KERING

Reference document

2018

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CHAPTER 1
Kering in 2018

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 Houses and pursuing its ambition to be the world's most influential Luxury group in terms of creativity, sustainability and long-term economic performance.

1963

- François Pinault establishes the Pinault group, specializing in lumber trading.

1988

- Listing of Pinault SA on the Paris Stock Exchange.

1990

- Acquisition of Cfao, a group specializing 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 sector.
- First steps toward the creation of a multi-brand Luxury 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.
- François-Henri Pinault becomes Chairman and Chief Executive Officer of 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

- Listing of 58% of Cfao.
- Creation of the Kering Foundation to combat violence against women.

2010

- 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 Christopher Kane brand.
- Acquisition of a majority stake in France Croco – now named Tannerie de Périers – a Normandy-based tannery specializing 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

- 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

- Sale of Electric by Volcom.
- Kering relocates its headquarters 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.

2018

- Distribution in kind of PUMA shares to Kering shareholders, confirming the Group's positioning as a luxury pure player while maintaining its financial interest at 15.85% of PUMA's share capital.
- Kering announces its withdrawal from Stella McCartney, Volcom, Christopher Kane and Tomas Maier.
- Publication of the first Integrated Report.
- Kering announces new developments in its digital strategy, aimed at enhancing the Group's omni-channel capabilities and its Houses' digital activities. In particular, Kering will fully internalize the e-commerce activities currently handled through the joint venture with Yoox Net-a-Porter Group (YNAP) in the first half of 2020.

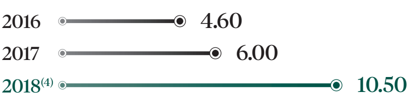
2. KEY CONSOLIDATED FIGURES

In the consolidated statements of income and cash flows, the data for 2017 have been restated in order to present the data for PUMA, Stella McCartney, Volcom and Christopher Kane within discontinued operations (previously presented within continuing operations in reported 2017 figures). However, the data for 2017 have not been restated in the statement of financial position and correspond to reported 2017 figures. This presentation meets the requirements of IFRS 5 with respect to discontinued operations. In addition, certain non-financial metrics for 2017 have been restated in order to provide a *pro forma* view of the performance of continuing operations (workforce, etc.).

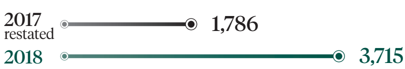
(in € millions)	2018	2017 restated	Change
Revenue	**13,665**	**10,816**	**+26.3%**
EBITDA	**4,436**	**3,123**	**+42.0%**
EBITDA margin (as a % of revenue)	*32.5%*	*28.9%*	*+3.6pts*
Recurring operating income	**3,944**	**2,691**	**+46.6%**
Recurring operating margin (as a % of revenue)	*28.9%*	*24.9%*	*+4.0pts*
Net income attributable to owners of the parent	**3,715**	**1,786**	**+108.1%**
o/w continuing operations excluding non-recurring items	2,817	1,887	+49.3%
Gross operating investments (1)	**828**	**605**	**+36.8%**
Free cash flow from operations (2)	**2,955**	**2,206**	**+34.0%**
Net debt (3)	**1,711**	**3,049** (5)	**-1,337** (5)
Average number of employees *(full time equivalent)*	**30,595**	**25,809**	**+18.5%**

Per share data *(in €)*	2018	2017 restated	Change
Earnings per share attributable to owners of the parent	29.49	14.17	+108.3%
o/w continuing operations excluding non-recurring items	22.36	14.97	+49.4%
Dividend per share	10.50 (4)	6.00	+75.0%

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.

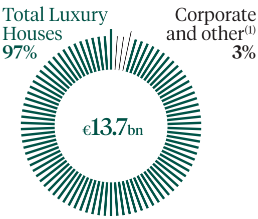
Free cash flow from operations (2) *(in € millions)*

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 249.
(4) Subject to the approval of the Annual General Meeting to be held on April 24, 2019.
(5) Non restated.

