benefits recognised in recurring operating income (as detailed in Note 26 – Employee benefits).

(in € millions)	2017	2016
Luxury activities	(1,570.2)	(1,265.6)
Sport & Lifestyle activities	(591.0)	(532.5)
Corporate and other	(282.4)	(185.6)
TOTAL	**(2,443.6)**	**(1,983.7)**

6.2. Average headcount on a full-time equivalent basis by activity

	2017	2016
Luxury activities	23,423	21,559
Sport & Lifestyle activities	12,144	11,873
Corporate and other	3,029	2,445
TOTAL	**38,596**	**35,877**

6.3. Headcount on the payroll at year-end by activity

	Dec. 31, 2017	Dec. 31, 2016
Luxury activities	26,222	23,302
Sport & Lifestyle activities	14,485	14,065
Corporate and other	3,348	2,685
TOTAL	**44,055**	**40,052**

note 7 – share-based payment

Kering Monetary Units (KMUs)

Since 2013, the Group has granted certain employees Kering Monetary Units (KMUs), which represent synthetic share-based payment plans systematically settled in cash.

The Group recognises its obligation as services are rendered by the beneficiaries, over the period from the grant date to the vesting date:

- the grant date is the date on which the plans were individually approved by the relevant decision-making body (Board of Directors or other) and corresponds to the initial measurement date of the plans;
- as from the grant date, the rights vesting period is the so-called "lock-in" period during which the specified vesting conditions are to be satisfied (service conditions for all beneficiaries, and performance conditions for executive corporate officers);
- the exercise date is the date at which all of the specified vesting conditions have been satisfied, and as of which the beneficiaries are entitled to ask for payment of their rights.

The unit value of the KMUs awarded is determined and changes based on the intrinsic movement in the Kering share and in comparison with the average increase in a basket of nine stocks from the Luxury and Sports industries.

Plans based on Kering Monetary Units	2013 Plan	2014 Plan	2015 Plan	2016 Plan	2017 Plan
Grant date	07/21/2013	04/22/2014	05/22/2015	05/20/2016	05/29/2017
Vesting period	3 years	3 years	3 years	3 years	3 years
Exercise period [1]	2 years	2 years	2 years	2 years	2 years
Number of beneficiaries	264	301	316	323	319
Number initially granted	124,126	122,643	114,997	126,974	111,000
Number of existing KMUs as of Jan. 1, 2017	8,824	99,876	101,856	125,792	-
Number awarded in 2017	-	-	-	19,490	111,000
Number forfeited in 2017	362	25,674	9,696	13,492	2,618
Number exercised in 2017	8,462	46,555	-	-	-
Number of existing KMUs as of Dec. 31, 2017	-	27,647	92,160	131,790	108,382
Number exercisable as of Dec. 31, 2017	-	27,647	N/A	N/A	N/A
Fair value at grant date *(in €)*	152.00	144.00	167.00	166.00	249.00
Weighted average price per KMU paid *(in €)*	191.51	266.47	N/A	N/A	N/A

(1) Vested rights may be exercised over a period of two years, during which beneficiaries can opt to cash out some or all of their KMUs in April or October, at their discretion, based on the most recently determined value.

In 2017, the Group recognised a €115.5 million payroll expense within recurring operating income in respect of vested KMUs, a significant increase on the 2016 expense (€23.8 million) owing to the sharp rise in the Kering share over the year. The 2013 and 2014 KMU plans also gave rise to a cash outflow of €19.5 million in 2017 and €10.5 million in 2016.

note 8 – recurring operating income

Recurring operating income and EBITDA are key indicators of the Group's operating performance.

8.1. Recurring operating income by activity

(in € millions)	2017	2016
Luxury activities	2,911.0	1,936.0
Sport & Lifestyle activities	244.0	123.2
Corporate and other	(207.0)	(173.0)
TOTAL	**2,948.0**	**1,886.2**

8.2. Reconciliation of recurring operating income with EBITDA

(in € millions)	2017	2016
Recurring operating income	2,948.0	1,886.2
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets	516.4	432.0
EBITDA	**3,464.4**	**2,318.2**

note 9 – other non-recurring operating income and expenses

(in € millions)	2017	2016
Non-recurring operating expenses	**(285.4)**	**(520.4)**
Asset impairment	(218.9)	(335.4)
Restructuring costs	(28.8)	(57.2)
Capital losses on disposals	-	(6.2)
Other	(37.7)	(121.6)
Non-recurring operating income	**43.7**	**14.4**
Capital gains on disposals	31.2	7.3
Other	12.5	7.1
TOTAL	**(241.7)**	**(506.0)**

Other non-recurring operating income and expenses consist of unusual items that could distort the assessment of each brand's financial performance.

This item represented a net expense of €241.7 million in 2017, significantly lower than the €506.0 million net expense recorded for 2016 and chiefly comprising:

- impairment of a brand and certain items of goodwill within Other Luxury brands (Ulysse Nardin, Sowind, Brioni and Christopher Kane) for €125.4 million, as well as impairment of the Volcom brand for €60.0 million. This had no effect on the Group's cash (see Note 19 – Impairment tests on non-financial assets);
- impairment of assets for €33.5 million, mainly within Luxury activities;
- a net capital gain on a building amounting to €31.2 million;
- costs of restructuring industrial and sales operations, mainly within Luxury activities, for €28.8 million.

In 2016, other non-recurring operating income and expenses mainly included:

- impairment of a brand and certain items of goodwill within Other Luxury brands (Brioni and Ulysse Nardin) for €296.6 million. This did not impact the Group's cash;
- costs of restructuring industrial and sales operations, mainly within the Luxury – Couture & Leather Goods division, for €57.2 million;
- impairment of assets within Luxury activities and Kering's industrial operations for €38.8 million.

Other items mainly related to operating losses of €61.5 million for Kering Eyewear, which continued to ramp up operations in 2016 with the launch of the first Gucci collections in early 2017, in addition to the outcome of disputes arising in prior years. Other items also included a non-recurring expense of €30.0 million in respect of the compensation paid to Safilo. Pursuant to the agreement with Safilo announced on January 12, 2015 and the payment of €90.0 million in compensation – of which the first two instalments were paid in January 2015 and December 2016 – the Group had recognised an intangible asset in an amount of €60.0 million. The remaining balance was considered to be compensation and was recorded in other non-recurring expenses in the 2016 financial statements. In light of the additional cash flows expected by the Group, it confirmed that it would recover this intangible asset which began to be amortised on January 1, 2017.

note 10 – finance costs (net)

(in € millions)	2017	2016
Cost of net debt	**(128.2)**	**(128.3)**
Income from cash and cash equivalents	8.1	8.9
Finance costs at amortised cost	(135.5)	(135.6)
Gains and losses on cash flow hedging derivatives	(0.8)	(1.6)
Other financial income and expenses	**(114.4)**	**(73.5)**
Net gains and losses on available-for-sale financial assets	(6.0)	(0.7)
Foreign exchange gains and losses	(11.1)	(2.8)
Ineffective portion of cash flow and fair value hedges	(76.8)	(62.9)
Gains and losses on derivative instruments not qualifying for hedge accounting (foreign exchange and interest rate hedges)	1.1	0.4
Impact of discounting assets and liabilities	(2.7)	(4.8)
Other finance costs	(18.9)	(2.7)
TOTAL	**(242.6)**	**(201.8)**

note 11 – income taxes

11.1. Analysis of income tax expense in respect of continuing operations

11.1.1. Income tax expense

(in € millions)	2017	2016
Income before tax	**2,463.7**	**1,178.4**
Taxes paid out of operating income	(822.9)	(386.1)
Other taxes payable not impacting operating cash flow	5.2	10.6
Income tax payable	(817.7)	(375.5)
Deferred tax income/(expense)	226.7	79.4
Total tax charge	**(591.0)**	**(296.1)**
Effective tax rate	**24.0%**	**25.1%**

In 2017, Kering's effective tax rate was 24.0%. In 2016, the effective tax rate was 25.1% owing to the higher amount of permanent differences, mainly related to non-recurring expenses (see Note 11.1.3 – Recurring tax rate).

11.1.2. Reconciliation of the tax rate

(as a % of pre-tax income)	2017	2016
Tax rate applicable in France	**34.4%**	**34.4%**
Impact of taxation of foreign subsidiaries	-21.0%	-21.5%
Theoretical tax rate	**13.4%**	**14.3%**
Effect of items taxed at reduced rates	0.0%	0.1%
Effect of permanent differences	0.3%	2.2%
Effect of unrecognised temporary differences	0.3%	-0.2%
Effect of unrecognised tax losses carried forward	0.3%	4.1%
Effect of changes in tax rates	-1.1%	0.9%
Other	10.8%	5.1%
Effective tax rate	**24.0%**	**25.1%**

In 2017, the income tax rate applicable in France was the standard rate of 33.33%, plus a social surtax of 3.3%, bringing the overall rate to 34.43%.

In 2017 and 2016, "Other" relates mainly to the CVAE tax on value-added in France, the IRAP regional production tax in Italy, and tax reassessments.

11.1.3. Recurring tax rate

(in € millions)	2017	2016
Income before tax	2,463.7	1,178.4
Non-recurring items	(241.7)	(506.0)
Recurring income before tax	**2,705.4**	**1,684.4**
Total tax charge	(591.0)	(296.1)
Tax on non-recurring items	31.0	49.2
Recurring tax charge	**(622.0)**	**(345.3)**
Recurring tax rate	**23.0%**	**20.5%**

The increase in the recurring tax rate is partly attributable to business growth in regions or countries with higher average tax rates. It is also the result of overhauling supply chain and logistics structures and processes in order to adapt the brands' business models to new constraints arising from the Group's development of the omnichannel approach as well as from shorter lead times for designing and manufacturing products.

The above-described operational restructuring should lead in the coming years to a gradual increase in the recurring tax rate, which will be partially offset by tax cuts planned for several countries.

The Group is currently analysing the potential impacts of the recent tax reform in the United States and at this stage does not think it likely that the reform will significantly impact the Group's future tax rates. The Group remeasured its deferred tax assets and liabilities in line with the US tax cuts and recognised these remeasurements in its consolidated financial statements for the year ended December 31, 2017.

Lastly, on November 29, 2017, the Italian financial police (*Guardia di Finanza*) searched Gucci's Milan and Florence offices as part of an investigation by Milan's public prosecutor into suspected tax evasion. Gucci has announced that it is cooperating fully with the authorities in the investigation. The related tax risk cannot be measured reliably at this point in the proceedings and therefore no specific provision was recorded in 2017. However, as in previous years, the Group adopted a prudent approach for measuring its tax liabilities.

11.2. Movements in statement of financial position headings

11.2.1. Changes in net current tax liabilities

(in € millions)	Dec. 31, 2016	Net income	Cash outflows relating to operating activities	Cash outflows relating to investing activities	Other [1]	Dec. 31, 2017
Current tax receivables	105.6					78.6
Current tax liabilities	(398.5)					(815.4)
Net current tax liabilities	**(292.9)**	**(822.9)**	**364.9**	**0.1**	**14.0**	**(736.8)**

(1) "Other" includes changes in Group structure and exchange rates, and reclassifications of statement of financial position items.

The income statement impact is described in Note 11.1.1 – Income tax expense.

11.2.2. Changes in deferred tax assets and liabilities

(in € millions)	Dec. 31, 2016	Net income	Other[1]	Other items recognised in equity	Dec. 31, 2017
Intangible assets	(2,742.6)	111.3	30.6		(2,600.7)
Property, plant and equipment	52.9	(8.2)	(14.5)		30.2
Other non-current assets	52.5	2.5	3.3		58.3
Other current assets	402.5	95.7	(30.6)		467.6
Equity	(0.4)				(0.4)
Borrowings	0.9	(12.0)	(1.2)		(12.3)
Provisions for pensions and other post-employment benefits	67.0	39.6	0.9	(2.5)	105.0
Other provisions	6.8	19.0	(16.7)		9.1
Other current liabilities	101.7	5.2	5.1	(4.2)	107.8
Recognised tax losses and tax credits	131.2	(26.4)	(17.0)		87.8
Net deferred tax assets (liabilities)	**(1,927.5)**	**226.7**	**(40.1)**	**(6.7)**	**(1,747.6)**
Deferred tax assets	927.0				964.6
Deferred tax liabilities	(2,854.5)				(2,712.2)
Deferred tax	**(1,927.5)**	**226.7**	**(40.1)**	**(6.7)**	**(1,747.6)**

(1) "Other" includes changes in Group structure and exchange rates, and reclassifications of different types of deferred tax items.

The income statement impact is described in Note 11.1.1 – Income tax expense.

11.3. Unrecognised deferred tax assets

Changes in and maturities of tax losses and tax credits for which no deferred tax assets were recognised in the statement of financial position can be analysed as follows:

(in € millions)	
As of January 1, 2016	**2,274.7**
Losses generated during the year	105.3
Losses utilised and time barred during the year	(159.7)
Effect of changes in Group structure and exchange rates	20.6
As of December 31, 2016	**2,240.9**
Losses generated during the year	497.0
Losses utilised and time barred during the year	(78.7)
Effect of changes in Group structure and exchange rates	(148.1)
As of December 31, 2017	**2,511.1**

Ordinary tax loss carry-forwards expiring in	**505.1**
Less than five years	362.0
More than five years	143.1
Indefinite tax loss carry-forwards	**2,006.0**
TOTAL	**2,511.1**

There were no unrecognised deferred taxes in respect of temporary differences relating to investments in subsidiaries, associates and joint ventures.

note 12 – discontinued operations

For all periods presented, discontinued operations include the residual expenses and costs related to vendor warranties granted by the Group upon the sale of its distribution businesses (Conforama, Fnac and Redcats) and Sergio Rossi.

Net loss from discontinued operations is shown on a separate line of the income statement and is restated in the statement of cash flows. Assets and liabilities relating to discontinued operations are not shown on separate lines of the statement of financial position.

12.1. Impact of discontinued operations in the income statement

(in € millions)	2017	2016
Net loss from discontinued operations	**(5.6)**	**(11.6)**
o/w attributable to owners of the parent	(5.6)	(11.6)
o/w attributable to non-controlling interests	-	-

In 2017 and 2016, the net loss reported by the Group in respect of discontinued operations concerns the revision and enforcement of certain vendor warranties relating to disposals in prior periods.

12.2. Impact of discontinued operations in the statement of cash flows

(in € millions)	2017	2016
Net cash used in operating activities	(6.3)	(17.7)
Net cash from (used in) investing activities	-	-
Net cash from (used in) financing activities	-	-
Net cash used in discontinued operations	**(6.3)**	**(17.7)**

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, plus the weighted average number of potentially dilutive ordinary shares, which may be granted to employees as part of equity-settled share-based payment plans (see Note 7 – Share-based payment). Earnings are adjusted for the theoretical interest charge, net of tax, on convertible and exchangeable instruments.

13.1. Earnings per share

2017

(in € millions)	Consolidated Group	Continuing operations	Discontinued operations
Net income (loss) attributable to ordinary shareholders	**1,785.6**	**1,791.2**	**(5.6)**
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226	126,332,226
Weighted average number of treasury shares	(332,715)	(332,715)	(332,715)
Weighted average number of ordinary shares	**125,999,511**	**125,999,511**	**125,999,511**
Basic earnings (loss) per share *(in €)*	**14.17**	**14.22**	**(0.05)**
Net income (loss) attributable to ordinary shareholders	**1,785.6**	**1,791.2**	**(5.6)**
Convertible and exchangeable instruments			
Diluted net income (loss) attributable to owners of the parent	**1,785.6**	**1,791.2**	**(5.6)**
Weighted average number of ordinary shares	125,999,511	125,999,511	125,999,511
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	**125,999,511**	**125,999,511**	**125,999,511**
Fully diluted earnings (loss) per share *(in €)*	**14.17**	**14.22**	**(0.05)**

2016

(in € millions)	Consolidated Group	Continuing operations	Discontinued operations
Net income (loss) attributable to ordinary shareholders	**813.5**	**825.1**	**(11.6)**
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226	126,332,226
Weighted average number of treasury shares	(332,032)	(332,032)	(332,032)
Weighted average number of ordinary shares	**126,000,194**	**126,000,194**	**126,000,194**
Basic earnings (loss) per share *(in €)*	**6.46**	**6.55**	**(0.09)**
Net income (loss) attributable to ordinary shareholders	**813.5**	**825.1**	**(11.6)**
Convertible and exchangeable instruments			
Diluted net income (loss) attributable to owners of the parent	**813.5**	**825.1**	**(11.6)**
Weighted average number of ordinary shares	126,000,194	126,000,194	126,000,194
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	**126,000,194**	**126,000,194**	**126,000,194**
Fully diluted earnings (loss) per share *(in €)*	**6.46**	**6.55**	**(0.09)**

13.2. Earnings per share from continuing operations excluding non-recurring items

Non-recurring items presented below consist of the income statement line "Other non-recurring operating income and expenses" (see Note 9 – Other non-recurring operating income and expenses), reported net of tax and non-controlling interests.

(in € millions)	2017	2016
Net income attributable to ordinary shareholders	**1,791.2**	**825.1**
Other non-recurring operating income and expenses	(241.7)	(506.0)
Income tax on other non-recurring operating income and expenses	31.0	49.2
Net income excluding non-recurring items	**2,001.9**	**1,281.9**
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226
Weighted average number of treasury shares	(332,715)	(332,032)
Weighted average number of ordinary shares	**125,999,511**	**126,000,194**
Basic earnings per share excluding non-recurring items *(in €)*	**15.89**	**10.17**
Net income excluding non-recurring items	**2,001.9**	**1,281.9**
Convertible and exchangeable instruments		
Diluted net income attributable to owners of the parent	**2,001.9**	**1,281.9**
Weighted average number of ordinary shares	125,999,511	126,000,194
Potentially dilutive ordinary shares	-	-
Weighted average number of diluted ordinary shares	**125,999,511**	**126,000,194**
Fully diluted earnings per share *(in €)*	**15.89**	**10.17**

note 14 – other comprehensive income

The main components of other comprehensive income are:

- 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.

(in € millions)	Gross	Income tax	Net
Foreign exchange gains and losses	(249.5)		(249.5)
Cash flow hedges	49.4	(4.2)	45.2
– change in fair value	*21.8*		
– gains and losses reclassified to income	*27.6*		
Available-for-sale financial assets	3.9		3.9
– change in fair value	*3.9*		
– gains and losses reclassified to income			
Actuarial gains and losses	22.6	(2.5)	20.1
Other comprehensive income (loss) for 2017	**(173.6)**	**(6.7)**	**(180.3)**

(in € millions)	Gross	Income tax	Net
Foreign exchange gains and losses	29.3		29.3
Cash flow hedges	26.7	4.8	31.5
– change in fair value	*37.8*		
– gains and losses reclassified to income	*(11.1)*		
Available-for-sale financial assets	5.6	(0.7)	4.9
– change in fair value	*5.6*		
– gains and losses reclassified to income			
Actuarial gains and losses	(5.2)	2.0	(3.2)
Other comprehensive income for 2016	**56.4**	**6.1**	**62.5**

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 – non-controlling interests

15.1. Net income attributable to non-controlling interests

(in € millions)	2017	2016
Luxury activities	28.2	28.5
Sport & Lifestyle activities	53.3	34.9
Corporate and other	(2.0)	(8.4)
TOTAL	**79.5**	**55.0**

15.2. Non-controlling interests in equity

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Luxury activities	129.8	161.9
Sport & Lifestyle activities	523.4	532.8
Corporate and other	25.0	(0.5)
TOTAL	**678.2**	**694.2**

note 16 – goodwill

16.1. Changes in goodwill

(in € millions)	Gross	Impairment losses	Net
Goodwill as of January 1, 2016	**4,464.7**	**(705.9)**	**3,758.8**
Acquisitions	8.0		8.0
Disposals	(5.3)	5.3	-
Impairment losses		(235.9)	(235.9)
Impact of put options granted to non-controlling shareholders	2.0	-	2.0
Translation adjustments	10.5	(9.6)	0.9
Other movements	0.1	(0.4)	(0.3)
Goodwill as of December 31, 2016	**4,480.0**	**(946.5)**	**3,533.5**
Disposals	(10.5)		(10.5)
Impairment losses		(85.4)	(85.4)
Impact of put options granted to non-controlling shareholders	3.5		3.5
Translation adjustments	(65.8)	45.5	(20.3)
Other movements	0.7	(0.3)	0.4
Goodwill as of December 31, 2017	**4,407.9**	**(986.7)**	**3,421.2**

The Group did not carry out any material acquisitions in 2017 or 2016. Note 19.3 – Impairment losses recognised during the period, provides details of goodwill impairment recognised in 2017 and 2016.

16.2. Goodwill by activity

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Luxury activities	2,439.3	2,551.1
Sport & Lifestyle activities	977.2	977.7
Corporate and other	4.7	4.7
TOTAL	**3,421.2**	**3,533.5**

note 17 – brands and other intangible assets

17.1. Changes in brands and other intangible assets

(in € millions)	Brands	Internally generated intangible assets	Other intangible assets	Total
Carrying amount as of January 1, 2017	**10,807.1**	**23.9**	**441.7**	**11,272.7**
Acquisitions		39.3	153.0	192.3
Disposals			(5.5)	(5.5)
Amortisation			(114.2)	(114.2)
Impairment losses	(100.2)			(100.2)
Translation adjustments	(81.1)		(10.5)	(91.6)
Other movements	0.2		5.3	5.5
Carrying amount as of December 31, 2017	**10,626.0**	**63.2**	**469.8**	**11,159.0**
Gross value as of December 31, 2017	10,798.9	63.2	1,098.8	11,960.9
Accumulated amortisation and impairment as of December 31, 2017	(172.9)		(629.0)	(801.9)

(in € millions)	Brands	Internally generated intangible assets	Other intangible assets	Total
Carrying amount as of January 1, 2016	**10,850.5**		**435.0**	**11,285.5**
Changes in Group structure			5.4	5.4
Acquisitions		23.9	107.2	131.1
Disposals			(2.8)	(2.8)
Amortisation			(98.2)	(98.2)
Impairment losses	(60.7)		(3.0)	(63.7)
Translation adjustments	17.4		(0.8)	16.6
Other movements	(0.1)		(1.1)	(1.2)
Carrying amount as of December 31, 2016	**10,807.1**	**23.9**	**441.7**	**11,272.7**
Gross value as of December 31, 2016	10,890.4	23.9	1,057.3	11,971.6
Accumulated amortisation and impairment as of December 31, 2016	(83.3)		(615.6)	(698.9)

Note 19.3 – Impairment losses recognised during the period, provides details of goodwill impairment recognised in 2017 and 2016.

17.2. Brands by activity

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Luxury activities	6,812.9	6,886.6
Sport & Lifestyle activities	3,813.1	3,920.5
TOTAL	**10,626.0**	**10,807.1**

note 18 – property, plant and equipment

(in € millions)	Land and buildings	Plant and equipment	Other PP&E	Total
Carrying amount as of January 1, 2017	**784.2**	**1,224.1**	**198.2**	**2,206.5**
Changes in Group structure	(1.2)	9.3	0.2	8.3
Acquisitions	25.0	374.3	177.4	576.7
Disposals	(47.5)	(3.9)	(0.5)	(51.9)
Depreciation	(28.2)	(364.5)	(23.2)	(415.9)
Translation adjustments	(35.2)	(79.3)	(12.2)	(126.7)
Other movements	74.4	45.0	(48.8)	70.6
Carrying amount as of December 31, 2017	**771.5**	**1,205.0**	**291.1**	**2,267.6**
o/w gross value	1,020.8	2,999.0	415.0	4,434.8
o/w depreciation and impairment	(249.3)	(1,794.0)	(123.9)	(2,167.2)
Carrying amount as of December 31, 2017	**771.5**	**1,205.0**	**291.1**	**2,267.6**
o/w assets owned outright	699.8	1,205.9	291.1	2,196.8
o/w assets held under finance leases	71.7	(0.9)	-	70.8

(in € millions)	Land and buildings	Plant and equipment	Other PP&E	Total
Carrying amount as of January 1, 2016	**757.1**	**1,067.5**	**248.4**	**2,073.0**
Changes in Group structure	-	(1.8)	(4.0)	(5.8)
Acquisitions	43.2	296.5	141.2	480.9
Disposals	(1.1)	(3.6)	(0.7)	(5.4)
Depreciation	(27.2)	(319.9)	(20.6)	(367.7)
Translation adjustments	8.6	9.4	1.6	19.6
Other movements	3.6	176.0	(167.7)	11.9
Carrying amount as of December 31, 2016	**784.2**	**1,224.1**	**198.2**	**2,206.5**
o/w gross value	1,029.4	2,934.5	325.0	4,288.9
o/w depreciation and impairment	(245.2)	(1,710.4)	(126.8)	(2,082.4)
Carrying amount as of December 31, 2016	**784.2**	**1,224.1**	**198.2**	**2,206.5**
o/w assets owned outright	704.0	1,223.8	198.2	2,126.0
o/w assets held under finance leases	80.2	0.3	-	80.5

Charges to depreciation are recognised under "Cost of sales" and "Other recurring operating income and expenses" in the income statement.

note 19 – impairment tests on non-financial assets

The principles governing the impairment of non-financial assets are set out in Note 2.10 – Asset impairment.

The main items of goodwill, brands and other intangible assets are broken down by activity in Note 16 – Goodwill, and Note 17 – Brands and other intangible assets.

19.1. Assumptions underlying impairment tests

The pre-tax discount and perpetual growth rates applied to expected cash flows in light of the economic assumptions and forecast operating conditions retained by the Group are as follows:

	Discount rate		Perpetual growth rate	
	2017	2016	2017	2016
Luxury activities	7.3%-11.7%	7.6%-11.6%	3.0%	3.0%
Sport & Lifestyle activities	12.2%- 13.2%	10.1%-11.9%	2.25%	2.25%

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 – Asset impairment, the business plans for certain CGUs are drawn up over longer periods of ten years. The CGUs currently being repositioned are Boucheron, Brioni, Christopher Kane, Pomellato, Sowind, Qeelin, Ulysse Nardin and Volcom.

19.2. Impairment tests on major items

In the case of the Gucci CGU, whose goodwill accounts for a significant portion of the goodwill of Luxury activities, 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 of money 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 3.0%.

The pre-tax discount rate applied to projected cash flows is 8.3%.

In the case of the Gucci brand, which is the highest-valued Luxury activities brand, its value based on future royalty revenue receivable (where it is assumed that the brand will be operated under licence by a third party) was calculated using a royalty rate of 15.0%, a 3.0% perpetual growth rate and an 8.1% pre-tax discount rate.

In the case of the PUMA CGU, 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 of money 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 2.25%.

The pre-tax discount rate applied to projected cash flows is 12.5%.

For information purposes, PUMA's market capitalisation was €5.5 billion as of December 31, 2017. This valuation does not, however, take into account the limited free float and resulting lack of liquidity of PUMA shares. As of December 31, 2017, Kering held an 86.25% controlling interest in PUMA.

In the case of the PUMA brand, which is the most important Sport & Lifestyle activities brand, its value based on future royalty revenue receivable (where it is assumed that the brand will be operated under licence by a third party) was calculated using a royalty rate of 8.0%, a 2.25% perpetual growth rate and a 12.2% pre-tax discount rate.

Sensitivity to changes in key assumptions is shown below:

(in € millions)		Impairment loss due to:		
	Value of net assets concerned	10 basis point increase in post-tax discount rate	10 basis point decrease in perpetual growth rate	10 basis point decrease in normative cash flows
Luxury activities	10,983	(11)	(7)	-
Sport & Lifestyle activities	4,805	-	-	-
Gucci brand	4,800	-	-	N/A
PUMA brand	3,500	-	-	N/A

The Other Luxury brands CGU is sensitive to a rise of 0.1 point in the post-tax discount rate and to a decrease of 0.1 point in the perpetual growth rate.

19.3. Impairment losses recognised during the period

Based on the impairment tests carried out by the Group in 2017, an impairment loss amounting to €125.4 million was recognised against a brand and certain items of goodwill within Luxury activities.

Despite improved performances from the Group's watchmaking brands, the write-down was taken against Ulysse Nardin and Sowind to reflect the growth outlook for the Watches segment. Ongoing restructuring at Brioni also had a short-term impact on revenue and margins, which led to the recognition of a further impairment loss.

In Sport & Lifestyle activities, the Group recognised a €60.0 million impairment loss against the Volcom brand.

Asset impairment tests carried out in 2016 had already led the Group to recognise an impairment loss against Brioni and Ulysse Nardin goodwill (€235.9 million) and against the Ulysse Nardin brand (€60.7 million).

This expense is recognised in the income statement under "Other non-recurring operating income and expenses" (see Note 9 – Other non-recurring operating income and expenses).

Based on events foreseeable within reason at the date of this report, the Group considers that any changes impacting the key assumptions described above would not lead to the recognition of material impairment loss against other CGUs.

note 20 – investments in equity-accounted companies

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Investments in equity-accounted companies	48.6	48.3

As of December 31, 2017, investments in equity-accounted companies mainly comprised shares in Wilderness, Tomas Maier, Altuzarra, WG Alligator Farm and Wall's Gator Farm.

The market value of the Group's interest in Wilderness amounts to €28.5 million.

note 21 – non-current financial assets

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Non-consolidated investments	84.1	140.7
Derivative financial instruments	0.7	-
Available-for-sale financial assets	30.0	26.3
Loans and receivables due from non-consolidated investments	10.8	48.9
Deposits and guarantees	171.9	167.9
Other	66.8	96.6
TOTAL	**364.3**	**480.4**

note 22 – inventories

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Commercial inventories	3,269.4	2,811.5
Industrial inventories	585.1	562.8
Gross amount	**3,854.5**	**3,374.3**
Allowances	(1,155.4)	(942.1)
Carrying amount	**2,699.1**	**2,432.2**

Movements in allowances	2017	2016
As of January 1	**(942.1)**	**(777.5)**
Additions	(388.4)	(277.0)
Reversals	124.2	127.4
Changes in Group structure	(0.5)	4.2
Translation adjustments	51.4	(8.3)
Other movements	-	(10.9)
As of December 31	**(1,155.4)**	**(942.1)**

No inventories were pledged to secure liabilities as of December 31, 2017 or December 31, 2016.

Changes in gross inventories recognised during the period under "Cost of sales" represented an increase of €678.3 million (increase of €334.7 million in 2016).

note 23 – trade receivables

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Trade receivables	1,442.9	1,278.7
Allowances	(76.4)	(82.3)
Carrying amount	**1,366.5**	**1,196.4**

Movements in allowances	2017	2016
As of January 1	**(82.3)**	**(74.1)**
Net (additions)/reversals	1.9	(3.7)
Changes in Group structure	-	3.6
Translation adjustments	4.0	(0.9)
Other movements	-	(7.2)
As of December 31	**(76.4)**	**(82.3)**

Provisions are calculated on the basis of the probability of recovering the receivables concerned. Trade receivables break down by age as follows:

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Not past due	1,183.5	976.1
Less than one month past due	142.6	183.6
One to six months past due	59.8	59.4
More than six months past due	57.0	59.6
Allowance for doubtful receivables	(76.4)	(82.3)
Carrying amount	**1,366.5**	**1,196.4**

No trade receivables were pledged to secure liabilities during the periods presented.

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 – other current assets and liabilities

(in € millions)	Dec. 31, 2016	Working capital cash flows	Other cash flows	Changes in Group structure	Translation adjustments and other	Dec. 31, 2017
Inventories	2,432.2	401.5		10.7	(145.3)	2,699.1
Trade receivables	1,196.4	246.5		2.1	(78.5)	1,366.5
Other financial assets and liabilities	(154.9)		(71.4)		14.3	(212.0)
Current tax receivables/payables	(292.9)		(457.9)	(0.4)	14.4	(736.8)
Trade payables	(1,098.5)	(153.9)		(3.9)	15.6	(1,240.7)
Other	(1,003.9)	(361.5)	(28.4)	20.0	48.0	(1,325.8)
Other current assets and liabilities	**1,078.4**	**132.6**	**(557.7)**	**28.5**	**(131.5)**	**550.3**

note 25 – equity

As of December 31, 2017, share capital amounted to €505,117,288, comprising 126,279,322 fully paid-up shares with a par value of €4 each (unchanged from December 31, 2016).

25.1. Kering treasury shares and options on Kering shares

In 2017, the Group purchased 337,791 shares and sold 337,791 shares under the liquidity agreement. Accordingly, it held no treasury shares as of December 31, 2017 or December 31, 2016.

The liquidity agreement was entered into with a financial broker on May 26, 2004 in order to improve the liquidity of the Group's shares and ensure share price stability. It 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 €40.0 million, half of which was provided in cash and half in Kering shares. An additional €20.0 million in cash was allocated to the agreement on September 3, 2004, and a further €30.0 million on December 18, 2007. Since the amendment dated December 15, 2016, Kering has maintained a credit balance of €5.0 million in the liquidity account with the broker.

No stock subscription options were exercised during 2017.

25.2. Appropriation of 2017 net income

25.2.1. Payment of a cash dividend

At its February 12, 2018 meeting, Kering's Board of Directors decided to ask shareholders to approve a €6.00 per share cash dividend for 2017 at the Annual General Meeting to be held on April 26, 2018 to approve the financial statements for the year ended December 31, 2017.

An interim cash dividend of €2.00 per share was paid on January 17, 2018 pursuant to a decision by the Board of Directors on December 14, 2017.

The total cash dividend payout in 2018 would thus amount to €757.7 million.

The cash dividend paid for 2016 amounted to €4.60 per share, representing a total payout of €580.9 million (no dividends are paid on treasury shares).

25.2.2. Payment of an exceptional dividend in the form of PUMA shares

At its January 11, 2018 meeting, Kering's Board of Directors decided to also ask shareholders at the Annual General Meeting of April 26, 2018 to approve the payment of a stock dividend in the form of PUMA SE ("PUMA") shares representing 70.40% of PUMA's shares outstanding, out of the 86.25% owned by the Group as of December 31, 2017. Upon completion of this operation, Kering would retain 2,368,558 PUMA shares, or 15.85% of its svhares outstanding and voting rights. If this stock dividend is approved, the ex-dividend date will be May 14, 2018 before market and the payment date will be May 16, 2018.

The main financial impacts of this exceptional dividend payment on the Group's financial statements are described in Note 38 – Subsequent events.

note 26 – employee benefits

26.1. Description of the main pension plans and other post-employment 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 mandatory supplementary pension plans (LPP) in Switzerland, a supplementary pension plan in the United Kingdom, statutory dismissal compensation (TFR) in Italy, and retirement termination payments and long-service bonuses in France.

- **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. However, the pension plans operated by the Group's entities in Switzerland offer benefits over and above those stipulated in the LPP/BVG pension law. Consequently, a provision is booked in respect of defined benefit plans for the amounts that exceed LPP/BVG pension law requirements.

These pension plans are generally operated as separate legal entities in the form of a foundation, which may be a collective institution or affiliated to a specific plan. The Board of Trustees of these foundations, comprising an equal number of employer and employee representatives, is responsible for administering the plan and bears the investment and longevity risks. Collective foundations insure some of their risk with an insurance company.

- **Final salary type supplementary pension plans – United Kingdom**

In the United Kingdom, the Group operates two pension plans: a standard defined contribution plan along with a defined benefit plan which was closed to new entrants in 2006.

The defined benefit plan is subject to the minimum funding requirement introduced in the United Kingdom by the Pensions Act 2004. The value of the plan is assessed at least once every three years to determine if the minimum funding requirement is satisfied.

This plan is 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 investment strategy after consulting with the Company.

- **Statutory dismissal compensation (TFR) in Italy**

The TFR (*Trattamento di Fine Rapporto*) plans in Italy were created by Act no. 297 adopted on May 29, 1982 and are applicable to all workers in the private sector on termination of employment for whatever reason (resignation, termination at the employer's initiative, death, incapacity, retirement).

Since 2007, companies with at least 50 employees have had to transfer their TFR funding to an external fund manager. This concerns the large majority of plans operated by Kering group companies.

- **Retirement termination benefits and long-service bonuses – France**

In France, retirement termination benefits 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 collective bargaining agreement. The payments do not confer any vested entitlement to employees until they reach retirement age. Retirement termination benefits 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, which are defined contribution plans.

Long-service bonuses are not compulsory in France (there is no legal obligation to pay such awards to employees), but hold a symbolic value. Nevertheless, some of Kering's French entities choose to pay long-service bonuses after 20, 30, 35 and 40 years of service.

26.2. Changes in provisions for pensions and other post-employment benefits

(in € millions)

	2017						
	Present value of obligation	Fair value of plan assets	Financial position	Change	Provision	Other comprehensive income	Expense recognised
As of January 1	**304.9**	**154.1**	**150.8**		**150.8**	**76.3**	
Current service cost	17.5		17.5		17.5		(17.5)
Curtailments and settlements	0.1		0.1		0.1		
Interest cost	2.9		2.9		2.9		(2.9)
Interest income on plan assets		1.5	(1.5)		(1.5)		1.5
Past service cost	(0.1)		(0.1)		(0.1)		0.1
Actuarial gains and losses	(18.0)	4.6	(22.6)		(22.6)	(22.6)	
Impact of changes in demographic assumptions	*0.2*		*0.2*		*0.2*	*0.2*	
Impact of changes in financial assumptions	*(12.6)*		*(12.6)*		*(12.6)*	*(12.6)*	
Impact of experience adjustments	*(5.6)*		*(5.6)*		*(5.6)*	*(5.6)*	
Return on plan assets (excluding interest income)		*4.6*	*(4.6)*		*(4.6)*	*(4.6)*	
Benefits paid	(14.1)	(8.9)	(5.2)		(5.2)		
Contributions paid by beneficiaries	5.1	5.1					
Contributions paid by employer		8.3	(8.3)		(8.3)		
Changes in Group structure	6.9	2.2	4.7		4.7		
Insurance contract	(1.1)	(1.1)					
Administrative expense		(0.5)	0.5		0.5		(0.5)
Translation adjustments	(12.1)	(9.7)	(2.4)		(2.4)		
As of December 31	**292.0**	**155.6**	**136.4**		**136.4**	**53.7**	**(19.3)**
o/w continuing operations					*136.4*		*(19.3)*
o/w discontinued operations							

As of December 31, 2017, the present value of the benefit obligation amounted to €292.0 million, (€304.9 million as of December 31, 2016), breaking down as:

- €64.3 million in respect of wholly unfunded plans (€59.6 million as of end-2016);
- €227.7 million in respect of fully or partially funded plans (€245.3 million as of end-2016).

(in € millions)	2016						
	Present value of obligation	Fair value of plan assets	Financial position	Change	Provision	Other comprehensive income	Expense recognised
As of January 1	**282.5**	**140.2**	**142.3**		**142.3**	**71.1**	
Current service cost	16.7		16.7		16.7		(16.7)
Curtailments and settlements	(4.0)	(3.4)	(0.6)		(0.6)		
Interest cost	4.3		4.3		4.3		(4.3)
Interest income on plan assets		2.3	(2.3)		(2.3)		2.3
Past service cost	(2.6)		(2.6)		(2.6)		2.6
Actuarial gains and losses	18.7	13.5	5.2		5.2	5.2	
Impact of changes in demographic assumptions	*(9.1)*		*(9.1)*		*(9.1)*	*(9.1)*	
Impact of changes in financial assumptions	*30.0*		*30.0*		*30.0*	*30.0*	
Impact of experience adjustments	*(2.2)*		*(2.2)*		*(2.2)*	*(2.2)*	
Return on plan assets (excluding interest income)		*13.5*	*(13.5)*		*(13.5)*	*(13.5)*	
Benefits paid	(8.0)	(4.1)	(3.9)		(3.9)		
Contributions paid by beneficiaries	5.4	5.4					
Contributions paid by employer		7.2	(7.2)		(7.2)		
Changes in Group structure	(0.5)	(0.2)	(0.3)		(0.3)		
Insurance contract	(1.3)	(1.3)					
Administrative expense		(0.6)	0.6		0.6		(0.6)
Translation adjustments	(6.3)	(4.9)	(1.4)		(1.4)		
As of December 31	**304.9**	**154.1**	**150.8**		**150.8**	**76.3**	**(16.7)**
o/w continuing operations					*150.8*		*(16.7)*
o/w discontinued operations							

26.3. Breakdown of the present value of the benefit obligation by country

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Supplementary pension plans (LPP) – Switzerland	152.2	171.3
Supplementary pension plans – United Kingdom	41.5	41.6
Statutory dismissal compensation (TFR) – Italy	31.8	34.7
Retirement termination benefits – France	23.3	21.8
Other	43.2	35.5
Present value of benefit obligations as of December 31	**292.0**	**304.9**

26.4. Contributions payable in 2018 by country

(in € millions)	Total	Switzerland	Italy	France	Other
Contributions for 2018	6.8	5.2	-	-	1.6

26.5. Fair value of plan assets by type of financial instrument

(in € millions)	Dec. 31, 2017	%	Dec. 31, 2016	%
Debt instruments	40.7	26.2%	52.4	34.0%
Equity instruments	27.1	17.4%	27.9	18.1%
Real estate	21.7	13.9%	22.3	14.5%
Investment funds	18.5	11.9%	17.2	11.1%
Insurance contracts	17.2	11.1%	15.5	10.0%
Derivatives	15.6	10.0%	8.4	5.4%
Cash and cash equivalents	3.1	2.0%	3.1	2.0%
Other assets	11.7	7.5%	7.3	4.9%
Fair value of plan assets as of December 31	**155.6**		**154.1**	

26.6. Actuarial assumptions

	France		Switzerland		Italy		United Kingdom	
	2017	2016	2017	2016	2017	2016	2017	2016
Average maturity of plans	13.8	10.3	17.4	16.3	12.8	12.5	24.6	24.2
Discount rate	1.75%	1.25%	0.70%	0.35%	1.75%	1.25%	2.60%	2.80%
Expected rate of increase in salaries	3.17%	3.18%	1.14%	1.07%	3.00%	3.00%	1.00%	1.00%
Inflation rate	1.75%	1.75%	0.70%	0.60%	1.75%	1.75%	2.40%	2.50%

Based on the sensitivity tests of actuarial assumptions, 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.

note 27 – provisions

(in € millions)	Dec. 31, 2016	Charge	Reversal (utilised provision)	Reversal (surplus provision)	Translation adjustments	Other	Dec. 31, 2017
Provision for restructuring costs	9.5	0.6	(6.6)	–	(0.6)	(2.9)	–
Provision for claims and litigation	11.2	3.3	(4.9)	(0.1)	(0.1)	(0.5)	8.9
Other provisions	53.3	5.0	(0.7)	–	(3.7)	(7.3)	46.6
Other non-current provisions	**74.0**	**8.9**	**(12.2)**	**(0.1)**	**(4.4)**	**(10.7)**	**55.5**
Provision for restructuring costs	24.1	11.0	(12.6)	(3.8)	(0.6)	3.4	21.5
Provision for claims and litigation	34.4	42.8	(7.1)	(1.9)	(0.4)	(12.9)	54.9
Other provisions	85.2	27.7	(15.3)	(2.9)	(0.3)	11.6	106.0
Other current provisions	**143.7**	**81.5**	**(35.0)**	**(8.6)**	**(1.3)**	**2.1**	**182.4**
TOTAL	**217.7**	**90.4**	**(47.2)**	**(8.7)**	**(5.7)**	**(8.6)**	**237.9**
Impact on income	**(55.0)**	**(90.4)**		**8.7**			**(81.7)**
– on recurring operating income	(32.7)	(64.0)		3.8			(60.2)
– on other non-recurring operating income and expenses	(23.9)	(24.8)		3.5			(21.3)
– on net finance costs		(0.1)					(0.1)
– on income taxes				1.4			1.4
– on income (loss) from discontinued operations	1.6	(1.5)					(1.5)

The "Other provisions" line mainly corresponds to vendor warranties granted within the scope of disposals in previous periods.

note 28 – cash and cash equivalents

28.1. Breakdown by category

Cash and cash equivalents break down as follows:

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Cash	1,588.8	1,040.4
Cash equivalents	547.8	9.2
TOTAL	**2,136.6**	**1,049.6**

As of December 31, 2017, cash equivalents include money-market funds, certificates of deposit and term deposits and accounts 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 and 2013. 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 with the AMF's recommendations. As of December 31, 2017, no reclassifications were made as a result of these reviews.

28.2. Breakdown by currency

(in € millions)	Dec. 31, 2017	%	Dec. 31, 2016	%
EUR	1,065.4	49.9%	260.6	24.8%
CNY	274.0	12.8%	150.4	14.4%
USD	142.8	6.7%	120.8	11.5%
KRW	118.7	5.6%	104.0	9.9%
HKD	72.4	3.4%	52.7	5.0%
GBP	63.2	2.9%	51.6	4.9%
CHF	47.4	2.2%	61.8	5.9%
Other currencies	352.7	16.5%	247.7	23.6%
TOTAL	**2,136.6**		**1,049.6**	

note 29 – borrowings

29.1. Breakdown of borrowings by maturity

(in € millions)	Dec. 31, 2017	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond
Non-current borrowings	**4,245.5**		**609.3**	**769.1**	**699.6**	**539.7**	**1,627.8**
Bonds	3,596.6		498.7	623.9	623.1	497.0	1,353.9
Other bank borrowings	190.6		49.2	127.1	3.1	1.0	10.2
Obligations under finance leases	76.8		35.8	5.3	5.3	7.2	23.2
Other borrowings	381.5		25.6	12.8	68.1	34.5	240.5
Current borrowings	**939.7**	**939.7**					
Bonds	499.5	499.5					
Drawdowns on unconfirmed lines of credit	20.5	20.5					
Other bank borrowings	127.9	127.9					
Obligations under finance leases	7.1	7.1					
Bank overdrafts	237.3	237.3					
Commercial paper							
Other borrowings	47.4	47.4					
TOTAL	**5,185.2**	**939.7**	**609.3**	**769.1**	**699.6**	**539.7**	**1,627.8**
%		**18.1%**	**11.8%**	**14.8%**	**13.5%**	**10.4%**	**31.4%**

(in € millions)	Dec. 31, 2016	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond
Non-current borrowings	**4,185.8**		**608.0**	**597.9**	**723.3**	**648.0**	**1,608.6**
Bonds	3,831.3		498.8	497.9	640.7	639.8	1,554.1
Other bank borrowings	212.2		97.8	38.4	61.1	2.7	12.2
Obligations under finance leases	89.4		8.2	36.3	5.3	5.5	34.1
Other borrowings	52.9		3.2	25.3	16.2		8.2
Current borrowings	**1,234.5**	**1,234.5**					
Bonds	349.6	349.6					
Drawdowns on unconfirmed lines of credit	23.4	23.4					
Other bank borrowings	122.9	122.9					
Obligations under finance leases	7.5	7.5					
Bank overdrafts	292.1	292.1					
Commercial paper	350.1	350.1					
Other borrowings	88.9	88.9					
TOTAL	**5,420.3**	**1,234.5**	**608.0**	**597.9**	**723.3**	**648.0**	**1,608.6**
%		**22.8%**	**11.2%**	**11.0%**	**13.3%**	**12.0%**	**29.7%**

All gross borrowings as of December 31, 2017 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.

Bond issues represented 79.0% of gross borrowings as of December 31, 2017 versus 77.1% as of end-2016.

Borrowings with a maturity of more than one year represented 81.9% of total gross borrowings as of December 31, 2017 and 77.2% as of December 31, 2016.

The total amount of confirmed lines of credit was €3,747.1 million at the end of the reporting period, including €56.8 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".

29.2. Breakdown by repayment currency

(in € millions)	Dec. 31, 2017	Non-current borrowings	Current borrowings	%	Dec. 31, 2016	%
EUR	4,403.3	3,780.6	622.7	84.9%	4,523.2	83.5%
JPY	377.3	145.7	231.6	7.3%	435.0	8.0%
USD	303.0	286.4	16.6	5.9%	368.0	6.8%
CHF	31.2	16.6	14.6	0.6%	33.2	0.6%
GBP	11.3	11.0	0.3	0.2%	11.3	0.2%
HKD	11.0	4.7	6.3	0.2%	8.5	0.1%
Other currencies	48.1	0.5	47.6	0.9%	41.1	0.8%
TOTAL	**5,185.2**	**4,245.5**	**939.7**		**5,420.3**	

Borrowings denominated in currencies other than the euro are distributed to Group subsidiaries for local financing purposes.

29.3. Breakdown of gross borrowings by category

The Kering group's gross borrowings break down as follows:

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Bonds	4,096.1	4,180.9
Other bank borrowings	318.5	335.1
Drawdowns on unconfirmed lines of credit	20.5	23.4
Commercial paper		350.1
Obligations under finance leases	83.9	96.9
Bank overdrafts	237.3	292.1
Other borrowings	428.9	141.8
TOTAL	**5,185.2**	**5,420.3**

Group borrowings primarily consist of bonds, bank borrowings and commercial paper issues, which accounted for 93.4% of gross borrowings as of December 31, 2017 (92.4% as of December 31, 2016).

As of December 31, 2017, the Group's other borrowings include €386.3 million in respect of put options granted to non-controlling interests, mainly concerning the Eyewear activity (€95.3 million as of December 31, 2016) (see Note 2.3.2 – Use of estimates and judgement).

29.4. Description of the main bond issues

Kering bond issues

The Group has a Euro Medium Term Notes (EMTN) programme capped at €6,000 million as of December 31, 2017.

This programme was signed and approved by the French financial markets authority (AMF) on November 24, 2017. The programme in place as of December 31, 2017 expires on November 24, 2018.

As of December 31, 2017, the bonds issued under this programme totalled €4,100.2 million, of which €250.2 million were issued in US dollars.

All of these borrowings are covered by the rating assigned to the Kering group by Standard & Poor's ("BBB" with a positive outlook) and are not subject to any financial covenants.

Kering euro bond issues

(in € millions)

Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	Dec. 31, 2017	Dec. 31, 2016
150.0[1]	6.50% fixed	6.57%	06/29/2009	-	06/29/2017		149.8
200.0[2]	6.50% fixed	6.57%	11/06/2009	-	11/06/2017		199.8
500.0[3]	3.125% fixed	3.31%	04/23/2012	-	04/23/2019	**498.7**	497.9
500.0[4]	2.50% fixed	2.58%	07/15/2013	-	07/15/2020	**499.0**	498.6
500.0[5]	1.875% fixed	2.01%	10/08/2013	-	10/08/2018	**499.5**	498.8
500.0[6]	2.75% fixed	2.81% & 2.57% & 2.50% & 2.01% & 1.87%	04/08/2014 & 05/30/2014 & 06/26/2014 & 09/22/2015 & 11/05/2015	-	04/08/2024	**511.0**	512.6
500.0[7]	1.375% fixed	1.47%	10/01/2014	-	10/01/2021	**498.2**	497.7
500.0[8]	0.875% fixed	1.02%	03/27/2015	-	03/28/2022	**497.0**	496.3
50.0[9]	1.60% fixed	1.66%	04/16/2015	-	04/16/2035	**49.6**	49.5
500.0[10]	1.25% fixed	1.35%	05/10/2016	-	05/10/2026	**496.1**	495.7
300.0[11]	1.50% fixed	1.61%	04/05/2017	-	04/05/2027	**297.2**	

(1) 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.
(2) 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.
(3) 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.
(4) 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.
(5) 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.
(6) Issue price: bond issue on April 8, 2014, comprising 1,000 bonds with a par value of €100,000 each under the EMTN programme, 1,000 additional bonds issued on May 30, 2014, 1,000 additional bonds issued on June 26, 2014, 1,500 additional bonds issued on September 22, 2015 and 500 additional bonds issued on November 5, 2015, thereby raising the issue to 5,000 bonds.
Redemption: in full on April 8, 2024.
(7) Issue price: bond issue on October 1, 2014, comprising 5,000 bonds with a par value of €100,000 each under the EMTN programme.
Redemption: in full on October 1, 2021.
(8) Issue price: bond issue on March 27, 2015, comprising 5,000 bonds with a par value of €100,000 each under the EMTN programme.
Redemption: in full on March 28, 2022.
(9) Issue price: bond issue on April 16, 2015, comprising 500 bonds with a par value of €100,000 each under the EMTN programme.
Redemption: in full on April 16, 2035.
(10) Issue price: bond issue on May 10, 2016, comprising 5,000 bonds with a par value of €100,000 each under the EMTN programme.
Redemption: in full on May 10, 2026.
(11) Issue price: bond issue on April 5, 2017, comprising 3,000 bonds with a par value of €100,000 each under the EMTN programme.
Redemption: in full on April 5, 2027.

Kering USD bond issues

(in € millions)

Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	Dec. 31, 2017	Dec. 31, 2016
125.1 [1]	Floating USD Libor 3-month +0.73%	1.94%	03/09/2015	2.589% fixed-rate swap for the full amount *Documented under IFRS*	03/09/2020	**124.9**	142.1
125.1 [2]	2.887% fixed	2.94%	06/09/2015	-	06/09/2021	**124.9**	142.1

(1) Issue price: bond issue on March 9, 2015 in the form of floating-rate notes, comprising 150 notes with a par value of USD 1,000,000 each under the EMTN programme, i.e., representing a total of USD 150 million.
Redemption: in full on March 9, 2020.
(2) Issue price: bond issue on June 9, 2015, comprising 150 bonds with a par value of USD 1,000,000 each under the EMTN programme, i.e., representing a total of USD 150 million.
Redemption: in full on June 9, 2021.

The bonds issued between 2012 and 2017 under 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.

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.

Accrued interest is recorded in "Other borrowings".

29.5. Main bank borrowings and confirmed lines of credit

29.5.1. Breakdown of the main bank borrowings

The Group's bank borrowings include the following:

Long- and medium-term borrowings contracted by the Luxury activities

(in € millions)

Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	Dec. 31, 2017	Dec. 31, 2016
33.8[1]	Floating JPY Tibor +0.38%	-	04/15/2014	-	04/15/2017		26.6
29.6[2]	Floating JPY Tibor +0.40%	-	12/14/2014	-	12/14/2018	**29.6**	32.4
37.0[3]	Floating JPY Tibor +0.40%	-	04/15/2015	-	04/15/2020	**37.0**	40.5
14.8[4]	Floating JPY Tibor +0.35%	-	03/31/2016	-	03/31/2020	**14.8**	16.2
14.8[5]	Floating JPY Tibor +0.25%	-	03/31/2016	-	03/31/2021	**10.4**	14.6
27.9[6]	Floating JPY Tibor +0.29%	-	09/30/2016	-	09/30/2019	**21.2**	28.7
22.2[7]	Floating JPY Tibor +0.27%	-	03/31/2017	-	03/31/2020	**22.2**	
23.1[8]	Floating JPY Tibor +0.29%	-	04/17/2017	-	04/15/2020	**19.7**	
22.2[9]	Floating JPY Tibor +0.29%	-	11/27/2017	-	11/27/2020	**22.2**	

(1) Redeemable loan contracted in April 2014 for JPY 4,560 million (€33.8 million).
(2) Loan contracted in December 2014 for JPY 4,000 million (€29.6 million).
(3) Loan contracted in April 2015 for JPY 5,000 million (€37.0 million).
(4) Loan contracted in March 2016 for JPY 2,000 million (€14.8 million).
(5) Redeemable loan contracted in March 2016 for JPY 2,000 million (€14.8 million). The outstanding balance on this loan was JPY 1,400 million (€10.4 million) as of December 31, 2017.
(6) Redeemable loan contracted in September 2016 for JPY 3,771 million (€27.9 million). The outstanding balance on this loan was JPY 2,864 million (€21.2 million) as of December 31, 2017.
(7) Loan contracted in March 2017 for JPY 3,000 million (€22.2 million).
(8) Redeemable loan contracted in April 2017 for JPY 3,120 million (€23.1 million). The outstanding balance on this loan was JPY 2,666 million (€19.7 million) as of December 31, 2017.
(9) Loan contracted in November 2017 for JPY 3,000 million (€22.2 million).