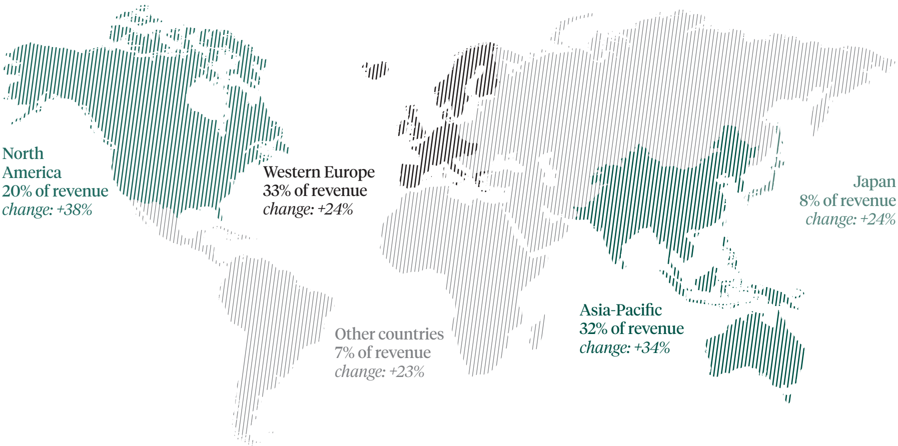
Breakdown of revenue from continuing operations



Group revenue

2018 vs 2017 restated comparable (2) change, in %

Revenue breakdown and comparable(2) change by region



Recurring operating income: change and margin

(in € millions)	Recurring operating income	Reported change *(in %)*	Recurring operating margin	Change *(in pts)*
Total Luxury Houses	4,191	+44.8%	31.6%	+4.1pts
Corporate and other(1)	(247)	-20.9%	N/A	N/A
Group	**3,944**	**+46.6%**	**28.9%**	**+4.0pts**

(1) The "Corporate and other" segment is defined on page 240.
(2) Comparable revenue is defined on page 248.

3. GROUP STRATEGY

VISION Embracing creativity for a modern, bold vision of Luxury

BUSINESS MODEL A multi-brand model built on a long-term approach and creative autonomy for the Houses

Agility *Balance* *Responsability*

STRATEGY Harnessing the full potential of Luxury to grow faster than our markets

Promoting organic growth *Enhancing synergies and integration*

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 its Houses. Our ambition is to be the world's most influential Luxury group in terms of creativity, sustainability and long-term economic performance.

A new generation of consumers means new customer expectations. Tradition and expertise, which many luxury brands have relied on for decades, are no longer enough. Consumers today want to express their unique individuality – and our vision of Luxury supports this radical shift. We dare to take risks, think differently, and constantly propose fresh and innovative ideas that inspire emotion and enthusiasm for our exceptional products capable of expressing each consumer's distinctive personality.

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 by the vision of our creative teams. Kering is made up of 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 play on words – it gives meaning to everything we do.

Business model: A multi-brand model built on a long-term approach and creative autonomy for the Houses

A global Luxury group, Kering manages the development of a series of renowned Houses in Fashion, Leather Goods, Jewelry and Watchmaking: Gucci, Saint Laurent, Bottega Veneta, Balenciaga, Alexander McQueen, Brioni, Boucheron, Pomellato, DoDo, Qeelin, Ulysse Nardin and Girard-Perregaux, as well as Kering Eyewear.

Thanks to our international footprint and the strength of our Houses combined with the creative autonomy they enjoy 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"***

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

- **Constancy**

Kering began as a family company more than 50 years ago and is now controlled by Artémis, a holding company owned by the Pinault family. With this strong and stable shareholder, Kering boasts an attractive and sustainable profile conducive to developing its 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 Luxury group focusing on personal goods. We are now an integrated group bringing together and developing some of the world's most prestigious Houses. Through the years, we have been able to leverage the most effective growth drivers.

- **Clarity**

Kering helps its Houses realize 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 organization fosters performance while enabling our Houses to unleash the best of their talent and creativity.

The Group ensures that performance is aligned with the brands' long-term visions and objectives. Thanks to our curiosity, capacity for self-reflection and big-picture thinking, we can achieve the clarity necessary to secure the performance of the Group and its Houses.

Balance:
Kering's multi-brand model is reaching optimal efficiency

- **An ensemble of exceptional Houses**

Each of our Houses fosters 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 expertise, improving supply chain reliability and opening up access to distribution networks, as well as enhancing customer experience – especially in digital channels – and promoting communications. It also encourages the Houses to share best practices with a view to driving 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 realizing 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 customer 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-centered 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 stakeholders.