29.5.2. Confirmed lines of credit available to the Group

As of December 31, 2017, the Group had access to €3,747.1 million in confirmed lines of credit versus €4,188.6 million as of December 31, 2016.

29.5.3. Breakdown of confirmed lines of credit

Kering and Kering Finance SNC: €3,450.0 million breaking down by maturity as follows:

(in € millions)	Dec. 31, 2017	Less than one year	One to five years	More than five years	Dec. 31, 2016
Confirmed lines of credit	**3,450.0**		3,450.0		**3,901.0**

The confirmed lines of credit include a syndicated facility for €2.5 billion signed on June 27, 2014 and initially maturing in June 2019. This facility provides for two one-year loan extension options. The Group confirmed that it would exercise the extension options in June 2015 and June 2016, respectively. As a result, €2,442.5 million of this syndicated facility now matures in June 2021 and the remaining €57.5 million in June 2019.

This June 2014 syndicated loan had not been drawn by the Group as of December 31, 2017. Total confirmed undrawn credit lines available to Kering and Kering Finance SNC as of December 31, 2017 amount to €3,450.0 million.

Other confirmed lines of credit: €297.1 million breaking down by maturity as follows:

(in € millions)	Dec. 31, 2017	Less than one year	One to five years	More than five years	Dec. 31, 2016
PUMA[(1)]	**297.1**	266.2	30.9		**287.6**

(1) PUMA: including €56.8 million drawn down in the form of bank borrowings as of the end of December 2017.

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, 2017, Kering and Kering Finance SNC had not drawn down any of the €3,450.0 million available under confirmed lines of credit subject to this covenant.

The Group was in compliance with all of these covenants as of December 31, 2017 and there is no foreseeable risk of breach.

The undrawn balance on these confirmed lines of credit as of December 31, 2017 was €3,690.3 million (€4,153.1 million as of December 31, 2016).

The undrawn confirmed lines of credit guarantee the Group's liquidity and mainly back the commercial paper issue programme which remained undrawn as of December 31, 2017 and on which a total of €350.1 million remained outstanding as of December 31, 2016.

note 30 – exposure to interest rate, foreign exchange, equity and precious metals price risk

The Group uses derivative financial instruments to manage its exposure to market risks.

Derivatives used by the Group as of December 31, 2017 are described below.

30.1. 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)	Dec. 31, 2017	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond	Dec. 31, 2016
Swaps: fixed-rate lender	400.0	400.0						400.0
Swaps: fixed-rate borrower	134.3			125.1		9.2		152.9
Other interest rate instruments								
TOTAL	**534.3**	**400.0**		**125.1**		**9.2**		**552.9**

In accordance with the interest rate risk hedging policy, these instruments are chiefly designed to convert fixed interest rates on negotiable debt securities, fixed-rate borrowings and credit line drawdowns into floating rates.

The Group has also entered into fixed-rate lender swaps in an amount of €400 million.

These instruments also convert floating-rate bonds into fixed-rate debt.

As of December 31, 2017, fixed-rate borrower swaps for a notional amount of USD 150 million converted all USD bond debt initially issued at floating rates into fixed-rate debt.

In accordance with IAS 39, these financial instruments were analysed with respect to hedge accounting eligibility criteria.

As of December 31, 2017, documented and non-documented financial instruments can be analysed as follows:

(in € millions)	Dec. 31, 2017	Fair value hedges	Cash flow hedges	Non-documented hedges
Swaps: fixed-rate lender	400.0			400.0
Swaps: fixed-rate borrower	134.3		134.3	
TOTAL	**534.3**		**134.3**	**400.0**

These interest rate derivatives are recognised in the statement of financial position at their market value as of 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 year, fully or partly offsetting symmetrical changes in the fair value of the hedged debt. The ineffective portion impacts net finance costs for the year.

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 year.

Movements in the fair value of non-documented derivative instruments are recognised directly in income, with an impact on net finance costs for the year.

As of December 31, 2017, these 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:

		2017 maturities			
(in € millions)	Dec. 31, 2017	Less than one year	One to five years	More than five years	Dec. 31, 2016
Fixed-rate financial assets	**55.3**	**22.9**	**32.4**		**56.6**
Bonds	3,971.1	499.5	2,117.7	1,353.9	4,038.8
Commercial paper					350.1
Other borrowings	13.5		13.3	0.2	39.0
Fixed-rate financial liabilities	**3,984.6**	**499.5**	**2,131.0**	**1,354.1**	**4,427.9**

- Floating-rate financial assets and liabilities, exposed to a cash flow risk before hedging:

		2017 maturities			
(in € millions)	Dec. 31, 2017	Less than one year	One to five years	More than five years	Dec. 31, 2016
Floating-rate financial assets	**2,198.0**	**2,147.5**	**33.0**	**17.5**	**1,138.8**
Bonds	125.0		125.0		142.1
Commercial paper					
Other borrowings	1,075.6	440.2	361.7	273.7	850.3
Floating-rate financial liabilities	**1,200.6**	**440.2**	**486.7**	**273.7**	**992.4**

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:

		2017 maturities			
(in € millions)	Dec. 31, 2017	Less than one year	One to five years	More than five years	Dec. 31, 2016
Fixed-rate financial assets	**55.3**	**22.9**	**32.4**		**56.6**
Bonds	3,696.1	99.5	2,242.7	1,353.9	3,980.9
Commercial paper					150.1
Other borrowings	22.7	1.4	21.1	0.2	49.6
Fixed-rate financial liabilities	**3,718.8**	**100.9**	**2,263.8**	**1,354.1**	**4,180.6**

- Floating-rate financial assets and liabilities, exposed to a cash flow risk after hedging:

		2017 maturities			
(in € millions)	Dec. 31, 2017	Less than one year	One to five years	More than five years	Dec. 31, 2016
Floating-rate financial assets	**2,198.0**	**2,147.5**	**33.0**	**17.5**	**1,138.8**
Bonds	400.0	400.0			200.0
Commercial paper					200.0
Other borrowings	1,066.4	438.8	353.9	273.7	839.7
Floating-rate financial liabilities	**1,466.4**	**838.8**	**353.9**	**273.7**	**1,239.7**

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:

		Before hedging		After hedging	
(in € millions)	Dec. 31, 2017	Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
Gross borrowings	**5,185.2**	**3,984.6**	**1,200.6**	**3,718.8**	**1,466.4**
%		76.8%	23.2%	71.7%	28.3%

		Before hedging		After hedging	
(in € millions)	Dec. 31, 2016	Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
Gross borrowings	**5,420.3**	**4,427.9**	**992.4**	**4,180.6**	**1,239.7**
%		81.7%	18.3%	77.1%	22.9%

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 €3.2 million on pre-tax consolidated net income. As of December 31, 2016, the impact of a sudden 50 basis-point increase or decrease in interest rates was estimated at €2.2 million (assumption consistent with relative interest rate levels observed at the end of the reporting period).

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 and US dollar yield curve as of December 31, 2017.

(in € millions)	Impact on reserves	Impact on income
As of December 31, 2017		
Increase of 50 basis points	1.3	(0.4)
Decrease of 50 basis points	(1.4)	0.4
As of December 31, 2016		
Increase of 50 basis points	2.2	(0.4)
Decrease of 50 basis points	(2.3)	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 interest rate instruments eligible for cash flow hedge accounting.

The impact on net finance costs is generated by interest rate instruments not eligible for hedge accounting.

These amounts are shown before tax.

30.2. 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:

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Currency forwards	(2,800.4)	(3,253.2)
Cross currency swaps	(98.5)	(107.8)
Currency options – export tunnels	(406.7)	(204.2)
Currency options – purchases	(13.5)	(90.6)
TOTAL	**(3,319.1)**	**(3,655.8)**

The Group primarily uses forward currency contracts and/or currency/cross 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 in light of IAS 39 hedge accounting eligibility criteria. The Group has no derivatives eligible for net investment hedge accounting.

As of December 31, 2017, documented and non-documented derivative instruments were as follows:

(in € millions)	Dec. 31, 2017	USD	JPY	GBP	
Cash flow hedges					
Forward purchases and forward purchase swaps	**1,347.0**	1,267.9		38.9	
Forward sales and forward sale swaps	**(2,930.4)**	(677.1)	(394.2)	(357.1)	
Currency options – purchases of export tunnels	**(406.7)**	(192.6)	(87.8)	(77.2)	
Currency options – purchases	**(13.5)**	(5.8)		(3.4)	
Fair value hedges					
Forward purchases and forward purchase swaps	**675.9**	309.7	86.1	47.1	
Forward sales and forward sale swaps	**(1,271.4)**	(246.3)	(98.0)	(171.8)	
Not documented					
Forward purchases and forward purchase swaps	**118.8**	111.4	0.4	1.7	
Forward sales and forward sale swaps	**(740.3)**	(345.2)	(52.3)	(45.4)	
Cross currency swaps	**(98.5)**		(98.5)		
Maturity					
Less than one year					
Forward purchases and forward purchase swaps	**1,896.7**	1,445.1	86.5	87.7	
Forward sales and forward sale swaps	**(4,795.2)**	(1,268.6)	(509.3)	(547.0)	
Cross currency swaps	**(98.5)**		(98.5)		
Currency options – purchases of export tunnels	**(406.7)**	(192.6)	(87.8)	(77.2)	
Currency options – purchases	**(13.5)**	(5.8)		(3.4)	
More than one year					
Forward purchases and forward purchase swaps	**245.0**	243.9			
Forward sales and forward sale swaps	**(146.9)**		(35.2)	(27.3)	
Cross currency swaps					

Foreign exchange derivatives are recognised in the statement of financial position at their market value as of 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, quarter, half-year, etc.) or certain future cash flows not yet recognised (firm orders).

As of December 31, 2017, 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 recognised in the coming reporting period.

Derivatives qualifying as fair value hedges are used to hedge items recognised in the consolidated statement of financial position as of 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 Luxury activities brands.

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.

CHF	HKD	CNY	SGD	TWD	KRW	Other	Dec. 31, 2016
3.3						36.9	**1,202.6**
	(228.3)	(479.0)	(61.5)	(56.6)	(259.7)	(416.9)	**(2,907.6)**
	(49.1)						**(204.2)**
	(4.3)						**(90.6)**
23.4	33.3	74.3	7.9	6.0	36.9	51.2	**530.1**
(20.8)	(143.9)	(181.9)	(48.8)	(25.9)	(73.0)	(261.0)	**(1,267.4)**
	2.3					3.0	**131.1**
(292.1)	(2.3)					(3.0)	**(942.0)**
							(107.8)
25.6	35.6	74.3	7.9	6.0	36.9	91.1	**1,640.5**
(312.9)	(370.2)	(644.4)	(107.6)	(78.7)	(319.4)	(637.1)	**(4,892.4)**
	(49.1)						**(204.2)**
	(4.3)						**(90.6)**
1.1							**223.3**
	(4.3)	(16.5)	(2.7)	(3.8)	(13.3)	(43.8)	**(224.6)**
							(107.8)

As of December 31, 2017, the exposure to foreign exchange risk on the statement of financial position was as follows:

(in € millions)	Dec. 31, 2017	USD	JPY	GBP
Monetary assets	3,419.3	969.5	265.8	245.8
Monetary liabilities	1,650.8	727.3	392.6	26.8
Gross exposure in the statement of financial position	1,768.5	242.2	(126.8)	219.0
Forecast exposure	2,001.2	(399.1)	482.0	398.8
Gross exposure before hedging	**3,769.6**	**(156.9)**	**355.2**	**617.9**
Hedging instruments	(3,319.1)	222.0	(644.3)	(567.2)
Gross exposure after hedging	**450.5**	**65.1**	**(289.1)**	**50.7**

Monetary assets comprise loans and receivables, bank balances, and 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 currencies in which the subsidiaries operate 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 on the statement of financial position, not considered material as of the end of the reporting period.

Based on market data as of December 31, 2017, 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 (USD, JPY and CNY) would be as follows:

As of December 31, 2017	Impact on reserves		Impact on income	
(in € millions)	10% increase	10% decrease	10% increase	10% decrease
USD	(35.7)	52.2	0.5	(4.3)
JPY	43.8	(48.8)	(0.7)	(1.6)
CNY	43.5	(53.2)	(0.7)	0.8

As of December 31, 2016	Impact on reserves		Impact on income	
(in € millions)	10% increase	10% decrease	10% increase	10% decrease
USD	(16.1)	18.5	2.2	0.9
JPY	50.0	(56.5)	(0.9)	(2.1)
CNY	34.8	(42.5)	(1.2)	1.4

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 eligible for cash flow hedge accounting.

The impact on net finance costs arises from foreign exchange instruments not eligible for hedge accounting and from the change in the ineffective portion of cash flow hedges.

These amounts are shown before tax.

CHF	HKD	CNY	SGD	TWD	KRW	Other	Dec. 31, 2016
349.6	171.7	415.1	50.8	46.3	157.7	747.0	3,309.2
45.2	14.3	24.0	3.3	11.9	3.4	402.0	1,433.9
304.4	157.4	391.1	47.5	34.4	154.3	345.0	1,875.3
(3.3)	281.7	479.0	61.5	56.6	259.8	384.2	1,991.0
301.0	**439.1**	**870.1**	**109.0**	**91.0**	**414.1**	**729.1**	**3,866.3**
(286.2)	(392.3)	(586.6)	(102.4)	(76.5)	(295.8)	(589.8)	(3,650.5)
14.8	**46.8**	**283.5**	**6.6**	**14.5**	**118.3**	**139.3**	**215.8**

30.3. 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, 2017, no equity risk hedging transaction had been recognised as a derivative instrument in accordance with IAS 39.

30.4. Exposure to precious metals price risk

The Group may be exposed to fluctuations in the price of certain precious metals, particularly gold, within the scope of its brands' activities in the Watches and Jewelry segments. Hedges may therefore be put in place by contracting derivative financial instruments to fix the production cost or by negotiating prices with refiners or manufacturers of semi-finished products.

As of December 31, 2017, these hedging transactions with a residual maturity of less than one year are treated as forward purchases for a notional amount of €10.4 million. Their market value is not material.

A sudden 1% increase or decrease in precious metals prices would have an impact of €0.1 million on the Group's hedging reserves excluding the tax impact.

30.5. 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.

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.

30.6. Derivative instruments at market value

As of December 31, 2017, 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 derivatives hedging the foreign exchange risk on commercial transactions is recognised in other current financial assets or liabilities.

The fair value of derivatives hedging the foreign exchange risk on financial transactions is recognised in non-current financial assets or liabilities if their term exceeds one year.

(in € millions)	Dec. 31, 2017	Interest rate risk	Foreign exchange risk	Other market risks	Dec. 31, 2016
Derivative assets	**149.2**	**0.7**	**148.5**		**121.9**
Non-current	**0.7**	**0.7**			
At fair value through income					
Cash flow hedges	0.7	0.7			
Fair value hedges					
Current	**148.5**		**148.5**		**121.9**
At fair value through income	7.0		7.0		1.6
Cash flow hedges	127.6		127.6		104.6
Fair value hedges	13.9		13.9		15.7
Derivative liabilities	**111.8**	**0.7**	**111.1**		**115.9**
Non-current	**0.7**	**0.7**			**19.6**
At fair value through income					18.0
Cash flow hedges	0.7	0.7			1.6
Fair value hedges					
Current	**111.1**		**111.1**		**96.3**
At fair value through income	10.0		10.0		5.2
Cash flow hedges	84.0		84.0		81.6
Fair value hedges	17.1		17.1		9.5
TOTAL	**37.4**		**37.4**		**6.0**

The effective portion of derivatives hedging future cash flows is recorded against equity.

Changes in the cash flow hedging reserve in 2017 are presented in Note 14 – Other comprehensive income.

In accordance with IFRS 13, derivatives were measured as of December 31, 2017 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.

30.7. 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 €3,747.1 million. As of December 31, 2017, this includes an amount of €3,690.3 million not yet drawn and available cash of €2,136.6 million.

The following table shows contractual commitments relating to borrowings and trade payables. It includes accrued interest payable and excludes the impact of netting agreements. The table also shows Group commitments relating to derivative instruments recorded in assets or liabilities.

Forecast cash flows relating to accrued interest payable are included in "Other borrowings" and calculated up to the maturity of the borrowings to which they relate. Future floating-rate interest is set by reference to the last coupon for the current period, based on fixings applicable as of 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 line items, which amounted to €2,136.6 million and €1,366.5 million, respectively, as of December 31, 2017.

(in € millions)	Dec. 31, 2017 Carrying amount	Cash flow	Less than one year	One to five years	More than five years
Non-derivative financial instruments					
Bonds	4,096.1	(4,100.2)	(500.0)	(2,250.2)	(1,350.0)
Commercial paper					
Other borrowings	1,089.1	(1,422.3)	(482.1)	(577.0)	(363.2)
Trade payables	1,240.7	(1,240.7)	(1,240.7)		
Derivative financial instruments					
Interest rate hedges					
Interest rate swaps		(1.2)	(0.4)	(0.8)	
Other interest rate instruments					
Foreign exchange hedges	**(37.4)**				
Currency forwards and currency swaps					
Outflows		(6,562.4)	(6,199.7)	(362.7)	
Inflows		6,579.4	6,214.4	365.0	
Other foreign exchange instruments					
Outflows		(461.4)	(461.4)		
Inflows		467.6	467.6		
TOTAL	**6,388.5**	**(6,741.2)**	**(2,202.3)**	**(2,825.7)**	**(1,713.2)**

(in € millions)	Dec. 31, 2016 Carrying amount	Cash flow	Less than one year	One to five years	More than five years
Non-derivative financial instruments					
Bonds	4,180.9	(4,184.6)	(350.0)	(2,284.6)	(1,550.0)
Commercial paper	350.1	(350.1)	(350.1)		
Other borrowings	889.3	(1,228.7)	(554.2)	(525.3)	(149.2)
Trade payables	1,098.5	(1,098.5)	(1,098.5)		
Derivative financial instruments					
Interest rate hedges	**1.6**				
Interest rate swaps		(4.9)	(1.5)	(3.3)	(0.1)
Other interest rate instruments					
Foreign exchange hedges	**(7.6)**				
Currency forwards and currency swaps					
Outflows		(6,890.1)	(6,456.7)	(433.4)	
Inflows		6,888.3	6,442.1	446.2	
Other foreign exchange instruments					
Outflows		(361.8)	(253.8)	(108.0)	
Inflows		346.8	256.5	90.3	
TOTAL	**6,512.8**	**(6,883.6)**	**(2,366.2)**	**(2,818.1)**	**(1,699.3)**

note 31 – 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, 2017 are presented below:

	Dec. 31, 2017		Breakdown by accounting classification					
(in € millions)	Carrying amount	Market value	Fair value through income	Available-for-sale financial assets	Loans and receivables	Amortised cost	Derivatives qualifying for hedge accounting	Derivatives not qualifying for hedge accounting
Non-current assets								
Non-current financial assets	364.3	364.3		114.1	249.5		0.7	
Current assets								
Trade receivables	1,366.5	1,366.5				1,366.5		
Other current financial assets	155.6	155.6			7.1		141.5	7.0
Cash and cash equivalents	2,136.6	2,136.6	547.8			1,588.8		
Non-current liabilities								
Non-current borrowings	4,245.5	4,423.1				4,245.5		
Other non-current financial liabilities	0.7	0.7					0.7	
Current liabilities								
Current borrowings	939.7	948.3				939.7		
Other current financial liabilities	367.6	367.6				256.5	101.1	10.0
Trade payables	1,240.7	1,240.7				1,240.7		

(in € millions)	Dec. 31, 2016		Breakdown by accounting classification					
	Carrying amount	Market value	Fair value through income	Available-for-sale financial assets	Loans and receivables	Amortised cost	Derivatives qualifying for hedge accounting	Derivatives not qualifying for hedge accounting
Non-current assets								
Non-current financial assets	480.4	480.4		167.0	313.4			
Current assets								
Trade receivables	1,196.4	1,196.4				1,196.4		
Other current financial assets	131.0	131.0			9.1		120.3	1.6
Cash and cash equivalents	1,049.6	1,049.6	9.2			1,040.4		
Non-current liabilities								
Non-current borrowings	4,185.8	4,381.6				4,185.8		
Other non-current financial liabilities	19.6	19.6					1.6	18.0
Current liabilities								
Current borrowings	1,234.5	1,250.7				1,234.5		
Other current financial liabilities	285.9	285.9				189.6	91.1	5.2
Trade payables	1,098.5	1,098.5				1,098.5		

As of December 31, 2017, 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, 2017 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 as of 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.

- 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: financial instruments quoted on an active market;

Level 2: financial instruments whose fair value is determined using valuation techniques drawing on observable market inputs;

Level 3: 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, 2017:

(in € millions)	Fair value hierarchy			Dec. 31, 2017
	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	30.0	0.7	333.6	364.3
Current assets				
Trade receivables			1,366.5	1,366.5
Other current financial assets		148.5	7.1	155.6
Cash and cash equivalents		547.8	1,588.8	2,136.6
Non-current liabilities				
Non-current borrowings			4,245.5	4,245.5
Other non-current financial liabilities		0.7		0.7
Current liabilities				
Current borrowings			939.7	939.7
Other current financial liabilities		111.1	256.5	367.6
Trade payables			1,240.7	1,240.7

(in € millions)	Fair value hierarchy			Dec. 31, 2016
	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	26.3		454.1	480.4
Current assets				
Trade receivables			1,196.4	1,196.4
Other current financial assets		121.9	9.1	131.0
Cash and cash equivalents		9.2	1,040.4	1,049.6
Non-current liabilities				
Non-current borrowings			4,185.8	4,185.8
Other non-current financial liabilities		19.6		19.6
Current liabilities				
Current borrowings			1,234.5	1,234.5
Other current financial liabilities		96.3	189.6	285.9
Trade payables			1,098.5	1,098.5

note 32 – net debt

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Gross borrowings	5,185.2	5,420.3
Cash and cash equivalents	(2,136.6)	(1,049.6)
Net debt	**3,048.6**	**4,370.7**

note 33 – statement of cash flows

33.1. Reconciliation of cash and cash equivalents as reported in the statement of financial position with cash and cash equivalents as reported in the statement of cash flows

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Cash and cash equivalents as reported in the statement of financial position	2,136.6	1,049.6
Bank overdrafts	(237.3)	(292.1)
Cash and cash equivalents as reported in the statement of cash flows	**1,899.3**	**757.5**

33.2. Breakdown of cash flow from operating activities

(in € millions)	2017	2016
Net income from continuing operations	**1,870.7**	**880.1**
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets	516.4	432.0
Other non-cash income and expenses:	72.1	295.0
o/w:		
Recurring operating income and expenses (Note 4):	*(6.3)*	*22.4*
- Fair value of foreign exchange rate hedges	*(62.7)*	*7.5*
- Other	*56.4*	*14.9*
Other income and expenses:	*78.4*	*272.6*
- Impairment losses on non-current operating assets	*185.4*	*296.6*
- Asset impairment	*10.6*	*53.2*
- Fair value of foreign exchange rate hedges in net finance costs	*64.8*	*(10.6)*
- Deferred tax	*(226.7)*	*(79.4)*
- Share in earnings (losses) of equity-accounted companies	*2.0*	*2.2*
- Other	*42.3*	*10.6*
Cash flow from operating activities	**2,459.2**	**1,607.1**

33.3. Debt issues and redemptions/repayments

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Bond issues	321.7	570.5
Debt redemptions/repayments	(410.1)	(51.9)
Increase/decrease in other borrowings	(363.4)	(1,054.7)
TOTAL	**(451.8)**	**(536.1)**

Borrowings issued in 2017 include Kering SA's new €300 million 1.50% bond which was settled and delivered on April 5, 2017.

Debt redemptions and repayments relate mainly to debt issued by Kering SA in 2009 which matured in June 2017 and November 2017 for €150 million and €200 million, respectively. This item also includes annual repayments on certain JPY bank loans.

Changes in other borrowings chiefly reflect issues and redemptions of Kering Finance commercial paper.

33.4. Reconciliation of changes in borrowings with net cash flows from (used in) financing activities

(in € millions)

	Bonds issues	Other bank borrowings	Confirmed lines of credit	Drawdowns on unconfirmed lines of credit	
As of January 1, 2017	**4,180.9**	**335.1**	**-**	**23.4**	
Increase/decrease in share capital and other transactions with owners					
Treasury share transactions					
Dividends paid to owners of the parent company					
Dividends paid to non-controlling interests					
Debt issues	297.2	24.5			
Debt redemptions/repayments	(349.6)	(60.5)			
Increase/decrease in other borrowings				2.1	
Interest paid and equivalent					
Net cash from (used in) financing activities	(52.4)	(36.0)	-	2.1	
Changes in Group structure		12.0			
Translation adjustments	(34.5)	(30.1)		(1.4)	
Other movements	2.1	37.5		(3.6)	
As of December 31, 2017	**4,096.1**	**318.5**	**-**	**20.5**	

Borrowings					Equity		Total
Commercial paper	Obligations under finance leases	Bank overdrafts	Other borrowings		Equity attributable to owners of the parent	Non-controlling interests	
350.1	**96.9**	**292.1**	**141.8**				
					(27.8)		(27.8)
					0.2		0.2
					(580.9)		(580.9)
						(35.0)	(35.0)
							321.7
							(410.1)
(350.1)		(15.4)					(363.4)
	(3.5)	(10.4)	(189.6)				(203.5)
(350.1)	(3.5)	(25.8)	(189.6)		(608.5)	(35.0)	(1,298.8)
	(5.6)	(16.5)	(1.2)				
	(3.9)	(12.5)	477.9				
-	**83.9**	**237.3**	**428.9**				

note 34 – contingent liabilities, contractual commitments not recognised and other contingencies

34.1. Commitments given or received following asset disposals

Vendor warranties given or received by the Group on sales of companies in prior years are summarised below as of December 31, 2017:

Disposals	Vendor warranties
December 2010	
Sale of Conforama	Vendor warranty covering tax-related claims expiring when the period becomes time barred, capped at €120 million. This disposal is related to an ancillary 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) certain fundamental representations (with respect to organisation, title ownership, capacity) which survive indefinitely, (ii) employment and benefit plans, and (iii) tax-related claims; (ii) and (iii) expiring when the period becomes time barred. These warranties are capped at USD 21.5 million.
February 2013	
Sale of OneStopPlus	Specific vendor warranty covering three identified tax-related claims, expiring when the period becomes time barred.
March 2013	
Sale of Redcats' Children and Family division	Vendor warranty covering certain fundamental representations (with respect to organisation and title/asset ownership), expiring in April 2018 and capped at the sale price. Specific warranty covering an occupancy fee capped at €400,000.
June 2013	
Sale of Ellos	Customary vendor warranty covering certain fundamental representations (with respect to capacity, existence, title ownership and capitalisation), which survives indefinitely and is capped at the sale price. Vendor warranty covering tax-related claims, which expires on June 2, 2019 and is capped at SEK 350 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.

Disposals	Vendor warranties
June 2014	
Sale of La Redoute and Relais Colis	Customary vendor warranty covering certain fundamental representations (particularly with respect to the existence of the companies sold, the availability of the shares sold and the capacity and power to complete the sale), which expires when the period becomes time barred and is capped at €10 million. Vendor warranty covering tax-related claims and capped at €10 million, expiring when the period becomes time barred. Specific vendor warranties covering (i) the group's restructuring operations prior to its sale, which expire on December 31, 2021 and are not capped, and (ii) environmental risks, which expire on December 31, 2020 and are capped at €37 million.
December 2015	
Sale of Sergio Rossi	Vendor warranties covering (i) tax-related or similar claims expiring when the period becomes time barred in each jurisdiction concerned and (ii) certain fundamental representations (particularly with respect to organisation, capitalisation, titles and authority) which survive indefinitely. These warranties are capped at €15 million with the exception of (ii), which is capped at the sale price. Specific vendor warranties covering (i) tax audits of the years 2010 to 2014; (ii) the tax impact of the group's restructuring operations prior to its sale; and (iii) intellectual property claims and potential disputes with certain managerial-grade employees (*cadres*), which survive indefinitely. These warranties are not capped.
March 2016	
Disposal of Electric	Customary vendor warranty covering certain fundamental representations, particularly with respect to organisation, capitalisation and authority. The vendor warranties are limited to the seller's knowledge of insurance, litigation and tax-related matters. They are not capped.

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.

34.2. Other commitments given

34.2.1. Contractual obligations

The table below shows all the Group's contractual commitments and obligations, excluding employee benefit obligations presented in Note 26 – Employee benefits.

	Payments due by period				
(in € millions)	Less than one year	One to five years	More than five years	Dec. 31, 2017	Dec. 31, 2016
Borrowings (Note 29)	939.7	2,617.7	1,627.8	5,185.2	5,420.3
Operating lease agreements	741.8	1,911.1	1,227.6	3,880.5	3,732.3
Binding purchase commitments	134.6	116.4	1.7	252.7	306.6
TOTAL COMMITMENTS GIVEN	**1,816.1**	**4,645.2**	**2,857.1**	**9,318.4**	**9,459.2**

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 year, 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, 2017, total future minimum lease payments which the Group expects to receive under non-cancellable sub-lease agreements amount to €14.5 million (€7.0 million as of December 31, 2016).

The rental expense for 2017 corresponding to minimum lease payments amounts to €808.9 million (€749.9 million in 2016). The contingent consideration expense, calculated on the basis of actual revenue, was €683.6 million (€413.9 million in 2016).

Sub-lease revenue totalled €3.3 million in 2017 and €2.7 million in 2016.

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)	Dec. 31, 2017	Dec. 31, 2016
Less than one year	9.3	9.7
One to five years	61.4	65.3
More than five years	27.0	40.5
	97.7	**115.5**
Finance costs included	(13.8)	(18.6)
Present value of future minimum lease payments	**83.9**	**96.9**

As of December 31, 2017, the Group does not expect to receive future minimum lease payments under non-cancellable sub-lease agreements.

34.2.2. Guarantees and other collateral

(in € millions)	Pledge start date	Pledge expiry date	Amount of assets pledged as of Dec. 31, 2017	Statement of financial position total (carrying amount)	Corresponding %	Amount of assets pledged as of Dec. 31, 2016
Intangible assets				11,159.0		
Property, plant and equipment	06/08/2001	03/31/2028	31.1	2,267.6	1.4%	34.0
Non-current financial assets				364.3		
TOTAL NON-CURRENT ASSETS PLEDGED AS COLLATERAL			**31.1**	**13,790.9**	**0.2%**	**34.0**

34.2.3. Other commitments

	Payments due by period				
(in € millions)	Less than one year	One to five years	More than five years	Dec. 31, 2017	Dec. 31, 2016
Confirmed lines of credit (see Note 29)	266.2	3,480.9		3,747.1	4,188.6
Letters of credit	22.5	0.1	0.2	22.8	22.5
Other guarantees received	17.6	6.0	2.0	25.6	39.6
TOTAL COMMITMENTS RECEIVED	**306.3**	**3,487.0**	**2.2**	**3,795.5**	**4,250.7**
Guarantees given to banks responsible for cash pooling arrangements	2.5	0.3	1.7	4.5	2.2
Rent guarantees, property guarantees	1.8	9.7	2.7	14.2	17.5
Sponsoring and advertising commitments	185.6	545.6	367.6	1,098.8	490.1
Other commitments	39.2	23.9	1.7	64.8	42.8
TOTAL COMMITMENTS GIVEN	**229.1**	**579.5**	**373.7**	**1,182.3**	**552.6**

Other commitments given primarily include customs warranties and operating guarantees.

To the best of the Group's knowledge, there are no significant contingent liabilities other than the tax risk concerning Gucci described in Note 11.1.3 – Recurring tax rate.

As part of the various procedures set out in the shareholder agreement between Stella McCartney Ltd. and Luxury Fashion Luxembourg SA in 2013 to govern relations between the two parties, Ms. Stella McCartney has an option to repurchase Kering's stake in the company exercisable through March 31, 2018. After that date, Ms. Stella McCartney will have put options on these companies exercisable at dates specified contractually.

34.3. Dependence on patents, licences and supply contracts

The Group is not significantly dependent on any patents, licences or supply contracts.

34.4. 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 as of the end of the reporting period. No individual claim against the Company and/or against any of its subsidiaries 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 material impact on the financial position, activity or earnings of the Company or Group.

note 35 – transactions with related parties

35.1. Related party controlling the Group

Kering SA is controlled by Artémis, which in turn is wholly owned by Financière Pinault. As of December 31, 2017, the Artémis group held 40.9% of Kering's share capital (40.9% as of end-2016) and 57.6% of its voting rights (57.4% as of December 31, 2016).

The main transactions carried out between Kering's consolidated companies and Artémis in 2017 are described below:

- payment of an interim dividend in respect of 2017 totalling €103.2 million in January 2018, approved on December 14, 2017;
- payment of the balance of the dividend for 2016 of €160.1 million, further to the payment of an interim dividend of €77.5 million in January 2017 (€206.5 million for the full 2015 dividend);
- recognition of fees totalling €4.0 million in 2017 (€3.2 million in 2016) 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.

35.2. Associates

In the normal course of business, the Group enters into transactions with associates on an arm's length basis.

These transactions are not material.

35.3. Remuneration paid to members of the Board of Directors and the Group's Executive Committee

(in € millions)	2017	2016
Short-term benefits	69.8	25.2
Payroll taxes	4.3	5.2
Termination indemnities	1.9	2.2
Post-employment benefits	2.0	1.0
Other long-term benefits	40.0	10.6
Share-based payment	53.9	9.7
TOTAL	**171.9**	**53.9**

Short-term benefits, payroll taxes and termination benefits correspond to amounts paid during the year. Post-employment benefits, other long-term 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 36 – list of consolidated subsidiaries as of december 31, 2017

Details of Group subsidiaries are provided below:

Consolidation method: Full consolidation: C

Equity method: E

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
KERING	**Parent company**			
LUXURY ACTIVITIES				
France				
ALEXANDER McQUEEN FRANCE SAS	C	100.00	C	100.00
ARCADES PONTHIEU SA	C	95.00	C	95.00
BALENCIAGA SA	C	100.00	C	100.00
BOTTEGA VENETA FRANCE SAS	C	100.00	C	100.00
BOUCHERON HOLDING SAS	C	100.00	C	100.00
BOUCHERON PARFUMS SAS	C	100.00	C	100.00
BOUCHERON SAS	C	100.00	C	100.00
BRIONI FRANCE SAS	C	100.00	C	100.00
C. MENDES SAS	C	100.00	C	100.00
CHRISTOPHER KANE FRANCE SA	C	80.00	C	80.00
DODO PARIS SAS	C	99.99	C	80.99
FRANCE CROCO SAS	C	100.00	C	100.00
GG FRANCE SERVICES SAS	C	100.00	C	100.00
GPO HOLDING SAS	C	100.00	C	100.00
GUCCI FRANCE SAS	C	100.00	C	100.00
GUCCI GROUP WATCHES FRANCE SAS	Merger		C	100.00
LES BOUTIQUES BOUCHERON SAS	C	100.00	C	100.00
POMELLATO PARIS SA	C	99.99	C	80.99
QEELIN FRANCE SARL	C	100.00	C	100.00
SOWIND FRANCE SAS	C	100.00	C	100.00
STELLA McCARTNEY FRANCE SAS	C	50.00	C	50.00
TANNERIE DE PERIERS SAS	C	100.00	C	100.00
YSL VENTES PRIVEES FRANCE SAS	C	100.00	C	100.00
YVES SAINT LAURENT BOUTIQUE FRANCE SAS	C	100.00	C	100.00
YVES SAINT LAURENT PARFUMS SAS	C	100.00	C	100.00
YVES SAINT LAURENT SAS	C	100.00	C	100.00
Germany				
BALENCIAGA GERMANY GmbH	C	100.00	C	100.00
BOTTEGA VENETA GERMANY GmbH	C	100.00	C	100.00
BRIONI GERMANY GmbH	C	100.00	C	100.00
DODO DEUTSCHLAND GmbH	C	100.00	C	81.00
GG LUXURY GOODS GmbH	C	100.00	C	100.00
KW LUXURY DISTRIBUTION GmbH	C	100.00	C	100.00
POMELLATO DEUTSCHLAND GmbH	C	100.00	C	81.00
TRADEMA GmbH	Liquidation		C	100.00
KERING WATCHES LUXURY DIVISION GmbH	C	100.00	C	100.00
YVES SAINT LAURENT GERMANY GmbH	C	100.00	C	100.00
Austria				
ALEXANDER MCQUEEN GmbH	C	100.00	C	100.00
BOTTEGA VENETA AUSTRIA GmbH	C	100.00	C	100.00
BRIONI AUSTRIA GMBH	C	100.00	C	100.00
GUCCI AUSTRIA GmbH	C	100.00	C	100.00
YVES SAINT LAURENT AUSTRIA GmbH	C	100.00	C	100.00
Belgium				
GUCCI BELGIUM SA	C	100.00	C	100.00
Cyprus				
BOWLINE INVESTMENTS Ltd	C	100.00	-	
PROPERTY4LIFE INVESTMENTS Ltd	C	100.00	-	
Spain				
BALENCIAGA SPAIN SL	C	100.00	C	100.00
BOTTEGA VENETA ESPAÑA SL	C	100.00	C	100.00
BRIONI RETAIL ESPAÑA SL	C	100.00	C	100.00
DODO SPAIN SA	C	100.00	C	81.00
LUXURY GOODS SPAIN SL	C	100.00	C	100.00
LUXURY TIMEPIECES ESPAÑA SL	C	100.00	C	100.00
SOWIND IBERICA SL	C	100.00	Formation	
STELLA McCARTNEY SPAIN SL	C	50.00	C	50.00
YVES SAINT LAURENT SPAIN SA	C	100.00	C	100.00

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
United Kingdom				
ALEXANDER McQUEEN TRADING Ltd	C	100.00	C	100.00
AUTUMNPAPER Ltd	C	100.00	C	100.00
BALENCIAGA UK Ltd	C	100.00	C	100.00
BIRDSWAN SOLUTIONS Ltd	C	100.00	C	100.00
BOTTEGA VENETA UK CO. Ltd	C	100.00	C	100.00
BOUCHERON UK Ltd	C	100.00	C	100.00
BRIONI UK Ltd	C	100.00	C	100.00
CHRISTOPHER KANE Ltd	C	80.00	C	80.00
DODO (UK) Ltd	C	100.00	C	81.00
GUCCI Ltd	C	100.00	C	100.00
LUXURY TIMEPIECES UK Ltd	C	100.00	C	100.00
LUXURY TIMEPIECES & JEWELLERY OUTLETS Ltd	C	100.00	C	100.00
PAINTGATE Ltd	C	100.00	C	100.00
POMELLATO (UK) Ltd	C	100.00	C	81.00
QEELIN UK Ltd	Liquidation		C	100.00
STELLA McCARTNEY Ltd	C	50.00	C	50.00
YVES SAINT LAURENT UK Ltd	C	100.00	C	100.00
Greece				
LUXURY GOODS GREECE AE	C	99.80	C	99.80
Hungary				
GUCCI HUNGARY KFT	C	100.00	C	100.00
Ireland				
GUCCI IRELAND Ltd	C	100.00	C	100.00
Italy				
ALEXANDER McQUEEN ITALIA SRL	C	100.00	C	100.00
ARDORA SRL	Merger		C	100.00
BALENCIAGA LOGISTICA SRL	C	100.00	C	100.00
BALENCIAGA RETAIL ITALIA SRL	C	100.00	C	100.00
BRIONI SpA	C	100.00	C	100.00
BRIONI OUTLET SRL	C	100.00	C	100.00
BRIONI GERMANICS HOLDING SRL	C	100.00	C	100.00
BRIONI RETAIL ITALIA SRL	C	100.00	C	100.00
BV CALZATURE SRL	Merger		C	100.00
BV ITALIA SRL	C	100.00	C	100.00
BV SERVIZI SRL	C	100.00	C	100.00
BOTTEGA VENETA SRL	C	100.00	C	100.00
CALZATURIFICIO CREST SRL	Merger		C	100.00
CALZATURIFICIO FLORA SRL	C	100.00	C	100.00
CARAVEL PELLI PREGIATE SpA	C	100.00	C	100.00
CHRISTOPHER KANE SRL	C	80.00	C	80.00
CONCERIA BLUTONIC SpA	C	51.00	C	51.00
DESIGN MANAGEMENT SRL	C	100.00	C	100.00
DESIGN MANAGEMENT 2 SRL	C	100.00	C	100.00
E_LITE SpA	C	51.00	C	51.00
GARPE SRL	C	100.00	C	100.00
GUCCI GARDEN SRL	C	100.00	C	100.00
G COMMERCE EUROPE SpA	C	100.00	C	100.00
G.F. LOGISTICA SRL	C	100.00	C	100.00
G.F. SERVICES SRL	C	100.00	C	100.00
GGW ITALIA SRL	C	100.00	C	100.00
GJP SRL	C	100.00	C	100.00
GPA SRL	C	100.00	C	100.00
GT SRL	C	100.00	C	100.00
GUCCI IMMOBILLARE LECCIO SRL	C	100.00	C	100.00
GUCCI LOGISTICA SpA	C	100.00	C	100.00
GUCCIO GUCCI SpA	C	100.00	C	100.00
LECCIO SRL	C	100.00	-	
LGM SRL	C	73.30	C	73.30
LUXURY GOODS ITALIA SpA	C	100.00	C	100.00
LUXURY GOODS OUTLET SRL	C	100.00	C	100.00
MANIFATTURA VENETA PELLETERIE SRL	C	100.00	C	100.00
PIGINI SRL	C	100.00	C	100.00
POMELLATO SpA	C	100.00	C	81.00
POMELLATO EUROPA SpA	C	100.00	C	81.00
ROMAN STYLE SpA	C	100.00	C	100.00
SAMMEZZANO OUTLET SRL	C	100.00	-	
SFORZA SRL	Merger		C	100.00
SOWIND ITALIA SRL	C	100.00	C	100.00
STELLA McCARTNEY ITALIA SRL	C	50.00	C	50.00
SL LUXURY RETAIL SRL	C	100.00	C	100.00
THE MALL SRL	C	100.00	C	100.00
TIGER FLEX SRL	C	100.00	C	100.00
TOMAS MAIER ITALIA SRL	E	51.00	-	
TRAMOR SRL	C	100.00	-	
ULYSSE NARDIN ITALIA SRL	C	100.00	C	100.00
SAINT LAURENT SHOES SRL	C	100.00	C	100.00
YVES SAINT LAURENT LOGISTICA SRL	C	100.00	C	100.00
Luxembourg				
BOTTEGA VENETA INTERNATIONAL SARL	C	100.00	C	100.00

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
CASTERA SARL	C	100.00	C	100.00
GUCCI GULF INVESTMENTS SARL	C	100.00	C	100.00
LUXURY FASHION LUXEMBOURG SA	C	50.00	C	50.00
QEELIN HOLDING LUXEMBOURG SA	C	100.00	C	100.00
Monaco				
BOUCHERON SAM	C	100.00	C	100.00
GUCCI SAM	C	100.00	C	100.00
KERING RETAIL MONACO SAM	C	100.00	C	100.00
SMHJ SAM	C	99.79	C	80.83
YVES SAINT LAURENT OF MONACO SAM	C	100.00	C	100.00
Netherlands				
BOTTEGA VENETA HOLDING BV	C	100.00	C	100.00
G DISTRIBUTION BV	C	100.00	C	100.00
GG MIDDLE EAST BV	C	51.00	C	100.00
GG OTHER TERRITORIES BV	C	100.00	C	100.00
KERING ASIAN HOLDING BV	C	100.00	C	100.00
GUCCI NETHERLANDS BV	C	100.00	C	100.00
YVES SAINT LAURENT NETHERLANDS BV	C	100.00	-	
Czech Republic				
BRIONI CZECH REPUBLIC SRO	C	100.00	C	100.00
LUXURY GOODS CZECH REPUBLIC SRO	C	100.00	C	100.00
Russia				
BOUCHERON RUSSIA OOO	C	100.00	C	100.00
GUCCI RUS OOO	C	100.00	C	100.00
ULYSSE NARDIN RUSSIA LLC	C	100.00	C	100.00
Serbia				
LUXURY TANNERY DOO	C	51.00	C	51.00
Switzerland				
BOTTEGA VENETA SA	C	100.00	C	100.00
BOUCHERON (SUISSE) SA	C	100.00	C	100.00
BRIONI SWITZERLAND SA	C	100.00	C	100.00
DONZE CADRANS SA	C	100.00	C	100.00
FABBRICA QUADRANTI SA	C	100.00	C	51.00
GT SILK SA	C	100.00	C	76.00
LUXURY FASHION SA	C	50.00	C	50.00
LUXURY GOODS INTERNATIONAL SA	C	100.00	C	100.00
LUXURY GOODS OUTLETS EUROPE SAGL	C	100.00	C	100.00

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
OCHS UND JUNIOR SA	E	32.80	E	32.80
SIGATEC SA	E	50.00	E	50.00
SOWIND GROUP SA	C	100.00	C	100.00
SOWIND SA	C	100.00	C	100.00
THE MALL LUXURY OUTLET SA	C	100.00	C	100.00
ULYSSE NARDIN LE LOCLE SA	C	100.00	C	100.00
UNCA SA	E	50.00	E	50.00
YVES SAINT LAURENT SWITZERLAND SA	C	100.00	Formation	
Aruba				
GEMINI ARUBA NV	C	100.00	C	100.00
Brazil				
BOTTEGA VENETA HOLDING Ltda	C	100.00	C	100.00
GUCCI BRASIL IMPORTACAO E EXPORTACAO Ltda	C	100.00	C	100.00
SAINT LAURENT BRASIL IMPORTACAO E EXPORTACAO Ltda	C	100.00	C	100.00
Canada				
BOTTEGA VENETA CANADA Ltd	C	100.00	Formation	
G. BOUTIQUES INC.	C	100.00	C	100.00
SAINT LAURENT CANADA BOUTIQUES INC.	C	100.00	C	100.00
Chile				
LUXURY GOODS CHILE SpA	C	51.00	C	51.00
United States				
ALEXANDER McQUEEN TRADING AMERICA INC.	C	100.00	C	100.00
741 MADISON AVENUE Corp.	C	100.00	C	81.00
BALENCIAGA AMERICA INC.	C	100.00	C	100.00
BOTTEGA VENETA INC.	C	100.00	C	100.00
BOUCHERON JOAILLERIE (USA) INC.	C	100.00	C	100.00
BRIONI AMERICA INC.	C	100.00	C	100.00
BRIONI AMERICA HOLDING INC.	C	100.00	C	100.00
CHRISTOPHER KANE INC.	C	80.00	C	80.00
E_LITE US INC.	C	51.00	C	51.00
G GATOR USA LLC	C	100.00	C	100.00
GUCCI AMERICA INC.	C	100.00	C	100.00
GUCCI CARIBBEAN INC.	C	100.00	C	100.00
GUCCI GROUP WATCHES INC.	C	100.00	C	100.00
JOSEPH ALTUZARRA	E	40.54	E	38.50
LUXURY HOLDINGS INC.	C	100.00	C	100.00
POMELLATO USA INC.	C	100.00	C	81.00

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
STELLA McCARTNEY AMERICA INC.	C	50.00	C	50.00
TOMAS MAIER LLC	E	51.00	-	
TOMAS MAIER DISTRIBUTION LLC	E	51.00	-	
TOMAS MAIER HOLDING LLC	E	51.00	E	51.00
TRADEMA OF AMERICA INC.	C	100.00	C	100.00
ULYSSE NARDIN INC.	C	100.00	C	100.00
WALL'S GATOR FARM II LLC	E	40.00	E	40.00
WG ALLIGATOR FARM LLC	E	40.00	E	40.00
YVES SAINT LAURENT AMERICA HOLDING INC.	C	100.00	C	100.00
YVES SAINT LAURENT AMERICA INC.	C	100.00	C	100.00
Mexico				
BOTTEGA VENETA MEXICO, S. DE R.L. DE C.V.	C	100.00	C	100.00
BOTTEGA VENETA SERVICIOS S. DE R.L. DE C.V.	C	100.00	C	100.00
D ITALIAN CHARMS S.A. DE C.V.	C	100.00	C	81.00
GUCCI IMPORTACIONES S.A. DE C.V.	C	100.00	C	100.00
GUCCI MEXICO S.A. DE C.V.	C	100.00	C	100.00
RETAIL LUXURY SERVICIOS S.A. DE C.V.	C	100.00	C	100.00
SAINT LAURENT MEXICO, S. DE R.L. DE C.V.	C	100.00	C	100.00
SAINT LAURENT SERVICIOS S. DE R.L. DE C.V.	C	100.00	C	100.00
Panama				
LUXURY GOODS PANAMA S DE RL	C	51.00	C	51.00
Australia				
BOTTEGA VENETA AUSTRALIA PTY Ltd	C	100.00	C	100.00
GUCCI AUSTRALIA PTY Ltd	C	100.00	C	100.00
SAINT LAURENT AUSTRALIA PTY Ltd	C	100.00	C	100.00
New Zealand				
GUCCI NEW ZEALAND Ltd	C	100.00	C	100.00
China				
1921 (SHANGHAI) RESTAURANT Ltd	C	100.00	C	100.00
ALEXANDER McQUEEN (SHANGHAI) TRADING Ltd	C	100.00	C	100.00
BALENCIAGA FASHION SHANGAI Co. Ltd	C	100.00	C	100.00
BOTTEGA VENETA (CHINA) TRADING Ltd	C	100.00	C	100.00
BOUCHERON (SHANGHAI) TRADING Ltd	C	100.00	C	100.00
BRIONI (SHANGHAI) TRADING Ltd	C	100.00	C	100.00
GUCCI (CHINA) TRADING Ltd	C	100.00	C	100.00
GUCCI WATCHES MARKETING CONSULTING (SHANGHAI) Ltd	C	100.00	C	100.00
LGI (SHANGHAI) ENTERPRISE MANAGEMENT Ltd	C	100.00	C	100.00
POMELLATO SHANGHAI Co. Ltd	C	100.00	C	81.00
QEELIN TRADING (SHANGHAI) Co. Ltd	C	100.00	C	100.00
STELLA McCARTNEY (SHANGHAI) TRADING Ltd	C	50.00	C	50.00
YVES SAINT LAURENT (SHANGHAI) TRADING Ltd	C	100.00	C	100.00
Korea				
ALEXANDER McQUEEN KOREA Ltd	C	100.00	Formation	
BALENCIAGA KOREA Ltd	C	100.00	C	100.00
BOTTEGA VENETA KOREA Ltd	C	100.00	C	100.00
BOUCHERON KOREA Ltd	C	100.00	C	100.00
GUCCI KOREA Ltd	C	100.00	C	100.00
YVES SAINT LAURENT KOREA Ltd	C	100.00	C	100.00
Guam				
BOTTEGA VENETA GUAM INC.	C	100.00	C	100.00
GUCCI GROUP GUAM INC.	C	100.00	C	100.00
Hong Kong				
ALEXANDER McQUEEN (HONG KONG) Ltd	C	100.00	C	100.00
BALENCIAGA ASIA PACIFIC Ltd	C	100.00	C	100.00
BOTTEGA VENETA HONG KONG Ltd	C	100.00	C	100.00
BOUCHERON HONG KONG Ltd	C	100.00	C	100.00
BRIONI HONG KONG Ltd	C	100.00	C	100.00
GUCCI (HONG KONG) Ltd	C	100.00	C	100.00
GUCCI ASIA COMPANY Ltd	C	100.00	C	100.00
LUXURY TIMEPIECES (HONG KONG) Ltd	C	100.00	C	100.00
MOVEN INTERNATIONAL Ltd	C	100.00	C	100.00
POMELLATO CHINA Ltd	C	100.00	C	81.00
POMELLATO PACIFIC Ltd	C	100.00	C	81.00
QEELIN Ltd	C	100.00	C	100.00
SOWIND ASIA Ltd	Liquidation		C	100.00
STELLA McCARTNEY HONG KONG Ltd	C	50.00	C	50.00

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
ULYSSE NARDIN (ASIA PACIFIC) Ltd	C	100.00	C	100.00
YVES SAINT LAURENT (HONG KONG) Ltd	C	100.00	C	100.00
India				
GUCCI INDIA PRIVATE Ltd	C	100.00	C	100.00
LUXURY GOODS RETAIL PRIVATE LIMITED LGR	C	51.00	C	51.00
Japan				
BALENCIAGA JAPAN Ltd	C	100.00	C	100.00
BOTTEGA VENETA JAPAN Ltd	C	100.00	C	100.00
BOUCHERON JAPAN Ltd	C	100.00	C	100.00
BRIONI JAPAN & Co. Ltd	C	100.00	C	100.00
E_LITE JAPAN Ltd	C	51.00	C	51.00
LUXURY TIMEPIECES JAPAN Ltd	C	100.00	C	100.00
POMELLATO JAPAN Co. Ltd	C	100.00	C	81.00
STELLA McCARTNEY JAPAN Ltd	C	50.00	C	50.00
SOWIND JAPAN KK	C	100.00	C	100.00
Macau				
ALEXANDER McQUEEN (MACAU) Ltd	C	100.00	C	100.00
BALENCIAGA MACAU Ltd	C	100.00	C	100.00
BOTTEGA VENETA MACAU Ltd	C	100.00	C	100.00
BRIONI MACAU Ltd	C	100.00	C	100.00
GUCCI MACAU Ltd	C	100.00	C	100.00
KERING (MACAU) WATCHES AND JEWELRY Ltd	C	100.00	Formation	
QEELIN MACAU Ltd	C	100.00	C	100.00
YVES SAINT LAURENT MACAU Ltd	C	100.00	C	100.00
Vietnam				
GUCCI VIETNAM Co. Ltd	C	100.00	C	100.00
Bahrain				
FLORENCE 1921 WLL	C	49.00	C	49.00
United Arab Emirates				
ATELIER LUXURY GULF LLC	C	49.00	C	49.00
LUXURY GOODS GULF LLC	C	49.00	C	49.00
LUXURY FASHION GULF LLC	C	49.00	C	49.00
Kazakhstan				
ULYSSE NARDIN KAZAKHSTAN LLP	E	50.00	E	50.00
Kuwait				
LUXURY GOODS KUWAIT WLL	C	26.01	C	49.00
Qatar				
SAINT LAURENT PARIS LLC	C	24.00	C	24.00
LUXURY GOODS QATAR LLC	C	25.50	C	49.00

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
Malaysia				
BOTTEGA VENETA MALAYSIA SDN BHD	C	100.00	C	100.00
GUCCI (MALAYSIA) SDN BHD	C	100.00	C	100.00
SAINT LAURENT (MALAYSIA) SDN BHD	C	100.00	C	100.00
Mongolia				
ULYSSE NARDIN MONGOLIA LLC	E	50.00	E	50.00
Singapore				
ALEXANDER McQUEEN (SINGAPORE) Pte Ltd	C	100.00	C	100.00
BALENCIAGA SINGAPORE Pte Ltd	C	100.00	Formation	
BOTTEGA VENETA SINGAPORE PRIVATE Ltd	C	100.00	C	100.00
GUCCI SINGAPORE Pte Ltd	C	100.00	C	100.00
SAINT LAURENT (SINGAPORE) Pte Ltd	C	100.00	C	100.00
Taiwan				
BOUCHERON TAIWAN Co. Ltd	C	100.00	C	100.00
GUCCI GROUP WATCHES TAIWAN Ltd	C	100.00	C	100.00
ULYSSE NARDIN (TAIWAN) Ltd	C	100.00	C	100.00
Turkey				
POMELLATO MUCEVHERAT VE AKSESUAR DAGITIM VE TICARET Limited SIRKETI	C	100.00	C	81.00
Thailand				
BOTTEGA VENETA (THAILAND) Ltd	C	75.00	Formation	
CLOSED-CYCLE BREEDING INTERNATIONAL Ltd	C	48.00	C	48.00
G-OPERATIONS FRASEC Ltd	C	49.00	C	49.00
GUCCI THAILAND Co. Ltd	C	100.00	C	100.00
LUXURY GOODS (THAILAND) Ltd	C	75.00	Formation	
SAINT LAURENT (THAILAND) Co.	C	100.00	C	100.00
South Africa				
GG LUXURY RETAIL SOUTH AFRICA Pte Ltd	C	62.00	C	62.00
PUMA				
France				
DOBOTEX FRANCE SAS	C	86.25	C	85.81
PUMA FRANCE SAS	C	86.25	C	85.81
Germany				
DOBOTEX DEUTSCHLAND GmbH	C	86.25	C	85.81
PUMA EUROPE GmbH	C	86.25	C	85.81

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
PUMA INTERNATIONAL TRADING GmbH	C	86.25	C	85.81
PUMA MOSTRO GmbH	C	86.25	C	85.81
PUMA SE	C	86.25	C	85.81
PUMA SPRINT GmbH	C	86.25	C	85.81
PUMA VERTRIEB GmbH	C	86.25	C	85.81
Austria				
AUSTRIA PUMA DASSLER GES MBH	C	86.25	C	85.81
DOBOTEX AUSTRIA GmbH	C	86.25	C	85.81
Cyprus				
SPORT EQUIPMENT TI CYPRUS Ltd	C	86.25	C	85.81
Croatia				
PUMA SPORT HRVATSKA DOO	C	86.25	C	85.81
Denmark				
PUMA DENMARK A/S	C	86.25	C	85.81
Spain				
DOBOTEX SPAIN SL	C	86.25	C	85.81
PUMA IBERIA SLU	C	86.25	C	85.81
Estonia				
PUMA ESTONIA OU	C	86.25	C	85.81
Finland				
PUMA FINLAND OY	C	86.25	C	85.81
United Kingdom				
ADMIRAL TEAMSPORTS Ltd	C	86.25	C	85.81
DOBOTEX UK Ltd	C	86.25	C	85.81
BRANDED SPORTS MERCHANDISING UK Ltd	C	86.25	C	85.81
GENESIS GROUP INTERNATIONAL Ltd	C	86.25	C	85.81
PUMA PREMIER Ltd	C	86.25	C	85.81
PUMA UNITED KINGDOM Ltd	C	86.25	C	85.81
Greece				
PUMA HELLAS SA	C	86.25	C	85.81
Israel				
PUMA SPORT ISRAEL Ltd	C	86.25	C	85.81
Italy				
DOBOTEX ITALIA SRL	C	86.25	C	85.81
PUMA ITALIA SRL	C	86.25	C	85.81
Malta				
PUMA MALTA Ltd	C	86.25	C	85.81
PUMA RACING Ltd	C	86.25	C	85.81
Norway				
PUMA NORWAY AS	C	86.25	C	85.81

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
Netherlands				
BRANDED SPORTS MERCHANDISING BV	C	86.25	C	85.81
DOBO LOGIC BV	C	86.25	C	85.81
DOBOTEX INTERNATIONAL BV	C	86.25	C	85.81
DOBOTEX LICENSING HOLDING BV	C	86.25	C	85.81
DOBOTEX BV	C	86.25	C	85.81
BRAND PLUS LICENSING BV	C	86.25	C	85.81
PUMA INTERNATIONAL SPORTS MARKETING BV	C	86.25	C	85.81
PUMA BENELUX BV	C	86.25	C	85.81
Philippines				
PUMANILA IT SERVICES INC.	C	86.25	C	85.81
Poland				
PUMA POLSKA SPOLKA ZOO	C	86.25	C	85.81
Czech Republic				
PUMA CZECH REPUBLIC SRO	C	86.25	C	85.81
Romania				
PUMA SPORT ROMANIA SRL	C	86.25	C	85.81
Russia				
PUMA-RUS Ltd	C	86.25	C	85.81
Slovakia				
PUMA SLOVAKIA SRO	C	86.25	C	85.81
Sweden				
DOBOTEX NORDIC AB	C	86.25	Formation	
PUMA NORDIC AB	C	86.25	C	85.81
NROTERT AB	C	86.25	C	85.81
NROTERT SWEDEN AB	C	86.25	C	85.81
Switzerland				
DOBOTEX SWITZERLAND AG	C	86.25	C	85.81
MOUNT PUMA AG (SWITZERLAND)	C	86.25	C	85.81
PUMA RETAIL AG	C	86.25	C	85.81
Ukraine				
PUMA UKRAINE TOV	C	86.25	C	85.81
Argentina				
UNISOL SA	C	86.25	C	85.81
Brazil				
PUMA SPORTS Ltda	C	86.25	C	85.81
Canada				
JANED CANADA LLC	C	43.99	C	43.76
PUMA CANADA INC.	C	86.25	C	85.81
PUMA KIDS APPAREL CANADA, LLC	C	43.99	C	43.76

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
Chile				
PUMA CHILE SA	C	86.25	C	85.81
PUMA SERVICIOS SpA	C	86.25	C	85.81
United States				
COBRA GOLF INC.	C	86.25	C	85.81
JANED LLC	C	43.99	C	43.76
PUMA KIDS APPAREL NORTH AMERICA, LLC	C	43.99	C	43.76
PUMA NORTH AMERICA INC.	C	86.25	C	85.81
PUMA NORTH AMERICA ACCESSORIES CANADA, LLC	C	86.25	Formation	
PUMA SUEDE HOLDING INC.	C	86.25	C	85.81
PUMA ACCESSORIES NORTH AMERICA LLC	C	73.31	C	72.94
British Virgin Islands				
LIBERTY CHINA HOLDING Ltd	C	86.25	C	85.81
Mexico				
DOBOTEX DE MEXICO S.A. DE C.V.	C	86.25	C	85.81
IMPORTATIONES BRAND PLUS LICENSING S.A. DE C.V.	C	86.25	C	85.81
IMPORTACIONES RDS S.A. DE C.V.	C	86.25	C	85.81
PUMA MEXICO SPORT S.A. DE C.V.	C	86.25	C	85.81
SERVICIOS PROFESIONALES RDS S.A. DE C.V.	C	86.25	C	85.81
Peru				
DISTRUIBUIDORA DEPORTIVA PUMA SAC	C	86.25	C	85.81
DISTRUIBUIDORA DEPORTIVA PUMA TACNA SAC	C	86.25	C	85.81
PUMA RETAIL PERU SAC	C	86.25	C	85.81
Uruguay				
PUMA SPORTS LA SA	C	86.25	C	85.81
Botswana				
WILDERNESS HOLDINGS Ltd	E	22.25	E	22.16
South Africa				
PUMA SPORTS DISTRIBUTORS Ltd	C	86.25	C	85.81
PUMA SPORTS SA	C	86.25	C	85.81
Australia				
KALOLA PTY Ltd	C	86.25	C	85.81
PUMA AUSTRALIA PTY Ltd	C	86.25	C	85.81
WHITE DIAMOND AUSTRALIA PTY Ltd	C	86.25	C	85.81
WHITE DIAMOND PROPERTIES PTY Ltd	C	86.25	C	85.81

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
New Zealand				
PUMA NEW ZEALAND Ltd	C	86.25	C	85.81
United Arab Emirates				
PUMA MIDDLE EAST FZ LLC	C	86.25	C	85.81
PUMA UAE LLC	C	86.25	C	85.81
Turkey				
PUMA SPOR GIYIM SANANYI VE TICARET AS	C	86.25	C	85.81
China				
DOBOTEX CHINA Ltd	C	86.25	C	85.81
GUANGZHOU WORLD CAT INFORMATION CONSULTING SERVICES Co Ltd	C	86.25	C	85.81
PUMA CHINA Ltd	C	86.25	C	85.81
Hong Kong				
DEVELOPMENT SERVICES Ltd	C	86.25	C	85.81
DOBOTEX Ltd	C	86.25	C	85.81
PUMA ASIA PACIFIC Ltd	C	86.25	C	85.81
PUMA HONG KONG Ltd	C	86.25	C	85.81
PUMA INTERNATIONAL TRADING SERVICES Ltd	C	86.25	C	85.81
WORLD CAT Ltd	C	86.25	C	85.81
India				
PUMA SPORTS INDIA PRIVATE Ltd	C	86.25	C	85.81
PUMA INDIA CORPORATE SERVICES PVT Ltd	C	86.25	C	85.81
WORLD CAT SOURCING INDIA Ltd	C	86.25	C	85.81
Indonesia				
PT PUMA CAT INDONESIA	C	86.25	C	85.81
Japan				
PUMA JAPAN KK	C	86.25	C	85.81
Korea				
DOBOTEX KOREA Ltd	C	86.25	C	85.81
PUMA KOREA Ltd	C	86.25	C	85.81
Malaysia				
PUMA SPORTS GOODS SDN BHD	C	86.25	C	85.81
Singapore				
PUMA SPORTS SEA TRADING Pte Ltd	C	86.25	C	85.81
PUMA SEA HOLDING Pte Ltd	C	86.25	C	85.81
Taiwan				
PUMA TAIWAN SPORTS Ltd	C	86.25	C	85.81

Company	% interest	
	Dec. 31, 2017	Dec. 31, 2016
Vietnam		
WORLD CAT VIETNAM CO. Ltd	C 86.25	C 85.81
WORLD CAT VIETNAM SOURCING & DEVELOPMENT SERVICES CO. Ltd	C 86.25	C 85.81
VOLCOM		
United States		
LS&S RETAIL LLC	C 100.00	C 100.00
VOLCOM LLC	C 100.00	C 100.00
VOLCOM RETAIL LLC	C 100.00	C 100.00
VOLCOM RETAIL OUTLET LLC	C 100.00	C 100.00
Luxembourg		
VOLCOM LUXEMBOURG HOLDING SA	C 100.00	C 100.00
Switzerland		
VOLCOM INTERNATIONAL SARL	C 100.00	C 100.00
WELCOM DISTRIBUTION SARL	C 100.00	C 100.00
Spain		
VOLCOM DISTRIBUTION SPAIN SL	C 100.00	C 100.00
France		
VOLCOM SAS	C 100.00	C 100.00
VOLCOM RETAIL FRANCE	Merger	C 100.00
United Kingdom		
VOLCOM DISTRIBUTION (UK) Ltd	C 100.00	C 100.00
VOLCOM RETAIL (UK) Ltd	C 100.00	C 100.00
Australia		
VOLCOM AUSTRALIA HOLDING COMPANY PTY Ltd	C 100.00	C 100.00
VOLCOM AUSTRALIA PTY Ltd	C 100.00	C 100.00
Canada		
VOLCOM CANADA INC.	C 100.00	C 100.00
New Zealand		
VOLCOM NEW ZEALAND Ltd	C 100.00	C 100.00
Japan		
VOLCOM JAPAN GODOGAISHIYA	C 100.00	C 100.00
Hong Kong		
VOLCOM ASIA PACIFIC Ltd	C 100.00	C 100.00
HOLDING COMPANIES AND OTHER		
France		
CONSEIL ET ASSISTANCE	C 100.00	C 100.00
DISCODIS SAS	C 100.00	C 100.00
GG FRANCE 13 SAS	C 100.00	C 100.00
GG FRANCE 14 SAS	C 100.00	C 100.00
GG FRANCE HOLDING SAS	C 100.00	C 100.00
KERING EYEWEAR FRANCE SAS	C 63.00	C 80.00
KERING FINANCE SNC	C 100.00	C 100.00
KERING SIGNATURE	C 100.00	-
MANUFACTURE CARTIER LUNETTES SAS	C 63.00	Acquisition
SAPARDIS	C 100.00	C 100.00
SAPRODIS SERVICES SAS	C 100.00	C 100.00
Germany		
KERING EYEWEAR DACH GmbH	C 63.00	C 80.00
SAPARDIS DEUTSCHLAND SE	Liquidation	C 100.00
Spain		
KERING EYEWEAR ESPAÑA SA	C 63.00	C 80.00
KERING SPAIN SL	C 100.00	C 100.00
United Kingdom		
KERING EYEWEAR UK Ltd	C 63.00	C 80.00
KERING INTERNATIONAL Limited	C 100.00	C 100.00
KERING UK SERVICES Ltd	C 100.00	C 100.00
Italy		
KERING EYEWEAR SpA	C 63.00	C 80.00
KERING ITALIA SpA	C 100.00	C 100.00
KERING OPERATIONS & SERVICES ITALIA SRL	C 100.00	C 100.00
KERING SERVICE ITALIA SpA	C 100.00	C 100.00
Luxembourg		
BOUCHERON LUXEMBOURG SARL	Liquidation	C 100.00
KERING RE	C 100.00	C 100.00
KERING LUXEMBOURG SA	C 100.00	C 100.00
E-KERING LUX SA	C 100.00	C 100.00
PPR DISTRI LUX SA	C 100.00	C 100.00
PPR INTERNATIONAL	Liquidation	C 100.00
Netherlands		
K OPERATIONS BV	C 100.00	C 100.00
GUCCI INTERNATIONAL NV	C 100.00	C 100.00
GUCCI PARTICIPATION BV	C 100.00	C 100.00
KERING HOLLAND NV	C 100.00	C 100.00
KERING NETHERLANDS BV	Merger	C 100.00
KERING INVESTMENTS EUROPE BV	C 100.00	C 100.00

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
Switzerland				
LUXURY GOODS SERVICES SA	C	100.00	C	100.00
LUXURY GOODS LOGISTICS SA	C	51.00	C	51.00
LUXURY GOODS OPERATIONS SA	C	51.00	C	51.00
China				
GUANGZHOU KGS CORPORATE MANAGEMENT & CONSULTANCY Ltd	C	100.00	C	100.00
KERING (CHINA) ENTERPRISE MANAGEMENT Ltd	C	100.00	C	100.00
KERING EYEWEAR SHANGHAI TRADING ENTERPRISES Ltd	C	63.00	C	80.00
REDCATS COMMERCE ET TRADING (SHANGHAI) Co Ltd	C	100.00	C	100.00
REDCATS SOURCING (SHANGHAI) Ltd	C	100.00	C	100.00
Korea				
KERING EYEWEAR KOREA Ltd	C	63.00	Formation	
KERING KOREA Ltd	C	100.00	C	100.00
Hong Kong				
KERING ASIA PACIFIC Ltd	C	100.00	C	100.00
KERING EYEWEAR APAC Ltd	C	63.00	C	80.00
KERING HOLDING Ltd	Liquidation		C	100.00
KGS GLOBAL MANAGEMENT SERVICES Ltd	C	100.00	C	100.00
KGS SOURCING Ltd	C	100.00	C	100.00

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
India				
KGS SOURCING INDIA PRIVATE Ltd	C	100.00	C	100.00
Singapore				
KERING EYEWEAR SINGAPORE Pte Ltd	C	63.00	C	80.00
KERING SOUTH EAST ASIA Pte Ltd	C	100.00	C	100.00
Taiwan				
KERING EYEWEAR TAIWAN Ltd	C	63.00	C	80.00
Turkey				
KGS SOURCING TURKEY Ltd	C	100.00	C	100.00
Japan				
GUCCI YUGEN KAISHA	C	100.00	C	100.00
KERING EYEWEAR JAPAN Ltd	C	63.00	C	80.00
KERING JAPAN Ltd	C	100.00	C	100.00
KERING TOKYO INVESTMENT Ltd	C	100.00	C	100.00
United States				
KERING AMERICAS INC.	C	100.00	C	100.00
KERING EYEWEAR USA INC.	C	63.00	C	80.00
Mexico				
KERING MEXICO S. DE R.L. DE C.V.	C	100.00	C	100.00

note 37 – statutory auditors' remuneration

Fees for fiscal year 2017	KPMG				Deloitte			
		Statutory Auditor: KPMG SA		Network		Statutory Auditor: Deloitte & Associés		Network
(in € thousands)	Amount	%	Amount	%	Amount	%	Amount	%
Certification and half-year limited review of the parent company and consolidated financial statements								
• Issuer	327.8	22%	n/a	n/a	300.2	47%	n/a	n/a
• Fully-consolidated subsidiaries	1,057.7	70%	4,296.3	78%	209.7	33%	2,277.4	73%
Sub-total	**1,385.5**	**92%**	**4,296.3**	**78%**	**509.9**	**80%**	**2,277.4**	**73%**
Non-audit services								
• Issuer	66.0	4%	0.0	0%	128.0	20%	0.0	0%
• Fully-consolidated subsidiaries	67.0	4%	1,219.7	22%	0.0	0%	861.9	27%
Sub-total [1]	**133.0**	**8%**	**1,219.7**	**22%**	**128.0**	**20%**	**861.9**	**27%**
TOTAL	**1,518.5**	**100%**	**5,516.0**	**100%**	**637.9**	**100%**	**3,139.3**	**100%**

(1) Non-audit services provided by KPMG SA to the reporting entity and to its controlled subsidiaries chiefly concerned comfort letters, statements on financial information and agreed-upon procedures relating to financial data.
Non-audit services provided by Deloitte & Associés to the reporting entity and to its controlled subsidiaries chiefly concerned comfort letters and CSR procedures.

note 38 – subsequent events

At its January 11, 2018 meeting, Kering's Board of Directors decided to ask shareholders at the Annual General Meeting of April 26, 2018 held to approve the financial statements for the year ended December 31, 2017, to approve the payment of an exceptional stock dividend in the form of PUMA SE ("PUMA") shares, with the allocation of 1 PUMA share for 12 Kering shares held. If this stock dividend is approved, the ex-dividend date will be May 14, 2018 before market and the payment date will be May 16, 2018. Upon completion of this operation, Kering would retain 15.85% of PUMA's shares outstanding and voting rights. The main consequence of this distribution of PUMA shares will be that Kering will cease to exercise control over PUMA as of the dividend payment date.

This loss of control over PUMA results from a decision taken after the end of the reporting period and after Kering's Board of Directors had considered the various scenarios for selling or distributing the Group's stake in PUMA, based on favourable market conditions at this date. Accordingly, this transaction does not meet the criteria set out in IFRS 5. However, in accordance with IAS 10.21 and 10.22 (a) on material events after the reporting period, the estimated main impacts of this future loss of control over PUMA would be:

- the recognition of a capital gain or loss net of current and deferred taxes equal to (i) the number of PUMA shares distributed, multiplied by the PUMA share price as of May 16, 2018, the dividend payment date, less (ii) the share in the consolidated net carrying amount of PUMA as of this date, including transaction fees net of tax;
- the recognition of a capital gain or loss net of deferred taxes as a result of remeasuring the interest retained in PUMA at the opening price for PUMA shares as of May 16, 2018.

For example, based on the PUMA share price as of December 29, 2017 and a consolidated net carrying amount for PUMA as of December 31, 2017, the net capital gain realised would total €316.2 million. However, taking into account PUMA share price volatility in January 2018, the net capital gain or loss would fluctuate as shown below:

PUMA share price from 01/01/2018 to 01/31/2018	Net capital gain (loss) *(in € millions)*
High: €363.50 (01/05/2018)	322.4
Average: €341.54	51.0
Low: €318.50 (01/12/2018)	(233.8)

It should be noted that the net capital gain or loss that will be ultimately realised in Kering's consolidated financial statements as of June 30, 2018 will depend on the PUMA share price at the dividend payment date, i.e., the share price as of May 16, 2018, as well as changes in PUMA's net carrying amount between December 31, 2017 and May 16, 2018, including the impact of movements in the exchange rates to which PUMA is exposed in conducting its business.

The future classification and accounting treatment applicable to the interest retained in PUMA recorded within non-current assets will be determined based on PUMA's governance arrangements, to be finalised upon completion of the operation:

- in accordance with IFRS 9 applicable as of January 1, 2018, if no significant influence can be demonstrated, the interest retained in PUMA will be shown within "Available-for-sale financial assets" and remeasured to fair value, either directly against equity (other comprehensive income) or against financial income/loss, until that interest is sold;
- if significant influence can be demonstrated, the interest retained in PUMA will be shown within "Investments in equity accounted companies" for an amount relating to the Group's share in equity and net income.

The expected impact of the loss of control over PUMA on the operating lines of the consolidated income statement can be seen in the 2017 *pro forma* consolidated income statement set out below for illustrative purposes only. This *pro forma* consolidated income statement was drawn up based on the accounting records used to prepare the consolidated financial statements of Kering SA for the year ended December 31, 2017, and simulates the impacts of the loss of control over PUMA as though the operation had taken place as of January 1, 2017:

(in € millions)	2017 Reported	PUMA contribution	Other adjustments	2017 *Pro forma*
Revenue	**15,477.7**	**(4,151.7)**		**11,326.0**
Cost of sales	(5,344.7)	2,208.1		(3,136.6)
Gross margin	**10,133.0**	**(1,943.6)**		**8,189.4**
Payroll expenses	(2,443.6)	545.6		(1,898.0)
Other recurring operating income and expenses	(4,741.4)	1,154.1	(0.5)	(3,587.8)
Recurring operating income	**2,948.0**	**(243.9)**	**(0.5)**	**2,703.6**

The impact of the loss of control over PUMA on other financial lines of the consolidated statements of financial position and cash flows can be assessed in Note 4 – Operating segments.

5. statutory auditors' report on the consolidated financial statements

for the year ended december 31, 2017

This is a translation into English of the Statutory Auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This Statutory Auditors' report includes information specifically required by French law, such as information about the appointment of the Statutory Auditors or verification of the Management Report and other documents provided to shareholders.

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,

Opinion

In compliance with the engagement entrusted to us by your General Meetings, we have audited the accompanying financial statements of Kering S.A. for the year ended December 31, 2017.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as of December 31, 2017 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.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

Independence

We conducted our audit in compliance with independence rules applicable to us, for the period from January 1, 2017 to the issue date of our report and in particular we did not provide any prohibited non-audit services referred to in Article 5 of Regulation (EU) No 537/2014 or in the French Code of Ethics for Statutory Auditors.

Justification of Assessments – Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring your attention to the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period, as well as our responses to those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on specific elements, accounts or items of the consolidated financial statements.

Impairment tests on goodwill and intangible assets with indefinite lives

Notes 2.6, 2.7, 2.10, 16, 17 and 19 to the consolidated financial statements

Risk identified	Our response
As of December 31, 2017, goodwill and brands are recorded on the balance sheet for a net carrying amount of €3,421.2 million and €10,626 million, respectively, or 13% and 42% of consolidated assets. The CGUs or groups of CGUs holding goodwill and/or intangible assets with indefinite lives, such as certain brands, are subject to systematic impairment tests during the second half of the year and when events or circumstances indicate that an impairment loss is likely to occur. When the recoverable amount of a CGU is less than the net carrying amount, an impairment is recorded. The recoverable amount of the CGU is the higher of its fair value less disposal costs and value in use. Value in use is determined compared to expected future cash flow projections by taking into account the time value of money and the specific risks of the asset, the CGU or CGU group. During each period, Management ensures that the carrying value of the goodwill and the brands does not exceed the recoverable amount and does not show any risk of impairment loss. Any unfavourable change in the expected returns from activities to which the goodwill and brands have been allocated, due to internal or external factors related to the economic and financial environment in which the activity operates, may possibly impact the recoverable amount and result in the recognition of an impairment. Such a change would require a re-assessment of the pertinence of all the assumptions adopted to determine this amount as well as the reasonableness and consistency of the calculation parameters. Given the significant amount of goodwill and brands in consolidated assets and uncertainties inherent in certain assumptions and notably, the probability of achieving forecasts falling into the scope of the recoverable amount, we considered the valuation of goodwill and intangible assets with indefinite lives to be a key audit matter.	We have carried out a critical review of the methods implemented by Management to determine the recoverable amount of goodwill and intangible assets with indefinite lives. Our procedures consisted in: • assessing the items comprising the carrying amount of the CGU to which the goodwill and brands have been allocated by the Group; • assessing the principles and methods of calculating recoverable amounts and verifying consistency of accounting methods; • assessing the consistency of cash flow projections with respect to Management assumptions and the economic environments in which the Group operates; • assessing the consistency of the growth rates adopted for projected cash flows with available external analyses; • assessing the reasonableness of discount rates applied to estimated cash flows by verifying notably that the different parameters comprising the weighted average cost of capital (WACC) of each CGU enable the return expected by market participants for similar activities to be reached; • comparing the accounting estimates of prior period cash flow projections with corresponding actual values to assess reliability; • assessing the royalty rates applied to brands in the calculation of future revenue; • assessing that Note 19 gives appropriate disclosure on the sensitivity analyses of the recoverable amount of goodwill and intangible assets with indefinite lives to changes in the main assumptions adopted.

Valuation of inventories

Notes 2.9 and 22 to the consolidated financial statements

Risk identified	Our response
As of December 31, 2017, inventories appear on the consolidated balance sheet for a net amount of €2,699 million and represent 11% of consolidated assets. As indicated in Note 2.9 to the consolidated financial statements, inventories are valued at the lower of cost and net realisable value: • cost is determined according to the retail method, First-In First-Out (FIFO) method or weighted average cost depending on the different activities of the Group; • net realisable value is the estimated sale price in the normal course of operations, net of costs incurred to complete the sale. The Group may recognise an inventory allowance based on the expected turnover if inventory items are damaged, if the selling price has declined, or if the estimated costs to completion or to be incurred to make the sale have increased. The performance of the Luxury and Lifestyle activities is determined by the frequency of collection, and turnover of inventory and depends heavily on the commercial success of product portfolios within each brand of the Group. Given the significant amount of inventories on the balance sheet and the degree of judgment inherent in certain assumptions underlying the valuation of provisions for inventory allowances, we consider this topic to be a key audit matter.	Our work consisted in: • assessing the methods used to value inventories and ensuring ourselves of the consistency of accounting methods; • testing by sampling the effectiveness of the controls set up by Management to prevent or detect possible errors in valuation of inventories; • assessing the data and assumptions adopted by Management to determine the prospects for inventory turnover and the resulting provisions; • analyzing the budget data and outlooks having an impact on the provisions for inventory allowance; • assessing the assumptions and application methods adopted to determine specific provisions.

Strategic partnership agreement with the Richemont Group as part of Eyewear activities

Note 3.1 to the consolidated financial statements

Risk identified	Our response
Note 3.1 to the consolidated financial statements indicates that the purpose of the strategic partnership agreement with the Richemont Group, finalised on June 1, 2017, is to create a stronger platform to develop, manufacture and market Cartier eyewear collections worldwide. Pursuant to the terms of this agreement, the Richemont Group has acquired a minority stake in Kering Eyewear, a company specialised and dedicated to the Eyewear activity of the Kering group, and Kering Eyewear has notably integrated in its activities the Manufacture Cartier Lunettes (MCL) entity in France, which was consolidated in the second half of 2017. The accounting impact of this strategic partnership agreement on the Group's financial liabilities is based partially on Management estimates, notably in the preparation of future business activity plans which support the amount of certain components of the agreement. As a result, we considered the accounting treatment of this strategic partnership agreement to be a key audit matter.	Our work consisted in: • familiarising ourselves with agreements concluded and obtained from additional information from Management concerning the financial impacts of this strategic partnership agreement in the consolidated financial statements. • assessing the accounting treatment adopted by the Group to account for this strategic partnership agreement, notably with regard to transactions with non-controlled interests and the integration of MCL through a business alliance; • assessing the consistency of Management's estimates entering into the scope of the valuation of other financial liabilities with respect to put options granted to non-controlling interests as part of the strategic partnership agreement.

Tax risks

Notes 11 and 34 to the consolidated financial statements

Risk identified	Our response
The Group's operations are subject, in the normal course of business activities, to regular verifications by the tax authorities in each of the countries in which the Group's different subsidiaries operate. These tax audits can result in tax reassessments and litigation with the tax authorities with respect to income taxes, other taxes and duties and similar payments. The estimate of the impacts of these tax risks and the related provisions, recorded if necessary, require Management to make significant judgments, notably to assess the outcome of the litigation underway or the probability of the occurrence of identified risks. We have therefore considered these items to be a key audit matter.	We conducted interviews with Management and assessed the procedures implemented to identify tax risks and potentially sensitive uncertain tax positions. We have also: • conducted interviews with the Group's tax management and local management to assess, if necessary, the current state of investigations carried out and reassessments notified by the local tax authorities and followed the developments of litigation currently underway; • consulted the recent decisions and correspondence of Group companies with the tax authorities, and familiarised ourselves with the correspondence between the companies concerned and their tax advisors; • analysed the responses of these tax advisors to our requests for information or the analyses that these advisors produced as part of litigation currently underway; • carried out a critical review of the estimates and positions adopted by Management; • assessed if the latest developments have been taken into consideration in the provision estimates recognised in the balance sheet. Concerning contingent liabilities, we have examined the procedural elements and/or the legal or technical opinions provided by law firms or outside experts chosen by Management to assess the merits of an absence of a provision.

Specific Verification Concerning the Group Presented in the Management Report

As required by French law, we have also verified in accordance with professional standards applicable in France the information concerning the Group presented in the Board of Directors' Management Report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Kering S.A. by the General Meeting of June 18, 1992 for KPMG S.A. and May 18, 1994 for Deloitte & Associés.

As of December 31, 2017, KPMG S.A. was in its 26th year of uninterrupted engagement and Deloitte & Associés in its 24th year.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease its operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and, where applicable, its Internal Audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements have been approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified by Article L. 823-10-1 of the French Commercial Code, the scope of our statutory audit does not include assurance on the future viability of the Company or the quality with which Company's management has conducted or will conduct the affairs of the entity.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgement throughout the audit and furthermore:

- identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If we conclude that a material uncertainty exists, we draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, we modify our opinion;
- evaluates the overall presentation of the consolidated financial statements and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtains sufficient appropriate audit evidence regarding the financial information of the entities included in the consolidation scope to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinion.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as significant audit findings. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration referred to in Article 6 of Regulation (EU) No 537/2014, confirming our independence in the sense of the rules applicable in France as defined in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code and or in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris La Défense and Neuilly-sur-Seine, February 16, 2018

The Statutory Auditors

KPMG Audit
A department of KPMG S.A.
Isabelle Allen Grégoire Menou

Deloitte & Associés
Frédéric Moulin Stéphane Rimbeuf

6. kering sa financial statements

6.1. balance sheet – assets

as of december 31, 2017 and 2016

ASSETS				2017	2016
(in € millions)	Notes	Gross	Depreciation, amortisation, and provisions	Carrying amount	Carrying amount
Non-current assets					
Investments		11,169.4	(1,751.5)	9,417.9	9,321.7
Other long-term investments [1]		270.5		270.5	304.6
Net long-term investments	3	11,439.9	(1,751.5)	9,688.4	9,626.3
Property, plant and equipment and intangible assets	4	170.5	(35.4)	135.1	79.2
Non-current assets		**11,610.4**	**(1,786.9)**	**9,823.5**	**9,705.5**
Current assets					
Receivables [2] [3]	5	245.1	(1.1)	244.0	94.3
Cash [3]	6	4,859.4		4,859.4	1,779.2
Current assets		**5,104.5**	**(1.1)**	**5,103.4**	**1,873.5**
TOTAL ASSETS		**16,714.9**	**(1,788.0)**	**14,926.9**	**11,579.0**
(1) o/w due in less than one year:				*19.6*	*19.8*
(2) o/w due in more than one year:				*0.0*	*0.0*
(3) o/w concerning associates:				*5,024.1*	*1,812.6*

6.2. balance sheet – shareholders' equity and liabilities

as of december 31, 2017 and 2016

SHAREHOLDERS' EQUITY AND LIABILITIES

(in € millions)	Notes	2017	2016
Shareholders' equity			
Share capital		505.1	505.1
Additional paid-in capital		2,052.4	2,052.4
Reserves	7	1,585.5	1,585.5
Retained earnings		2,160.0	2,121.1
Net income for the year		3,915.0	682.9
Shareholders' equity		**10,218.0**	**6,947.0**
Provisions	**8**	**109.1**	**95.6**
Liabilities			
Bonds [1]	9.1	4,100.1	4,184.6
Other borrowings [1] [3]	9.1	42.6	46.1
Other liabilities [2] [3]	10	457.1	305.7
Total liabilities		**4,599.8**	**4,536.4**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**14,926.9**	**11,579.0**
(1) o/w due in more than one year:		*3,600.2*	*3,834.6*
(2) o/w due in more than one year:		*0.0*	*30.0*
(3) o/w concerning associates:		*83.1*	*17.2*

6.3. income statement

For the years ended December 31, 2017 and 2016

(in € millions)	Notes	2017	2016
Operating income		299.3	129.9
Operating expenses		(320.8)	(162.4)
Net operating loss	**12**	**(21.5)**	**(32.5)**
Dividends		3,839.4	863.3
Other financial income and expenses		(95.6)	(97.0)
Net financial income	**13**	**3,743.8**	**766.3**
Recurring income before tax		**3,722.3**	**733.8**
Net non-recurring income (expense)	14	67.4	(75.5)
Employee profit-sharing		(3.9)	(2.8)
Income tax	15	129.2	27.4
Net income for the year		**3,915.0**	**682.9**

6.4. statement of cash flows

For the years ended December 31, 2017 and 2016

(in € millions)	2017	2016
Dividends received	3,839.4	863.3
Interest on borrowings	(95.0)	(96.1)
Income tax received	105.1	27.1
Other	(63.2)	(79.6)
Change in cash resulting from operating activities	**3,786.3**	**714.7**
(Acquisitions)/disposals of operating assets	(69.5)	(64.5)
Change in long-term investments	(0.1)	(663.1)
Change in cash resulting from investing activities	**(69.6)**	**(727.6)**
Net change in borrowings	(55.6)	501.4
Share capital increases	-	-
Dividends paid by Kering	(580.9)	(504.9)
Change in cash resulting from financing activities	**(636.5)**	**(3.5)**
Change in scope following merger of Financière Marothi	**-**	**-**
Change in cash and cash equivalents	**3,080.2**	**(16.4)**
Cash and cash equivalents at beginning of year	**1,779.2**	**1,795.6**
Cash and cash equivalents at end of year	**4,859.4**	**1,779.2**

6.5. statement of changes in shareholders' equity

(in € millions) *(before appropriation of net income)*	Number of shares	Share capital	Additional paid-in capital	Reserves and retained earnings	Net income for the year	Shareholders' equity
As of December 31, 2015	**126,279,322**	**505.1**	**2,052.4**	**3,684.9**	**527.4**	**6,769.8**
Appropriation of 2015 net income				527.4	(527.4)	-
Dividends paid				(315.5)		(315.5)
Interim dividend				(189.4)		(189.4)
Changes in tax-driven provisions				(0.8)		(0.8)
2016 net income					682.9	682.9
As of December 31, 2016	**126,279,322**	**505.1**	**2,052.4**	**3,706.6**	**682.9**	**6,947.0**
Appropriation of 2016 net income				682.9	(682.9)	-
Dividends paid				(391.5)		(391.5)
Interim dividend				(252.6)		(252.6)
Changes in tax-driven provisions				0.1		0.1
2017 net income					3,915.0	3,915.0
As of December 31, 2017	**126,279,322**	**505.1**	**2,052.4**	**3,745.5**	**3,915.0**	**10,218.0**

As of December 31, 2017, Kering's share capital comprised 126,279,322 shares with a par value of €4.00 each.

6.6. notes to the annual financial statements

Note 1. 2017 highlights

On April 5, 2017, Kering issued €300 million worth of ten-year fixed rate bonds paying a coupon of 1.50%.

On October 6, 2017, the French Constitutional Council *(Conseil Constitutionnel)* ruled that the 3% dividend surtax was unconstitutional, with retroactive effect to 2012. Accordingly, on December 27, 2017, Kering SA received a tax refund of €96.5 million, including €11.3 million in interest on arrears.

On December 20, 2017, KHNV decided to pay a €3,000 million dividend to its sole shareholder, Kering SA.

Note 2. Accounting policies and methods

The annual financial statements are prepared in accordance with regulation no. 2014-03 of the French accounting standards board (*Autorité des normes comptables* – ANC).

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 are calculated using the straight-line method based on the nature and useful life of each component.

Property, plant and equipment and intangible assets are depreciated using the straight-line method and the following useful lives:

Software	1 to 5 years
Internally generated software	3 to 10 years
Improvements to property	10 to 24 years
Technical installations, tools and equipment	10 to 15 years
Computer equipment	1 to 10 years
Office furniture	10 years

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 board (*Conseil National de la Comptabilité* – CNC, since renamed ANC) 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 these 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 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 for any 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

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.

ANC Regulation no. 2015-05 of July 2, 2015, concerning forward financial instruments and hedges, entered into force as of January 1, 2017 but was not applicable to the Company's transactions during fiscal year 2017.

The accounting principles are as follows:

- the principle of symmetrically offsetting the realised and unrealised gains and losses on hedging instruments with those of their underlying assets in the income statement is applied across the board;
  - hedge accounting is not optional,
  - as regards foreign exchange rate risk, non-derivative instruments such as borrowings or cash deposits denominated in a foreign currency may now qualify as hedging instruments;
- hedging instruments: changes in the value of hedging instruments are not recognised on the balance sheet, unless their full or partial recognition offsets gains or losses in the underlying asset;
- underlying assets: a derivative may be an underlying asset;
- isolated open position derivatives:
  - recognition on the balance sheet of changes in value and provisions for unrealised losses for all derivatives not recognised as hedging instruments,
  - detail on calculations used to determine provisions on currency positions (currency by currency, the maturity dates of the elements included in the position must be included in the same fiscal year).

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 ANC recommendation no. 2013-02.

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 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 SA as the parent company of the tax consolidation group.

Note 3. Net long-term investments

(in € millions)	As of Dec. 31, 2016	Increase	Decrease	Reclassification	As of Dec. 31, 2017
Gross value					
Investments	**11,169.4**				**11,169.4**
Kering Netherlands BV	4,581.3			(4,581.3) [1]	
Kering Holland NV	2,566.9			4,237.3	6,804.2
Marothi merger loss				344.0 [1]	344.0
Redcats	1,776.6				1,776.6
Sapardis	1,804.0				1,804.0
Discodis	299.7				299.7
Yves Saint Laurent SAS	81.8				81.8
Other	59.1				59.1
Other long-term investments	**304.6**	**94.0**	**(128.1)**		**270.5**
Treasury shares (liquidity agreement) [2]		93.7	(93.7)		
Treasury shares (for cancellation) [2]					
Other investment securities					
Loans and accrued interest on loans [3]	304.2		(34.4)		269.8
Deposits and guarantees	0.4	0.3			0.7
Gross value	**11,474.0**	**94.0**	**(128.1)**		**11,439.9**
Impairment losses					
Investments	**(1,847.7)**		**96.2**		**(1,751.5)**
Redcats	(1,741.1)		5.4		(1,735.7)
Sapardis	(90.5)		90.5		
Other	(16.1)		0.3		(15.8)
Other long-term investments					
Impairment losses	**(1,847.7)**		**96.2**		**(1,751.5)**
Carrying amount	**9,626.3**				**9,688.4**

(1) The merger of Kering Netherlands BV (KNBV) into Kering Holland NV (KHNV) in December 2017 resulted in the reclassification of shares within the same caption. The Financière Marothi merger loss allocated on December 31, 2016 to the KNBV shares was reallocated on December 31, 2017 to the KHNV shares.
(2) The amount corresponding to treasury shares is unavailable in tax-driven reserves.
(3) Loans mainly include a €285 million (USD 300 million) loan with Kering Finance.

Treasury share transactions

In 2017, the Group purchased 337,791 shares and sold 337,791 shares under the liquidity agreement.

As no stock subscription options were exercised in 2017, the share capital at December 31, 2017 remained unchanged from December 31, 2016, at a total of 126,279,322 shares.

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 €40.0 million, half of which was provided in cash and half in Kering shares. An additional €20.0 million in cash was allocated to the agreement on September 3, 2004, and a further €30.0 million on December 18, 2007.

In accordance with the amendment dated December 15, 2016, Kering maintains a credit balance of €5 million in the liquidity account with the financial broker.

As of December 31, 2017 and December 31, 2016, Kering held no shares in treasury under the liquidity agreement.

Note 4. Property, plant and equipment and intangible assets

Movements in property, plant and equipment and intangible assets are presented below:

(in € millions)	Intangible assets	Property, plant and equipment	Total
Gross value			
December 31, 2016	67.1	38.3	105.4
Acquisitions	63.1	6.3	69.4
Reclassification			
Other movements			
Disposals	(3.7)	(0.6)	(4.3)
December 31, 2017	**126.5**	**44.0**	**170.5**
Depreciation, amortisation and provisions			
December 31, 2016	(17.6)	(8.6)	(26.2)
Additions	(6.3)	(2.7)	(9.0)
Reversals on disposals		(0.2)	(0.2)
December 31, 2017	**(23.9)**	**(11.5)**	**(35.4)**
Carrying amount			
December 31, 2016	49.5	29.7	79.2
December 31, 2017	**102.6**	**32.5**	**135.1**

Note 5. Receivables

These line items break down as follows:

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Tax consolidation current accounts	14.9	5.8
Kadéos account	-	-
Income tax benefit	25.1	14.9
Group customers	154.9	29.2
Bond issue premiums	(2.8)	(4.4)
Other [1]	41.7	44.6
Prepaid expenses [2]	10.2	4.2
TOTAL	**244.0**	**94.3**
o/w concerning associates:	169.9	38.5

(1) o/w €4.0 million in respect of collateral (escrow), €26.9 million in non-Group customer receivables and €10.3 million in recoverable VAT.
(2) Prepaid expenses mainly comprise fees, lease payments and insurance.

Note 6. Marketable securities and cash

These line items break down as follows:

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Treasury shares pending employee grants	-	-
Listed securities	-	-
Marketable securities	**-**	**-**
Bank deposits and fund transfers	5.2	5.1
Cash current accounts	4,854.2	1,774.1
Cash	**4,859.4**	**1,779.2**
CASH AND CASH EQUIVALENTS	**4,859.4**	**1,779.2**
o/w concerning associates:	4,854.2	1,774.1

Bank deposits include certificates of deposit and term deposits and accounts with a maturity of less than three months.

Note 7. Reserves

The Company's reserves before the appropriation of net income break down as follows:

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Legal reserve	51.4	51.4
Tax-driven reserves	1,293.5	1,293.6
Other reserves	240.3	240.3
Reserves	**1,585.2**	**1,585.3**
Tax-driven provisions	0.3	0.2
TOTAL	**1,585.5**	**1,585.5**

Note 8. Provisions

(in € millions)	Dec. 31, 2016	Additions	Reversal (utilised provisions)	Reversal (surplus provisions)	Dec. 31, 2017
Disputes	13.8	0.3	3.8	1.3	9.0
Risks relating to subsidiaries	59.3	20.8			80.1
Pensions and other employee benefit obligations	8.5	0.6	0.2	0.2	8.7
Other contingencies	13.7		0.5	2.0	11.2
Foreign exchange risk	0.3	0.1	0.3		0.1
TOTAL	**95.6**	**21.8**	**4.8**	**3.5**	**109.1**
o/w:					
operating items		0.3			
financing items		0.4	0.3	0.3	
non-recurring items		21.1	4.5	3.2	

The main actuarial assumptions used to determine pensions and other employee benefit obligations are:

- discount rate of 1.75% versus 1.25% in 2016;
- salary increase rate of 3.00% (unchanged from 2016).

Note 9. Borrowings

Bond issues

Euro-denominated bond issues

(in € millions)	Interest rate	Issue date	Hedge	Maturity	Dec. 31, 2017	Dec. 31, 2016
Bond issue (1)	6.50% fixed	06/29/2009	-	06/29/2017		150.0
Bond issue (2)	6.50% fixed	11/06/2009	-	11/06/2017		200.0
Bond issue (3)	3.125% fixed	04/23/2012	-	04/23/2019	**500.0**	500.0
Bond issue (4)	2.50% fixed	07/15/2013	-	07/15/2020	**500.0**	500.0
Bond issue (5)	1.875% fixed	10/08/2013	-	10/08/2018	**500.0**	500.0
Bond issue (6)	2.75% fixed	04/08/2014 & 05/30/2014 & 06/26/2014 & 09/22/2015 & 11/05/2015	-	04/08/2024	**500.0**	500.0
Bond issue (7)	1.375% fixed	10/01/2014	-	10/01/2021	**500.0**	500.0
Bond issue (8)	0.875% fixed	03/27/2015	-	03/28/2022	**500.0**	500.0
Bond issue (9)	1.60% fixed	04/16/2015	-	04/16/2035	**50.0**	50.0
Bond issue (10)	1.25% fixed	05/10/2016	-	05/10/2026	**500.0**	500.0
Bond issue (11)	1.50% fixed	04/05/2017	-	04/05/2027	**300.0**	

(1) 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.

(2) 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.

(3) 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.

(4) 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.

(5) 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.

(6) Issue price: bond issue on April 8, 2014, comprising 1,000 bonds with a par value of €100,000 each under the EMTN programme, 1,000 additional bonds issued on May 30, 2014, 1,000 additional bonds issued on June 26, 2014, 1,500 additional bonds issued on September 22, 2015 and 500 additional bonds issued on November 5, 2015, thereby raising the issue to 5,000 bonds.
Redemption: in full on April 8, 2024.

(7) Issue price: bond issue on October 1, 2014, comprising 5,000 bonds with a par value of €100,000 each under the EMTN programme.
Redemption: in full on October 1, 2021.

(8) Issue price: bond issue on March 27, 2015, comprising 5,000 bonds with a par value of €100,000 each under the EMTN programme.
Redemption: in full on March 28, 2022.

(9) Issue price: bond issue on April 16, 2015, comprising 500 bonds with a par value of €100,000 each under the EMTN programme.
Redemption: in full on April 16, 2035.

(10) Issue price: bond issue on May 10, 2016, comprising 5,000 bonds with a par value of €100,000 each under the EMTN programme.
Redemption: in full on May 10, 2026.

(11) Issue price: bond issue on April 5, 2017, comprising 3,000 bonds with a par value of €100,000 each under the EMTN programme.
Redemption: in full on April 5, 2027.

USD-denominated bond issues

(in € millions)	Interest rate	Issue date	Hedge	Maturity	Dec. 31, 2017	Dec. 31, 2016
Bond issue (1)	Floating 3-month USD Libor + 0.73%	03/09/2015	-	03/09/2020	**125.1**	142.3
Bond issue (2)	2.887% fixed	06/09/2015	-	06/09/2021	**125.1**	142.3

(1) Issue price: bond issue on March 9, 2015 in the form of floating-rate notes, comprising 150 notes with a par value of USD 1,000,000 under the EMTN programme, i.e., representing a total of USD 150 million.
Redemption: in full on March 9, 2020.

(2) Issue price: bond issue on June 9, 2015, comprising 150 bonds with a par value of USD 1,000,000 each under the EMTN programme, i.e., representing a total of USD 150 million.
Redemption: in full on June 9, 2021.

The bonds issued between 2012 and 2017 under 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.

9.1. Breakdown by type

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Bonds	**4,100.1**	**4,184.6**
Interest on bond issues	42.4	46.0
Bank overdrafts	0.2	-
Cash current accounts	-	0.1
Other borrowings	**42.6**	**46.1**
TOTAL	**4,142.7**	**4,230.7**
o/w concerning associates:	-	0.1

As of December 31, 2017 and 2016, no borrowings were secured by collateral.

9.2. Breakdown by maturity

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Less than one year	542.5	396.1
One to five years	2,250.2	2,284.6
More than five years	1,350.0	1,550.0
TOTAL	**4,142.7**	**4,230.7**

9.3. Net debt

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Borrowings	4,142.7	4,230.7
Marketable securities	-	-
Cash	(4,859.4)	(1,779.2)
NET DEBT	**(716.7)**	**2,451.5**

9.4. Information on interest rates

	Dec. 31, 2017	Dec. 31, 2016
Average gross interest rate over the year	2.22%	2.41%
% average gross debt at fixed rates	96.90%	96.60%
% average gross debt at floating rates	3.10%	3.40%

Note 10. Other liabilities

These line items break down as follows:

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Tax consolidation current accounts	6.3	4.3
Dividends payable	252.6	189.4
Tax and employee-related liabilities	57.2	43.1
Other	141.0 (1)	68.9
TOTAL	**457.1**	**305.7**
o/w concerning associates:	83.1	17.1

(1) "Other" includes €30 million in respect of Safilo payable in September 2018, as well as accrued expenses of €55 million, mainly concerning IT services, management and other fees.

Note 11. Off-balance sheet commitments

11.1. Interest rate hedges

As part of the Group's policy of hedging interest rate risk, Kering sets up interest rate swaps in connection with certain borrowings.

No interest rate hedges were in place as of December 31, 2017.

11.2. Other off-balance sheet commitments

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Endorsements and guarantees in favour of:		
associates	-	-
third parties outside the Group	5.5	24.8
Endorsements and guarantees	**5.5**	**24.8**
Collateral: in favour of subsidiaries	**-**	**-**
in favour of third parties	**-**	**-**

Note 12. Net operating loss

Net operating loss breaks down as follows:

(in € millions)	2017	2016
Group management fees	172.5	92.2
Revenue from investments	7.5	4.8
Other income[(1)]	119.3	32.8
Rent and related charges	(14.4)	(16.1)
Payroll expenses and taxes	(79.3)	(60.5)
Management fees	(60.5)	-
Other external expenses	(160.0)	(81.2)
Income tax and other levies	(6.6)	(4.5)
TOTAL	**(21.5)**	**(32.5)**
o/w Directors' fees:	(0.9)	(0.9)

(1) Other income mainly comprises IT services.

Note 13. Net financial income

Net financial income breaks down as follows:

(in € millions)	2017	2016
Net interest expense	**(95.6)**	**(97.0)**
Expenses and interest on non-Group debt	(95.6)	(97.0)
Dividends	**3,839.4**	**863.3**
Kering Netherlands BV	450.0	450.0
Kering Holland NV	3,335.4	335.3
Discodis	0.0	19.2
Kering Finance	53.9	57.0
Other	0.1	1.8
TOTAL	**3,743.8**	**766.3**
o/w concerning associates:		
Dividends	3,839.4	863.3

Note 14. Net non-recurring income (expense)

Net non-recurring income (expense) breaks down as follows:

(in € millions)	2017	2016
Net proceeds from disposals of operating assets	(3.9)	(0.1)
Net proceeds from disposals of securities, impairment losses and related transactions	75.6	7.9
Cost of disputes, litigation and restructuring	(6.5)	3.4
Other non-recurring income/(expense)	2.2	(86.7)
TOTAL	**67.4**	**(75.5)**

In 2016, net non-recurring expense mainly reflects the reclassification of compensation paid to Safilo.

In 2017, net non-recurring income mainly reflects the reversal of impairment on shares of €90.5 million.

Note 15. Income tax

Income tax breaks down as follows:

(in € millions)	2017	2016
Tax consolidation benefit	45.7	42.9
Income tax on dividends	(11.7)	(15.2)
Surtax on dividends and interest on arrears	96.5	-
Other	(1.3)	(0.3)
TOTAL	**129.2**	**27.4**

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 39 companies in 2017, unchanged from 2016.

If no tax consolidation arrangement had existed, the Company would have paid income tax in the amount of €14.1 million.

In December 2017, the Company received a tax refund of €96.5 million in respect of the surtax on dividends.

Note 16. Deferred tax assets and liabilities (34.433% rate)

(in € millions)

Deferred tax assets	
Retirement termination benefits	1.4
Employee profit-sharing	1.3
Other	0.0

Note 17. Other information

17.1. Average headcount

The Company had an average of 279 employees (263 managerial-grade employees (*cadres*) and 16 other employees) in 2017 compared to 259 in 2016.

17.2. Fees paid to Statutory Auditors

Statutory Auditors' fees recorded in the income statement are shown below:

	KPMG Audit		Deloitte & Associés	
(in € thousands)	2017	2016	2017	2016
Certification and half-year limited review of the parent company and consolidated financial statements	328	328	300	300
Non-audit services	66	38	128	138
TOTAL	**394**	**366**	**428**	**438**

17.3. Executive compensation

In 2017, total compensation of €32.2 million was awarded to members of the governance and management bodies, versus €17.7 million in 2016.

17.4. Consolidating company

Kering SA is controlled by Artémis, which holds 40.88% of its share capital. Artémis is wholly owned by Financière Pinault.

17.5. Transactions with related parties

The support agreement between Artémis and Kering signed on September 27, 1993 generated an expense of €4.0 million in 2017 compared with an expense of €3.3 million in 2016.

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.

17.6. Tax credits

The tax credit for competitiveness and jobs ("CICE") recognised by the Company amounted to €108,400 as of December 31, 2017.

The CICE tax credit was recorded as a deduction from payroll expenses, in accordance with the ANC memorandum of February 28, 2013.

Note 18. Subsequent events

An interim dividend in the amount of €2.00 per share was paid on January 17, 2018 pursuant to a decision by the Board of Directors on December 14, 2017.

At its January 11, 2018 meeting, Kering's Board of Directors decided to ask shareholders at the Annual General Meeting of April 26, 2018 held to approve the financial statements for the year ended December 31, 2017, to approve the payment of an exceptional stock dividend in the form of PUMA SE ("PUMA") shares, with the allocation of 1 PUMA share for 12 Kering shares held. If this stock dividend is approved, the payment date will be May 16, 2018.

Accordingly, all of the assets and liabilities of Sapardis SE will be transferred to Kering SA.

Subsidiaries and investments as of December 31, 2017

(in € thousands)		Share capital	Shareholders' equity excl. share capital and net income
I – DETAILED INFORMATION			
A – Subsidiaries (more than 50%-owned and representing over 1% of the share capital)			
Conseil et Assistance	France	2,010	1,994
Discodis	France	153,567	149,258 (1)
Kering Holland NV	Netherlands	108 (4)	4,260 (4)
Christopher Kane Limited (2)	UK	1 (1)	(11,477) (1)
Kering International (2)	UK	14,600 (1)	777 (1)
Redcats	France	401	(99,502)
Sapardis	France	1,799,936	(305,466)
Trémi 2	France	20,710	(105)
	Sub-total		
B – Investments (less than 50%-owned and representing over 1% of the share capital)			
Yves Saint Laurent	France	123,811 (1)	(5,270) (1)
	Sub-total		
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 December 31, 2016.
(2) GBP exchange rate as of December 31, 2016.
(3) Including the Financière Marothi merger loss: €344,066,000.
(4) Based on interim accounts as of December 15, 2017, further to the Kering Netherlands merger.

% 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	3,799				218	
99.99	299,736	299,736				2,302 [1]	
100.00	7,148,219	7,148,219 [3]				668 [4]	3,785,308
51.00	12,174	327			9,115 [1]	(12,275) [1]	
100.00	14,773	14,773			7,744 [1]	374 [1]	
99.99	1,776,587	40,872				99,149 [1]	
100.00	1,804,008	1,804,008				(12,429)	
100.00	20,475	20,475				6,243	
	11,083,696	**9,332,209**					
1.97	81,873	81,873			212,716 [1]	23,272 [1]	
	81,873	**81,873**					
	571	533					
	31						
	11,166,171	**9,414,615**					

6.7. five-year financial summary

	2017	2016	2015	2014	2013
Share capital at year-end					
Share capital *(in €)*	505,117,288	505,117,288	505,117,288	505,065,960	504,907,044
Number of ordinary shares outstanding	126,279,322	126,279,322	126,279,322	126,266,490	126,226,761
Maximum number of potential shares to be issued	0	0	0	14,146	70,795
by conversion of bonds					
by exercise of stock subscription options	0	0	0	14,146	70,795
Operations and results for the year *(in € thousands)*					
Income from operating activities	178,416	92,248	80,383	70,811	88,795
Net income before tax, employee profit-sharing, depreciation, amortisation and provisions	3,717,240	618,657	481,459	968,460	1,635,162
Income tax (expense)/benefit	129,219	27,436	23,500	22,320	20,139
Employee profit-sharing for the year	3,889	2,809	2,071	2,406	3,339
Net income after tax, employee profit-sharing, depreciation, amortisation and provisions	3,914,991	682,887	527,399	817,551	832,903
Dividend distribution	757,676 (1)	580,885	505,117	505,066	473,350
Per share data *(in €)*					
Net income after tax, employee profit-sharing, but before depreciation, amortisation and provisions	30.43	5.09	3.98	7.83	13.09
Net income after tax, employee profit-sharing, depreciation, amortisation and provisions	31.00	5.41	4.18	6.47	6.60
Dividend:					
Net dividend per share (2)	6.00 (1)	4.60	4.00	4.00	3.75
Employee data					
Average number of employees during the year	279	259	240	194	171
Total annual payroll *(in € thousands)*	52,852	36,964	32,114	27,124	21,602
Total employee benefits paid during the year (social security, social works, etc.) *(in € thousands)*	17,317	14,648	12,617	11,169	10,222

(1) Subject to approval by the Annual General Meeting. Including an interim dividend of €2.00 per share paid on January 18, 2017.
(2) 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 said Code.*

7. statutory auditors' report on the financial statements

year ended december 31, 2017

This is a translation into English of the Statutory Auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This Statutory Auditors' report includes information specifically required by French law, such as information about the appointment of the Statutory Auditors or verification of the Management Report and other documents provided to shareholders.

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,

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meetings, we have audited the accompanying annual financial statements of Kering S.A. for the year ended December 31, 2017.

In our opinion, the financial statements give a true and fair view of the assets and liabilities, and of the financial position of the Company as at December 31, 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Financial Statements" section of our report.

Independence

We conducted our audit in compliance with independence rules applicable to us, for the period from January 1, 2017 to the issue date of our report and in particular we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of Ethics for Statutory Auditors.

Justification of Assessments – Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring your attention to the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period, as well as our responses to those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on specific elements, accounts or items of the financial statements.

Valuation of long-term investments
Note 2.2 to the financial statements

Risk identified	Our response
Long-term investments, appearing on the balance sheet as of December 31, 2017 for a net amount of €11,169.4 million, represent one of the most important balance sheet items. They are recognized at their date of entry at acquisition cost. As indicated in Note 2.2 to the financial statements, at the year end, the gross amount of investments is compared to their value in use for 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 when necessary. An impairment loss is recorded when market value falls below the gross value. Given the materiality of the long-term investments on the balance sheet, and the estimates and assumptions used to determine value in use, we considered the valuation of long-term investments to be a key audit point.	To assess the reasonableness of the value in use estimates of long-term investments, based on the information communicated to us, our work mainly consisted in: • verifying that the estimate of values in use determined by Management is based on an appropriate justification of the valuation method and the figures used; • comparing the net carrying amounts of the investments with their value in use by taking into account the share of consolidated or revalued shareholders' equity and profitability outlook; • verifying the calculation of revalued shareholders' equity, specifically of Sapardis based on the market capitalisation of PUMA.

Verification of the Management Report and other documents provided to Shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information given in the Management Report and in the other documents provided to shareholders on the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Management Report of the Board of Directors and in the other documents addressed to shareholders with respect to the financial position and the financial statements.

Report on corporate governance

We attest that the Board of Directors' report on corporate governance contains the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code (*Code de commerce*).

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code relating to remunerations and benefits received by the Directors 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 controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

Concerning the information relating to the items that your Company considered likely to have an impact in the event of a tender or exchange offer, provided pursuant to Article L. 225-37-5 of the French Commercial Code, we have verified their compliance with the underlying documents which have been communicated to us. Based on our work, we have no comment to make on this information.

Other information

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting rights has been properly disclosed in the Management Report.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Kering S.A. by the Shareholders' Meeting of June 18, 1992 for KPMG S.A. and Wednesday, May 18, 1994 for Deloitte & Associés.

As of December 31, 2017, KPMG S.A. was in its 26th year of uninterrupted engagement and Deloitte & Associés in its 24th year.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease its operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and, where applicable, its Internal Audit, regarding the accounting and financial reporting procedures.

The financial statements have been approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Financial Statements

Objective and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified by Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), the scope of our statutory audit does not include assurance on the future viability of the Company or the quality with which the Company's management has conducted or will conduct the affairs of the entity.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore: We also:

- identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;
- assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If we conclude that a material uncertainty exists, we draw attention in our audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, we modify our opinion;
- evaluate the overall presentation of the financial statements and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as significant audit findings. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration referred to in Article 6 of Regulation (EU) No 537/2014, confirming our independence in the sense of the rules applicable in France as defined in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris La Défense and Neuilly-sur-Seine, February 16, 2018

The Statutory Auditors

KPMG Audit
Division of KPMG S.A.
Isabelle Allen Grégoire Menou

Deloitte & Associés
Frédéric Moulin Stéphane Rimbeuf

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, 2017

*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, and the reasons justifying that these commitments and agreements are in the company's interest, 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, 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 authorised by the General 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 verifying the consistency of the information provided to us with the relevant source documents.

Agreements and commitments submitted to the approval of the General Meeting

Agreements and commitments authorized during the year

We inform you that we have not been advised of any agreement or commitment authorised during the year subject to the approval of the General Meetings pursuant to Article L. 225-38 of the French Commercial Code.

Agreements and commitments previously approved by the General Meeting

Agreements and commitments authorised in previous years and having continuing effect during the year

Pursuant to Article R. 225-31 of the French Commercial Code, we have been advised that the following agreements and commitments authorised in previous years by the General Meeting 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 authorised 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 realised in the common interest.

The methods for assessing the contractually-agreed amount were reviewed by the Audit Committee which, at its meeting of February 8, 2018, noted that Kering S.A. had continued to benefit, during 2017, 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 12, 2018 meeting, your Board of Directors re-examined this agreement, and duly noted the payment of €3,925,000 (excluding VAT) under this agreement in respect of 2017, 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 and together with the revenue of Kering Eyewear.

Persons involved: Patricia Barbizet and 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.

Paris La Défense and Neuilly-sur-Seine, March 26, 2018
The Statutory Auditors

KPMG Audit
A department of KPMG S.A.
Isabelle Allen Grégoire Menou

Deloitte & Associés
Frédéric Moulin Stéphane Rimbeuf

9. 2017 *pro forma* financial information

On January 11, 2018, Kering's Board of Directors decided to submit a resolution to its shareholders at its Annual General Meeting to be held on April 26, 2018, to approve the distribution in kind of 70.40% of PUMA SE ("PUMA") shares outstanding, out of the 86.25% currently owned by the Group as of December 31, 2017. Following the transaction, Kering would retain 2,368,558 PUMA shares, or 15.85% of PUMA's shares outstanding and voting rights. This distribution in kind will be paid on May 16, 2018 with an ex-date on May 14, 2018.

The Kering group has prepared *pro forma* financial information to present an economic view of the Group reflecting the future loss of control over PUMA following the distribution of this dividend in kind.

This *pro forma* financial information has been prepared based on the 2017 consolidated financial statements under IFRS rules as adopted by the European Union and in accordance with the provisions of Appendix II of the European Prospectus Regulation, recommendations issued by ESMA (ex-CSR) in February 2005, as well as recommendation 2013-08 of the *Autorité des Marchés Financiers* on *pro forma* financial information.

This *pro forma* financial information is set out below for illustrative purposes only. As such it is not necessarily representative of the financial position or performance that would have been reported if the loss of control had taken place before the envisaged date. Similarly, it does not purport to be indicative of Kering's financial position or performance in any future period.

The objective of this *pro forma* financial information is to simulate the impacts of the loss of control over PUMA on the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position and the consolidated statement of cash flows:

- the consolidated income statement and the consolidated statement of comprehensive income entirely exclude PUMA contribution for the full year 2017. However, the capital gain arising from the loss of control over PUMA and the revaluation of the interest retained in PUMA following the transaction have been valued as of December 31, 2017, net of related current and deferred taxes;
- the consolidated statement of financial position excludes all assets and liabilities related to PUMA as of December 31, 2017. Only the 15.85% stake retained in PUMA has been presented in non-current assets at its fair value as of December 31, 2017 (based on PUMA share price as of December 29, 2017, i.e. €363);
- the consolidated statement of cash flows entirely excludes PUMA contribution for the full year 2017. Besides, the consolidated statement of cash flows and the consolidated statement of financial position do not consider any cash outflow related to the mentioned restatements;
- 2017 *pro forma* earnings per share have been calculated based on the above-mentioned assumptions.

This distribution in kind, and the resulting loss of control over PUMA, will have the following impacts on Kering SA's consolidated financial statements as of June 30, 2018:

- the recognition of a capital gain or loss net of current and deferred taxes equal to (i) the number of PUMA shares distributed, multiplied by the PUMA share price as of May 16, 2018, the dividend payment date, less (ii) the share in the consolidated net carrying amount of PUMA as of this date, including transaction fees net of tax;
- the recognition of a capital gain or loss net of deferred taxes as a result of remeasuring the interest retained in PUMA at the opening price for PUMA shares as of May 16, 2018.

The capital gain presented in the *pro forma* financial information as shown hereinafter is based on the PUMA share price as of December 29, 2017 (i.e. €363) and the consolidated net carrying amount of PUMA as of December 31, 2017. The net capital gain or loss which will be effectively recognized upon dividend payment on May 16, 2018, will depend on the PUMA share price at that date, and the changes in the net carrying amount of PUMA between December 31, 2017, and May 16, 2018, including the impact of foreign exchange rate fluctuations to which PUMA is exposed conducting its business.

For example, based on the PUMA share price as of December 29, 2017 and the consolidated net carrying amount of PUMA as of December 31, 2017, the net capital gain realised would total €316.2 million. However, taking into account PUMA share price volatility in January 2018, the net capital gain or loss would fluctuate as shown below:

PUMA share price From 01/01/2018 to 01/31/2018	Net capital gain (loss) *(in € millions)*
High: €363.50 (01/05/2018)	322.4
Average: €341.54	51.0
Low: €318.50 (01/12/2018)	(233.8)

The future classification and accounting treatment applicable to the interest retained in PUMA recorded within non-current assets will be determined based on PUMA's governance arrangements, to be finalised upon completion of the operation:

- in accordance with IFRS 9 applicable as of January 1, 2018, if no significant influence can be demonstrated, the interest retained in PUMA will be shown within "Available-for-sale financial assets" and remeasured to fair value, either directly against equity (other comprehensive income) or against financial income/loss, until that interest is sold;
- if significant influence can be demonstrated, the interest retained in PUMA will be shown within "Investments in equity accounted companies" for an amount relating to the Group's share in equity and net income.

2017 *pro forma* consolidated income statement

(in € millions)	2017 Reported	PUMA contribution	Distribution of PUMA shares 70.40%	Revaluation of PUMA shares 15.85%	Other adjustments (1)	2017 *Pro forma*
CONTINUING OPERATIONS						
Revenue	**15,477.7**	**(4,151.7)**				**11,326.0**
Cost of sales	(5,344.7)	2,208.1				(3,136.6)
Gross margin	**10,133.0**	**(1,943.6)**				**8,189.4**
Payroll expenses	(2,443.6)	545.6				(1,898.0)
Other recurring operating income and expenses	(4,741.4)	1,154.1			(0.5)	(3,587.8)
Recurring operating income	**2,948.0**	**(243.9)**			**(0.5)**	**2,703.6**
Other non-recurring operating income and expenses	(241.7)	(1.6)				(243.3)
Operating income	**2,706.3**	**(245.5)**			**(0.5)**	**2,460.3**
Finance costs, net	(242.6)	15.0				(227.6)
Income before tax	**2,463.7**	**(230.5)**			**(0.5)**	**2,232.7**
Corporate income tax	(591.0)	50.1			0.1	(540.8)
Share in earnings (losses) of equity-accounted companies	(2.0)	(1.6)			(0.4)	(4.0)
Net income from continuing operations	**1,870.7**	**(182.0)**			**(0.8)**	**1,687.9**
o/w attributable to owners of the parent	1,791.2	(128.6)			(0.8)	1,661.8
o/w attributable to non-controlling interests	79.5	(53.4)	-	-	-	26.1
DISCONTINUED OPERATIONS						
Net loss from discontinued operations (2)	**(5.6)**	**-**	**255.5**	**59.7**	**0.9**	**310.5**
o/w attributable to owners of the parent	(5.6)	-	255.5	59.7	0.9	310.5
o/w attributable to non-controlling interests	-	-	-	-	-	-
Net income of consolidated companies	**1,865.1**	**(182.0)**	**255.5**	**59.7**	**0.1**	**1,998.4**
o/w attributable to owners of the parent	1,785.6	(128.6)	255.5	59.7	0.1	1,972.3
o/w attributable to non-controlling interests	79.5	(53.4)	-	-	-	26.1

(1) Other adjustments include negative synergies and revaluation at fair value of Wilderness shares kept (5%) by the Kering group, reclassified from Investments in equity-accounted companies to Non-current financial assets.

(2) Schedule A to the press release dated February 13, 2018 showed, for illustrative purposes, the net income from the distribution of PUMA shares, shown under "Other non-recurring operating income and expenses" in the 2017 financial statements.
From an accounting point of view, as of January 11, 2018, the PUMA activity is treated as a discontinued operation. PUMA's income up to the date of disposal, as well as over the comparative period, will therefore be recorded in "Net loss from discontinued operations". The net income or loss on the distribution of PUMA shares as determined on May 16, 2018 (dividend payment date) will also be recorded on the same line in accordance with IFRS 5 paragraph 33(a). This treatment, which will be applied in 2018, is reflected in the above pro forma information.

2017 *pro forma* earnings per share

(in € millions)	2017 Reported	PUMA contribution	Distribution of PUMA shares 70.40%	Revaluation of PUMA shares 15.85%	Other adjustments	2017 *Pro forma*
Net income attributable to owners of the parent	**1,785.6**	**(128.6)**	**255.5**	**59.7**	**0.1**	**1,972.3**
Earnings per share *(in €)*	14.17	(1.02)	2.03	0.47	-	15.65
Fully diluted earnings per share *(in €)*	14.17	(1.02)	2.03	0.47	-	15.65
Net income from continuing operations attributable to owners of the parent	**1,791.2**	**(128.6)**			**(0.8)**	**1,661.8**
Earnings per share *(in €)*	14.22	(1.02)	-	-	(0.01)	13.19
Fully diluted earnings per share *(in €)*	14.22	(1.02)	-	-	(0.01)	13.19
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent	**2,001.9**	**(127.0)**	**-**	**-**	**-**	**1,874.9**
Earnings per share *(in €)*	15.89	(1.01)	-	-	-	14.88
Fully diluted earnings per share *(in €)*	15.89	(1.01)	-	-	-	14.88

2017 *pro forma* consolidated statement of comprehensive income

(in € millions)	2017 Reported	PUMA contribution	Distribution of PUMA shares 70.40%	Revaluation of PUMA shares 15.85%	Other adjustments	2017 *Pro forma*
Net income	**1,865.1**	**(182.0)**	**255.5**	**59.7**	**0.1**	**1,998.4**
Actuarial gains and losses (1)	20.1	(1.0)				19.1
Total items not reclassified to income	**20.1**	**(1.0)**				**19.1**
Foreign exchange gains and losses	(249.5)	107.4				(142.1)
Cash flow hedges (1)	45.2	98.8				144.0
Available-for-sale financial assets (1)	3.9	(3.8)				0.1
Total items to be reclassified to income	**(200.4)**	**202.4**				**2.0**
Other comprehensive income (loss), net of tax	**(180.3)**	**201.4**				**21.1**
Total comprehensive income	**1,684.8**	**19.4**	**255.5**	**59.7**	**0.1**	**2,019.5**
o/w attributable to owners of the parent	1,648.7	40.6	255.5	59.7	0.1	2,004.6
o/w attributable to non-controlling interests	36.1	(21.2)	-	-	-	14.9

(1) Net of tax.

Pro forma consolidated statement of financial position as of December 31, 2017

(in € millions)	2017 Reported	PUMA contribution	Distribution of PUMA shares 70.40%	Revaluation of PUMA shares 15.85%	Other adjustments (1)	2017 *Pro forma*
Goodwill	3,421.2	(977.2)				2,444.0
Brands and other intangible assets	11,159.0	(3,653.3)				7,505.7
Property, plant and equipment	2,267.6	(274.0)				1,993.6
Investments in equity-accounted companies	48.6	(16.6)			(4.8)	27.2
PUMA shares		4,017.9	(3,279.4)	121.6		860.1
Non-current financial assets	364.3	(49.8)			5.7	320.2
Deferred tax assets	964.6	(186.6)	(0.6)		(0.3)	777.1
Other non-current assets	35.4	(20.2)				15.2
Non-current assets	**18,260.7**	**(1,159.8)**	**(3,280.0)**	**121.6**	**0.6**	**13,943.1**
Inventories	2,699.1	(778.5)				1,920.6
Trade receivables	1,366.5	(503.7)				862.8
Current tax receivables	78.6	(26.8)				51.8
Other current financial assets	155.6	(25.2)				130.4
Other current assets	880.3	(153.7)			(0.5)	726.1
Cash and cash equivalents	2,136.6	(415.0)				1,721.6
Current assets	**7,316.7**	**(1,902.9)**			**(0.5)**	**5,413.3**
TOTAL ASSETS	**25,577.4**	**(3,062.7)**	**(3,280.0)**	**121.6**	**0.1**	**19,356.4**
Share capital	505.2	-				505.2
Capital reserves	2,428.3	-				2,428.3
Treasury shares	-	-				-
Translation adjustments	(131.7)	102.8	(83.9)	(18.9)		(131.7)
Remeasurement of financial instruments	76.0	25.8	(21.1)	(4.7)		76.0
Other reserves	9,070.4	(451.3)	(3,195.7)	142.7	0.1	5,566.2
Equity attributable to owners of the parent	**11,948.2**	**(322.7)**	**(3,300.7)**	**119.1**	**0.1**	**8,444.0**
Non-controlling interests	678.2	(523.3)				154.9
Total equity	**12,626.4**	**(846.0)**	**(3,300.7)**	**119.1**	**0.1**	**8,598.9**
Non-current borrowings	4,245.5	(32.8)				4,212.7
Other non-current financial liabilities	0.7	-				0.7
Provisions for pensions and other post-employment benefits	125.7	(29.7)				96.0
Other non-current provisions	55.5	(21.5)				34.0
Deferred tax liabilities	2,712.2	(1,057.0)		2.5		1,657.7
Other non-current liabilities	48.8	(3.0)				45.8
Non-current liabilities	**7,188.4**	**(1,144.0)**		**2.5**		**6,046.9**
Current borrowings	939.7	(29.3)				910.4
Other current financial liabilities	367.6	(75.2)				292.4
Trade payables	1,240.7	(646.1)				594.6
Provisions for pensions and other post-employment benefits	10.7	-				10.7
Other current provisions	182.4	(25.1)				157.3
Current tax liabilities	815.4	(54.8)	5.7			766.3
Other current liabilities	2,206.1	(242.2)	15.0			1,978.9
Current liabilities	**5,762.6**	**(1,072.7)**	**20.7**			**4,710.6**
TOTAL EQUITY AND LIABILITIES	**25,577.4**	**(3,062.7)**	**(3,280.0)**	**121.6**	**0.1**	**19,356.4**

(1) Other adjustments include negative synergies and revaluation at fair value of Wilderness shares kept (5%) by the Kering group, reclassified from Investments in equity-accounted companies to Non-current financial assets.

2017 *pro forma* consolidated statement of cash flows

(in € millions)	2017 Reported	PUMA contribution	Distribution of PUMA shares 70.40%	Revaluation of PUMA shares 15.85%	Other adjustments [1]	2017 *Pro forma*
Net income from continuing operations	**1,870.7**	**(182.0)**			**(0.8)**	**1,687.9**
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets	516.4	(70.5)				445.9
Other non-cash income and expenses	72.1	(0.1)			0.3	72.3
Cash flow from operating activities	**2,459.2**	**(252.6)**	**-**	**-**	**(0.5)**	**2,206.1**
Interest paid/received	198.4	(9.8)				188.6
Dividends received	(1.2)	1.0				(0.2)
Net income tax payable	822.9	(70.6)				752.3
Cash flow from operating activities before tax, dividends and interest	**3,479.3**	**(332.0)**	**-**	**-**	**(0.5)**	**3,146.8**
Change in working capital requirement	(94.3)	54.0			0.5	(39.8)
Corporate income tax paid	(364.9)	42.6				(322.3)
Net cash from operating activities	**3,020.1**	**(235.4)**	**-**	**-**	**-**	**2,784.7**
Purchases of property, plant and equipment and intangible assets	(752.0)	124.3				(627.7)
Proceeds from disposals of property, plant and equipment and intangible assets	50.2	(12.6)				37.6
Acquisitions of subsidiaries, net of cash acquired	1.6	-				1.6
Proceeds from disposals of subsidiaries and associates, net of cash transferred	-	-				-
Purchases of other financial assets	(69.1)	3.5				(65.6)
Proceeds from disposals of other financial assets	36.0	(3.9)				32.1
Interest and dividends received [2]	8.0	(2.8)			9.6	14.8
Net cash used in investing activities	**(725.3)**	**108.5**	**-**	**-**	**9.6**	**(607.2)**
Dividends paid to owners of the parent company	(580.9)	-				(580.9)
Dividends paid to non-controlling interests [2]	(35.0)	24.6			(9.6)	(20.0)
Transactions with non-controlling interests	(27.8)	-				(27.8)
Treasury share transactions	0.2	-				0.2
Bond issues	321.7	(22.3)				299.4
Debt redemptions/repayments	(410.1)	-				(410.1)
Increase/decrease in other borrowings	(363.4)	2.2				(361.2)
Interest paid and equivalent	(203.5)	11.6				(191.9)
PUMA debt redemptions/repayments	-	17.2				17.2
Net cash used in financing activities	**(1,298.8)**	**33.3**	**-**	**-**	**(9.6)**	**(1,275.1)**
Net cash used in discontinued operations	(6.3)	-				(6.3)
Impact of exchange rate variations	152.1	5.3				157.4
Net increase (decrease) in cash and cash equivalents	**1,141.8**	**(88.3)**	**-**	**-**	**-**	**1,053.5**
Cash and cash equivalents at beginning of year	**757.5**	**(326.7)**				**430.8**
Cash and cash equivalents at end of year	**1,899.3**	**(415.0)**				**1 484.3**

(1) Other adjustments include negative synergies and revaluation at fair value of Wilderness shares kept (5%) by the Kering group, reclassified from Investments in equity-accounted companies to Non-current financial assets.
(2) Dividends received by Kering from PUMA in 2017 for €9.6 millions are reclassified and accounted for under Net cash used in investing activities.

10. statutory auditors' report on the pro forma financial information

relating to the year ended december 31, 2017

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers.

This report should be read in conjunction with, and is constructed in accordance with, French law and professional standards applicable in France.

To the Deputy CEO,

In our capacity as Statutory Auditors and in accordance with the requirements of EC Regulation N°809/2004, we have prepared this report on the *pro forma* financial information of Kering SA relating to the year ended December 31, 2017 included in Chapter 5 of the 2017 Reference Document.

This *pro forma* financial information has been prepared solely for the purpose of reflecting the impact that the loss of control of PUMA, following the decision to distribute cash dividends in the form of PUMA SE actions which will be proposed to the Shareholders' Meeting of April 26, 2018, would have had on the consolidated statement of financial position as of December 31, 2017 and on the consolidated income statement, consolidated statement of comprehensive income and the consolidated statement of cash flows for the period ended December 31, 2017 of Kering SA, if the transaction had taken effect as of December 31, 2017 for the consolidated statement of financial position and as of January 1, 2017 for the consolidated income statement, consolidated statement of comprehensive income and the consolidated statement of cash flows. By its very nature, the *pro forma* financial information describes a hypothetical situation and is not necessarily representative of the financial position or the performance which might have been recorded had the transaction or event occurred at a date prior to that of its actual or foreseeable occurrence.

This *pro forma* financial information has been prepared under your responsibility in accordance with EC Regulation N°809/2004 and the CESR's recommendations relating to *pro forma* financial information.

Based on our procedures, it is our responsibility to express a conclusion, under the terms set forth in Annex II point 7 of EC Regulation N° 809/2004, on the appropriateness of the prepared *pro forma* information.

We performed our work in accordance with the professional guidelines of the *Compagnie nationale des commissaires aux comptes* (French Institute of Statutory Auditors). These procedures, which do not include a review of the financial information underlying the preparation of the *pro forma* financial information, have mainly consisted in verifying that the bases on which the *pro forma* financial information has been prepared is consistent with the relevant source documents described in the notes to the *pro forma* financial information, reviewing the probative elements substantiating the *pro forma* restatements and conducting interviews with the Senior Management of Kering SA to obtain information and explanations which we deemed necessary.

In our opinion:

- the *pro forma* financial information has been properly compiled on the basis stated;
- the basis is consistent with the accounting policies of the issuer.

This report is issued solely:

- for the filing of the 2017 Reference Document with the French Securities Regulator (*Autorité des Marchés Financiers*);
- and, if necessary, for the admission of trading on a regulated market, and/or a public offering, of the financial securities of Kering SA in France and in other countries of the European Union in which, the prospectus, including this Reference Document, approved by the AMF, would be notified.

And may not be used in any other context.

Paris La Défense and Neuilly-sur-Seine, March 26, 2018
The Statutory Auditors

KPMG Audit		Deloitte & Associés	
A department of KPMG S.A.			
Isabelle ALLEN	Grégoire MENOU	Frédéric MOULIN	Stéphane RIMBEUF

chapter 6
risk management procedures and vigilance plan

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1. 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 French financial markets authority's (*Autorité des marchés financiers* – AMF) Reference Framework published in July 2010. The Reference Framework takes into account the legislative and regulatory changes since it was first published in 2007, including Law no. 2008-649 of July 3, 2008 and Ordinance no. 2008-1278 of December 8, 2008, which adapted French law to EU Directives 2006/46/EC of June 14, 2006 and 2006/43/EC of May 17, 2006, and also supplemented the Financial Security Law no. 2003-706 of August 1, 2003. It also takes account of the requirements set out in article 173 of Law no. 2015-992 of August 17, 2015 on energy transition for sustainable development.

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 internal control framework was analysed in depth when the risk management policy was drafted. This policy is set out in the section "The components of risk management".

1.1. scope and principles of organisation

Kering is the parent company of the Kering group, whose main operating entities are the Luxury and the Sport & Lifestyle activities. 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 operations consist of defining and implementing its strategy, organising and managing its holdings, stimulating the development of its activities, coordinating their financing, 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 activities: Executive Management of the operating 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 dedicated to internal control procedures covers the Luxury activities. PUMA AG, listed on the German stock 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.

1.2. 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;
- render the Company's decision-making and processes secure in order to support the achievement of its objectives;
- mitigate the risk of unexpected outcomes and operating losses;
- ensure that initiatives are consistent with the Company's values;
- bring Company employees together to develop a shared view of the main risks.

1.3. 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 2017, 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.

1.3.1. 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 comprises the Group Managing Director, the Chief Financial Officer, 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, governance, reputational 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 analyses relating to strategic, operational, reporting, reputational and compliance risks; (iii) the analysis summaries of general and specific risks; and (iv) the validation and monitoring of action plans rolled out with the aim of controlling identified risks.

The Risk Committee's work is 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 created within the Company to coordinate this reinforced risk management system, ensure that the Executive Management teams of the activities 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 discussions.

Risk management policy

After reviewing in particular the COSO II internal control framework, the Group implemented a risk management policy that was sent to the Kering and PUMA internal control departments as well as the Executive Management teams of the activities and brands. This document describes the methods used by the Group for its risk analysis work.

1.3.2. A three-step risk management process involving:

- 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 an ongoing process;

- analysing risks: this step involves reviewing the potential consequences of the main risks (for example, financial, human, legal or reputational consequences) and assessing their impact, their likelihood of occurring as well as the level of risk control. This is also a continuous effort, and assessments are conducted in principle twice a year during work group sessions with the main managers of the activities. 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 following the presentation to the Risk Committee of a consolidated risk map for each of the activities. The risk management process is monitored over the long term.

In 2013, the Group deployed special software for the management of risk identification and analysis which guarantees a common methodology across both activities and extends the responsibilities of the managers included in these workshops.

In 2014, the Group extended its risk identification process through work sessions with the holding company's main managers.

In 2015, the Group extended its risk identification process through work sessions with the key managers of Kering's regional divisions in the Americas and Asia-Pacific.

1.3.3. 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 in principle at least twice a year to review the risk maps drawn up by the Internal Audit Department of the Group and of PUMA, and to monitor the progress of the specific action plans.

The Committee discusses its self-assessment once a year.

The Risk Committee met twice in 2017, and the Audit Committee and Board of Directors were apprised of its work in October 2017.

1.4. *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 uses 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.

1.5. general principles of internal control

1.5.1. 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, reporting, governance, reputational 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.

1.5.2. Limits of internal control

The probability of meeting these 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.).

1.6. 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.

1.6.1. 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 Ethics. 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 its Luxury and Sport & Lifestyle activities. It also defines, within each functional area, (i) the matters that fall within the delegated responsibility of the activities, (ii) those that must be communicated to Kering within appropriate timeframes, and (iii) those requiring Kering's prior authorisation.

Group principles and values

The ethical principles of the Kering group are set out in the Code of Ethics, first circulated in 2005 and again in 2009 and 2013 to all Kering group 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.

As part of its strengthened commitment to the promotion of and respect for ethics within the Group, an online training programme in ethics and code compliance has been rolled out 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 parallel to the first circulation of its Code of Ethics in 2005, Kering 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 12 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 proper 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 Chapter 3 "Sustainability" of this Reference Document.

The Luxury and Sport & Lifestyle activities may also 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 against insider trading (e.g., 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. In order to adapt the Charter to changes within the Group since its initial publication, a new edition was published in 2015. 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 of the activities and brands in implementing an internal control system that is adapted to their operations.

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 specifies the existing tools for assessing internal control and risks, namely self-assessment of internal control and mapping of major risks, and sets out the basic principles for creating new procedures.

Human resources policy

Quality of human resources and cohesion of management are key success factors for the Group. Kering makes sure that the various activities apply human resources policies that are adapted to their context and challenges, while meeting the highest local standards. The principle of autonomy and empowerment of the activities is also applied, but the Group guarantees the consistency of the policies implemented and their alignment with Kering's centrally defined values and actions.

With regard to social policy, the activities apply high standards of dialogue and employee involvement 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 Luxury and Sport & Lifestyle activities. The survey was conducted again in 2015. The Group develops cross-functional training programmes and conducts reviews of the activities' managerial resources on an annual basis. Kering thus ensures that there is a good match both now and in future between the managerial resources and the challenges facing the activities. Furthermore, the Group maintains an active market monitoring policy for all key positions for which the internal succession plan does not appear sufficiently strong.

1.6.2. Organisation and resources

The organisation of internal control depends on persons involved 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 Management Departments and the Statutory Auditors.

Executive Committee

The Kering group Executive Committee, which is an Executive Management body, comprises 14 members, as described in Chapter 4, section 2.5 of this Reference Document (see page 168).

The Executive Committee meets regularly, in accordance with the policies of the Strategy & Development Committee, in order to:

- draw up and coordinate the Group's operating strategy;
- define the priorities through objectives assigned to the activities and the main functional projects;
- develop synergies between the activities;
- 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 Luxury and Sport & Lifestyle activities' business units.

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 key operational player 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 Committee

Under the responsibility of the Board of Directors, to which it regularly reports on these matters, the Kering Audit Committee comprises four members, three of whom are independent. It 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 PUMA, whose operating methods and actions are identical to those of Kering's Audit Committee. It meets prior to the meeting of Kering's Audit Committee.

Internal Audit and Risk Management Departments

As a company listed in Germany, PUMA is required to have an Internal Audit Department. This department works with the Kering group's Internal Audit Department to ensure that the audit teams are provided with full coverage of the Group.

Through their work, the Internal Audit and Risk Management Departments help assess the internal control system and recommend improvements. The Internal Audit Departments are also in charge of coordinating risk management, in particular through risk mapping and action plan monitoring. 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 reports to the Chairman. It coordinates, harmonises and optimises working methods and tools, as well as providing services (regulatory intelligence, expertise, resources, etc.) and conducting audit assignments within the scope of the annual audit plan.

The Group Internal Audit Department centrally administers and analyses internal control pursuant to the Financial Security Law, supplemented by Law no. 2008-649 of July 3, 2008 and Ordinance no. 2008-1278 of December 8, 2008, as well as the new AMF Reference Framework described in more detail in the section below entitled "Oversight of the system".

The Group Internal Audit Department also performs active intelligence monitoring 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. In 2017, the Internal Audit teams together conducted around sixty audit assignments, including special assignments.

The Internal Audit Departments draw up the audit plans based, in particular, on the Group's process guidelines and 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 are reported to the Audit Committees. In this way, the Audit Committees are 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, be they operational or financial, related to stores, warehouses or headquarters, distribution or manufacturing activities.

At the end of 2017, the Internal Audit Department of the Kering group consisted of 19 employees, versus 20 in 2016 and 19 in 2015. Their rules of conduct are described in their Audit Charter which 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, as well as 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 charters that establish the methodology shared by both activities: the audit manual and the two audit approach documents. The development of the two audit approaches reflects the differences between the activities.

The Statutory Auditors

The Statutory Auditors review the internal control systems in order to certify the financial statements. They do so by identifying the strengths and weaknesses of those systems, assessing the risk of material misstatement, and where applicable, 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 certify the completeness, accuracy and fair presentation of the parent company and consolidated financial statements on an annual basis and issue a review report on the Group's interim consolidated financial statements.

The audit engagements are allocated between the joint Statutory Auditors: Deloitte and KPMG.

The main matters covered by the Statutory 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 individual or consolidated materiality threshold;
- validation of the main accounting treatments and options throughout the year, in coordination with the management of the activities and Kering;
- application of the accounting standards defined by Kering for its activities;
- preparation of an audit report for each brand, in order to certify Kering's consolidated financial statements, including any comments on internal control;
- presentation of a general overview of the Kering group to Kering's Management and to the Audit Committee;
- preparation of the Statutory Auditors' reports for Kering's shareholders. These reports appear in this Reference Document on pages 135, 328, 351, 355 and 362.

1.6.3. Risk management

The risk management system is described in Chapter 5, section 3 of this Reference Document.

1.6.4. Oversight of the system

The ongoing oversight of the internal control system and regular review of its functioning are carried out by three means: the work performed by Internal Audit, the remarks made by the Statutory Auditors and the annual self-assessments.

With regard to the annual self-assessments carried out within each activity for each process identified, the managers in charge are asked to assess the level of internal control through key controls for their operations, in order to identify any weaknesses 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 of the activities 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 approach used to analyse internal control is based on the following principles:

- a self-assessment, using questionnaires, conducted with key operational staff members in each of the activities following the breakdown of operations into key processes. The overhaul of the self-assessment questionnaires was continued in 2017 in order to make them more effective and better adapted to business operations. In 2015, all of the questionnaires were reviewed in the light of participants' responses during the previous annual assessment and comments from those conducting the assessments. Key controls as well as fraud risk controls were also identified and added to these questionnaires in order to strengthen the effectiveness of the action plans. The self-assessment campaign now covers all of Kering's operations;
- these questionnaires provide operational staff with an additional indicator for 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 newly-acquired entities. They allow action plans to be launched based on the results of these self-assessments;
- the finance, accounting and management process questionnaire takes into account the AMF's Reference Framework and, in particular, its application guide. It includes 60 or so questions on the Group's mandatory key controls. It is circulated among the largest subsidiaries in the Luxury and Sport & Lifestyle activities. There was no change in the scope of processes covered in 2017, though more subsidiaries were included in the self-assessment campaigns for each of these processes, reflecting changes in the organisation of the Group's businesses and the acquisition of new companies.

Since 2013, the Group's Internal Audit Department has extended its self-assessment procedures to stores throughout the Luxury activities. These quarterly self-assessments give the sales network managers an idea of the effectiveness of their internal control and a teaching aid to help store managers meet their internal control obligations.

This approach was presented and approved by the Kering Audit Committee.

1.7. 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 and 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 impact of strategic decisions on the Group's key financial and management balances. They are also used for the annual assessment by the Group of the value in use of assets for the various cash-generating units;
- budgets, which are drawn up in two phases on the basis of discussions between the operating departments and the members of the Group's Executive Management. The first phase takes place in the fourth quarter of the fiscal year when a preliminary budget sets out the main financial balances and operating action plans. The second stage which finalises the budget takes place in the first quarter of the following year and takes into account any significant events that may have occurred in the meantime;
- monthly reporting that monitors the performance of the Luxury and Sport & Lifestyle activities 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 activities with Group rules and carries out, in collaboration with their

financial controllers, an analytical review by comparison with the budget and the previous year;

- monthly meetings of the Executive Management of Kering and the senior executives of the Group's activities to assess business trends on the basis of financial and operational data provided by the meetings' participants;
- the Group's regular monitoring of the activities' off-balance sheet commitments. This control is carried out, in particular, as part of the statutory consolidation process insofar as the activities are required to provide an exhaustive list of their commercial or financial commitments and to monitor them from year to year.

The consolidation of the financial statements

The statutory consolidation of the financial statements is carried out at the end of June and December using the Group consolidation tool. It enables financial information to be transferred from the activities in real time after full validation of the consolidation reporting packages by the activities' Statutory Auditors and by the Chief Executive Officers and Chief Financial Officers of the brands who commit themselves via a signed representation letter, thus strengthening the quality of the financial information transferred.

Consolidation levels within the activities 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 activities specifying the reports to be sent, the assumptions to be applied as well as the specific points to be taken into account.

Financial Communications

The Financial Communications Department's role is to provide information on an ongoing or periodic basis that conveys a consistent and clear message, and to comply with the principle of equality between shareholders in relation to disclosures.

Financial communications are prepared for a diverse target audience 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 through Annual General Meetings, periodic publications, press releases, etc., via all means of communication, including in the press, on the Internet, and through direct telephone contact and individual meetings.

Financing and Treasury Department

The Financing and Treasury Department manages liquidity, counterparty, foreign exchange and interest rate financial risks. It also coordinates the Group's cash management. It manages the Group's banking policy, establishes guidelines regarding the allocation of activity by bank and coordinates Group calls for tender. It ensures 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

Apart from its specific function at Company level, the Legal Department assists the entire Group with important legal matters and coordinates analyses or studies common to the activities or of significant interest for the Group. It also formulates Group policy and oversees its application. It provides the activities 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, and advises and assists the activities on all issues related to tax law as well as on the implementation of tax consolidation in France.

The Insurance Department

The Insurance Department sets up and manages the Group's insurance policy. It is responsible for identifying, quantifying and handling 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 image and reputation both internally and externally.

The Information Systems Department

The Information Systems Department is responsible for providing optimal operational performance, controlling IT risk and improving the Group's 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 draft form to Kering's Audit Committee for its opinion and was approved by Kering's Board of Directors on February 18, 2016.

2. duty of care vigilance plan

On March 27, 2017, France adopted into law the final amended version of French Law no. 2017-399 related to the duty of care of parent companies and companies using suppliers and subcontractors (the "Law on the Duty of Care" or the "Law"). The Law on the Duty of Care seeks to prevent abuses to (i) human and fundamental rights, (ii) health and security of persons, and (iii) the environment by imposing on companies of a certain size the obligation to institute preventive and remedial measures on both themselves and companies within their supply chain. To ensure the prevention of such infractions, the law requires that these companies create a vigilance plan, which includes five elements: (i) an assessment to identify, analyse, and categorise risks; (ii) procedures to regularly evaluate the Company's affiliates, subcontractors, and service providers; (iii) actions adapted to attenuate risk and prevent such infractions; (iv) an alert system and a system for collecting these alerts; and (v) a system to monitor the implementation of these measures.

Kering S.A. ("Kering" or the "Group") considers that these obligations are central to its ethical values. Further, it is dedicated to ensuring that its employees, as well as those within its supply chain, fulfil their ethical commitments.

Accordingly, in 2017, Kering undertook steps to comply with the obligations set forth in the Law on the Duty of Care, and to identify and evaluate the risk of breach of the principles set forth therein. The findings of this evaluation have been detailed in this vigilance plan. This plan has been created by Kering in coordination with external advisors, and has been reviewed by the Group's relevant stakeholders.

2.1. scope

Kering falls within the scope of the Law on the Duty of Care, which applies to French companies of a certain size. More specifically, the Law applies to both: (i) companies with a registered office in France that employ at least 5,000 employees either in the Company itself or in its direct or indirect affiliates; and (ii) companies with a registered office in France or abroad that employ at least 10,000 employees in the Company itself or in its direct or indirect affiliates.

2.1.1. Scope of the Group and its affiliates

As a leading international brand, Kering operates globally in two major markets: (i) Luxury; and (ii) Sport & Lifestyle.

The Luxury market in which Kering operates includes fashion, leather goods, jewelry and watches. 17 of Kering's 20 brands are luxury fashion brands in this sector, including: Gucci, Bottega Veneta, Saint Laurent, Alexander McQueen, Balenciaga, Brioni, Christopher Kane, McQ, Stella McCartney, Tomas Maier, Boucheron, Dodo, Girard-Perregaux, JEANRICHARD, Pomellato, Qeelin and Ulysse Nardin. The Luxury sector constitutes roughly two-thirds of Kering's annual revenue.

Kering competes in the Sport & Lifestyle sector primarily through its three brands: PUMA, Volcom, and COBRA. The Sport & Lifestyle sector constitutes roughly one-third of Kering's revenue.

2.1.2. Scope of the suppliers

In the course of its business, Kering works with thousands of suppliers. The majority of these suppliers for the Luxury sector are Italian; in 2016, 92% of Kering's Luxury suppliers were located in Italy. However, its upstream suppliers who produce raw materials for Kering's production processes directly and indirectly source these materials from all over the world.

2.1.3. Risk universe

The Law on the Duty of Care sets out Kering's risk universe. These risks include both well-documented risks and emerging risks and fall into three categories. Out of these three categories of risks, Kering identified several risks. It further classified these risks into generic risks and specific risks to the Group.

The three categories outlined by the Law are defined below.

2.1.3.1. Abuses to human rights and fundamental rights

Human rights and fundamental rights are universally applicable legal norms that set out minimum standards to ensure that a person is treated with dignity. They are normally guaranteed on a national level by a country's constitution as well as on a supranational or international level.

Violations to human and fundamental rights may occur at any level of the supply chain during the course of business. Victims of abuse to human and fundamental rights include not only those who may be directly involved in Kering's business, but also third parties.

Examples of human rights and fundamental rights include: (i) freedom of association; (ii) the right to non-discrimination; (iii) abolition of slavery and forced labour; (iv) abolition of child labour; and (v) the right to fair remuneration.

2.1.3.2. Health and safety risks

Health and safety risks are the probability of hazard that can lead to harm, injury, illness or death.

Health and safety risks can arise at all levels of the supply chain. Victims of health and safety risk include both employees in the workplace and final consumers.

Examples of health and safety risks include: (i) occupational safety; (ii) occupational toxins and hazards; (iii) industrial accidents; and (iv) safety hazards for the consumer.

2.1.3.3. Protection of the environment

Protection of the environment is aimed at conserving natural resources, preserving the current state of the natural environment and, where possible, reversing its degradation.

Violations of such protections include: (i) waste pollution; (ii) biodiversity, land, and ecosystem destruction; (iii) water pollution; and (iv) climate change.

2.2. *risk mapping*

2.2.1. Objective

The objective of the risk mapping is to identify and classify the risks in Kering's business operations in order to understand the largest risks of potential breach to Kering's duty of care. Once identified, the situations or activities with the most significant risk of breach can then be mitigated through further controls.

2.2.2. Methodology

To create the risk mapping, Kering distinguished between inherent risks and residual risks. Inherent risk (also called gross risk), is the risk that a situation would pose if no controls or other mitigating factors existed or were implemented. Residual risk is the risk that remains after the mitigating controls are applied.

Given that Kering's Sport & Lifestyle entities have more experience confronting potential violations of the duty of care, they have gained significant experience in terms of risk mapping and mitigation measures. As such, Kering has decided to focus its initial risk mapping efforts on developing a vigilance plan for its Luxury brands during the first year of the Law's application.

2.2.2.1. Mapping inherent risks

Kering first identified the inherent risks of its supply chain. To do so, it collected purchasing data and information on all the raw materials used in the production of Kering's Luxury finished products.

The raw materials were grouped into various categories according to type. Kering voluntarily chose to be inclusive in its list of raw materials and included natural resources from the primary sector, such as those from agriculture or mining and extraction.

Kering's risk universe was then applied to these categories to determine the potential duty of care risk that each material posed. To ensure that all potential risk was captured, each stage of the raw material's product transformation in the supply chain was evaluated.

The risks from the raw materials and their transformation processes were analysed statistically, using an econometrics model, and through a literature review. Statistical risk databases were used for most of the identified risks, and an assessment of the risk's potential impact and frequency was conducted where necessary.

As a result, each inherent risk was given a number value to reflect the level of potential risk in the absence of mitigation measures.

2.2.2.2. Classifying the mitigation tools

Kering's mitigation tools were then assessed in terms of their effectiveness. These tools were identified through interviews with Kering personnel and documents both internal and external to the Company. Internal documents included Kering's management systems and manuals, while public, external documents included Kering's policies and reports.

These mitigation tools were classified according to type, corresponding potential risk, and relevant raw material. Once classified, the mitigation tools were scored according to their power and level of implementation. These scores were presented as negative number values.

2.2.2.3. Mapping residual risks

Kering then mapped out the residual risks. To determine the residual risks, Kering applied the mitigation tools to their corresponding inherent risk. By adding the scores of these two factors, Kering was able to identify the significant residual risks requiring further mitigation.

2.3. regular assessment procedures – action plan

Though no control system can guarantee the absence of risk, the Group and its brands must collaborate with suppliers to mitigate risk through preventive and remedial measures. As a result of the risk mapping performed, Kering has adopted an action plan for 2018 which proposes four items to mitigate risk from its suppliers.

2.3.1. Hercules management system

The Hercules project is a compliance management system created in 2015 at the initiative of Kering Top 30. Its purpose is to create best practices, monitor risk assessments, and provide supply chain analysis for the production processes of Kering's Luxury activities.

In 2016, the Group also created a set of uniform procedures to be implemented by the brands. These procedures outlined the management and monitoring of interactions between the Group and brands' suppliers. Specifically, Group-wide procedures were put in place for its relationship to suppliers regarding selection and on-boarding as well as rating and termination.

Kering also redrafted contracts based on a Group template to be signed by its direct suppliers. These newly formulated contracts ensure a higher level of protection against corruption and extend the Group's Code of Ethics and Sustainability Principles to its entire supply chain.

In addition, the Group's standards and methodologies for security and social audits were defined and clarified. These standards and methodologies support the monitoring of the Group's supply chain and assist Kering's Supply Chain Audit and Supply Chain Security teams in their duties.

Finally, a database on multi-brand suppliers has been set up to gather all information related to Kering's suppliers. These databases are used to support assessments of the supply chain and track audit activities.

The Hercules process will now be rolled out with a target to cover all brands. As a consequence, the Group's set of procedures and sustainability requirements will be further streamlined across its supply chain.

2.3.2. Alert mechanism

Kering has an alert mechanism in place for the reporting of possible misconduct and the collection of these alerts. In 2017, Kering modified its whistleblowing procedure in light of the Group's obligations under the Law on the Duty of Care and Law no. 2016-1691 of December 9, 2016 related to transparency, the fight against corruption, and the modernisation of the economy ("Sapin II"). Kering's current alert mechanism will also be extended to third parties. This will allow suppliers to make reports of potential misconduct. As a consequence, Kering will mitigate its suppliers' risk by allowing these third parties to report possible breaches of the duty of care.

2.3.3. Code of Ethics

Kering issued its first Code of Ethics in 2005 to replace the Ethics Charter, which was first issued in 1996. This Code demonstrates Kering's day-to-day commitment to responsible business management.

Since then, it has been regularly updated and a new version is currently being prepared for publication at the end of 2018.

2.3.4. Compliance manual

In addition to the existing Compliance Programme (worldwide organisation of brands Compliance Officers led by a Group Chief Compliance Officer, extended set of policies and procedures, dedicated e-learnings) Kering is currently working on an additional compliance initiative aiming to create a Compliance Manual. This Manual will lay out an overview of the ethical behaviour and legal compliance to which Kering personnel must abide. It will set out definitions, practical case studies and recommendations to guide employee behaviour and to ensure their understanding of the possible violations. Specifically, it will provide detail on the following compliance topics: (i) corruption and influence peddling; (ii) human rights; (iii) fraud; (iv) conflicts of interest; (v) competition law; and (vi) trade sanctions and export control.

2.3.5. Desktop due diligence

In addition to the Hercules process outlined above, Kering monitors its relationships with service providers through risk screening. To identify and manage its financial, regulatory, and reputational risk, Kering utilises databases which collate information from various sources. These databases not only gather local and government records, they also take into account violations to human resources policies and procedures.

2.4. monitoring and governance system

Kering formed a steering committee to oversee its compliance with the Law of the Duty of Care. The steering committee is composed of members from several departments, including Compliance, Sustainability, and Internal Audit. This committee has approved Kering's risk mapping and abovementioned action plan. The assessment of risks must be reevaluated each year in light of potential changes to the Group's supply chain and to the relevant internal documents and literature. As required by law, the action plan resulting from the first year's findings will be disclosed in the 2018 report.

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: 40 rue de Sèvres, 75007 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 of 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: 7010Z

Consultation of legal documents

The Articles of Association, minutes of Annual General Meetings and other corporate documents may be consulted at the registered office under the applicable legal conditions.

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 French 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 fully paid up 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 not representing 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 grants the right to a percentage, which is proportional to the number and par value of the existing shares, of the corporate assets, the profit after deduction of the deductions provided for by law and the Articles of Association, or of the 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 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 and the Group Managing Director 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, except in the event of a decision by the Annual General Meeting.

1.2. payment terms for trade payables and trade receivables

Invoices received or issued and due but not settled at the end of the reporting period (table provided for in Article D. 441-4(I) of the French Commercial Code)

	Invoices received and due but not settled at the end of the reporting period					
	0 days (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total (1 or more days)
(A) Days late						
Number of invoices	4				122	
Total amount of invoices (excl. VAT)	335 946,23	904 809,59	69 961,09	9 448,52	200 349,51	1 184 568,71
As a % of total purchases for the reporting period (excl. VAT)	0,18%	0,48%	0,04%	0,01%	0,11%	0,64%
As a % of revenue for the reporting period (excl. VAT)						
(B) Invoices excluded from (A) – relating to contested or unrecognised payables or receivables						
Number of invoices excluded			N/A			
Total amount of invoices excluded (excl. VAT)			N/A			
(C) Reference payment terms used (contractual or legal – Article L. 441-6 or Article L. 443-1 of the French Commercial Code)						
Reference payment terms used to calculate late payments			Legal terms: 30 to 60 days			

Legal terms:

The payment term of sums due is set at 30 days following the date on which the goods are received or on which the service is carried out.
The parties concerned may make exceptions to this principle. However, the term agreed by the parties may not exceed 60 days or, by way of an exception, 45 days from the end of the month, as of the date of issue of the invoice.
The agreed payment term must be specified on the invoice and in the general terms and conditions of sale.
Invoices issued periodically (or summary invoices) must be paid within a maximum of 45 days from date of issue.
Purchases of VAT-exempt goods and services delivered outside the European Union may be settled up to 90 days from the invoice date. The term must be indicated in the sales contract.

	Invoices issued and due but not settled at the end of the reporting period					
	0 days (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total (1 or more days)
	1					181
	112 661,55	63 611 509,53	264 231,83	91 237,85	757 273,64	64 724 252,85
	0,04%	23,90%	0,10%	0,03%	0,28%	24,32%
			N/A			
			N/A			
			Contractual terms: 30 days from date of invoice			

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 annual consolidated and parent company financial statements of Kering SA for the year ended December 31, 2017 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 pages 388 to 389) 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.

Londres, March 28, 2018

Jean-François Palus

Group Managing Director (*Directeur général délégué*)

3. statutory auditors

3.1. principal statutory auditors

KPMG SA

Tour EQHO, 2 avenue Gambetta, CS 60055, 92066 Paris-La Défense, France

Grégoire Menou and Isabelle Allen

Date of first appointment: Annual General Meeting of June 18, 1992.

Reappointment, term and expiry: reappointed at the Combined General Meeting of April 29, 2016 for six years until the Annual General Meeting called to approve the 2021 financial statements.

Deloitte & Associés

185 avenue Charles-de-Gaulle, 92524 Neuilly-sur-Seine Cedex, France

Frédéric Moulin and Stéphane Rimbeuf

Date of first appointment: Annual General Meeting of May 18, 1994.

Reappointment, term and expiry: reappointed at the Combined General Meeting of May 6, 2014 for six years until the Annual General Meeting called to approve the 2019 financial statements.

3.2. substitute statutory auditors

Salustro Reydel

Tour EQHO, 2 avenue Gambetta, CS 60055, 92066 Paris-La Défense, France

Date of first appointment: Annual General Meeting of April 29, 2016.

Appointment, term and expiry: appointed at the Combined General Meeting of April 29, 2016 for six years until the Annual General Meeting called to approve the 2021 financial statements.

BEAS

7-9 Villa Houssay, 92524 Neuilly-sur-Seine Cedex, France

Date of first appointment: Annual General Meeting of May 19, 2005.

Reappointment, term and expiry: reappointed at the Combined General Meeting of May 6, 2014 for six years until the Annual General Meeting called to approve the 2019 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, 2016: key figures, activities of the Group, activity report, investment policy, consolidated financial statements, Kering SA financial statements and the related Statutory Auditors' reports, set out on pages 6 and 7, 17 to 56, 222 to 250, 251 to 253, 265 to 347, 350 to 366, 367 and 368 of the Reference Document filed on March 30, 2017 with the French financial markets authority (*Autorité des marchés financiers* – AMF);
- for the fiscal year ended on December 31, 2015: 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, 15-55, 178-208, 217 and 323 of the Reference Document filed on April 4, 2016 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

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(2) No quarterly financial statements have been published between the closing of the annual financial statements and the publication of the Reference Document.
(3) Not material.

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