- **Creative potential**

Responsibility is deeply embedded in the Group's organizational structure, bringing about short- and long-term competitive gains. As well as promoting 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. The Group's Ethics Committees, Compliance structure and whistleblowing procedure for employees and third parties ensure that Kering's Code of Ethics and principles for responsible business conduct are properly applied.

> ***"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 fundamental strategic shift and is now a global leader in the luxury sector. In the coming years, the Group will continue to strengthen and sustain its growth momentum.

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 normalized over recent years, the challenge for each of our Houses is to outperform its respective market in all segments and categories.

- **Product innovation**

Energized 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, capitalizing on increasingly effective merchandising and in-store operational excellence, supported by the Group and its dedicated teams. Optimizing 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. Personalized customer experience and customization help make each client relationship unique. Support for customers before, during and after the sale – in stores, online or through customer service departments – are what enable our Houses to create and sustain lasting connections. With this in mind, in 2018 Kering rolled out a dedicated application designed with Apple. The Group's sales associates are invited to use the app to consult stock levels in real time, order an out-of-stock product for delivery to the customer's home, and generate personalized style advice for a truly revitalized shopping experience.

- **Omni-channel approach**

Our customers are connected and mobile, constantly flicking between distribution channels, from digital platforms to brick-and-mortar stores. Our customer relations strategy is epitomized 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. In 2018, Kering announced that it would be ending its partnership with YNAP and bringing its Couture & Leather Goods brands' e-commerce activities back in-house in 2020 (with the exception of Gucci, which has always managed its e-commerce directly). With this move, the Group aims to oversee the whole value chain so as to provide its customers with a truly exceptional experience across all channels and touchpoints, aligning the e-commerce side with the standards of excellence seen in its boutiques.

- **Digital expertise, CRM and innovation**

A number of projects have been set up under the leadership of the Chief Client and Digital Officer to support Kering in its digital transformation and drive forward its e-commerce, CRM, data science and innovation activities. These include several pilot projects using data science techniques to deliver personalized messages and experiences to individual customers, as well as the creation of a dedicated data science team to improve the service provided to the customers of Kering's Houses by making the best use of the available data. Lastly, the Group's Innovation team has been tasked with fulfilling two objectives: firstly, to instill an internal culture of innovation (applying a test-and-learn approach, sharing discoveries quickly, scouting business trends, etc.) and secondly, to work on disruptive technologies to further improve the client experience in the future in terms of business or environmental matters.

> ***"Digital is simultaneously accelerating and deepening our relationships with our customers, allowing us to offer them an exceptional shopping experience"***

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 that 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 centralized, much like ready-to-wear prototyping, which is pooled in a shared unit.

Kering is constantly improving and adapting its operating model to ensure its structures are always more up-to-date and flexible. The Group recently launched a transformation project focusing on its supply chain with the aim of meeting market needs more quickly and effectively.

- **Talent excellence**

We pay particular attention to the professional development and satisfaction of the women and men working for our Houses and in our headquarters. 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 talented individuals, 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 2018: A further year of strong profitable growth

In an environment shaped by geopolitical tensions and their economic ramifications, the worldwide luxury goods market enjoyed another year of sustained growth in 2018 (see Chapter 2 for a presentation of the worldwide luxury goods market), following on from a buoyant 2017. However, like the previous year, this growth was not uniform across the sector, with some groups – in particular multi-brand groups – considerably outperforming mono-brand players.

In 2018, Kering once again 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 yet another year of record results for the Group, along with the completion of its transformation into a luxury pure player and the distribution to its shareholders of the bulk of its stake in PUMA.

Kering continued to implement its vision and strategy in line with two principles:

- 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 organized to bring more expertise, value and operational support to each of its Houses, Kering's financial priorities are unchanged and aim to improve return on capital employed by enhancing profit margins and optimizing capital allocation.

In an economic environment still hesitant in light of 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 ORGANIZATIONAL CHART AS OF DECEMBER 31, 2018

Kering

- Kering Americas
- Kering Corporate (1)
  - Luxury Activities
    - 100% Gucci
    - 100% Bottega Veneta
    - 100% Yves Saint Laurent
    - 100% Alexander McQueen
    - 100% Balenciaga
    - 100% Boucheron
    - 100% Brioni
    - 51% (2) Christopher Kane (4)
    - 100% Pomellato
    - 78% (2) Qeelin
    - 100% Sowind (3)
    - 50% Stella McCartney (4)
    - 100% Ulysse Nardin
  - Kering Eyewear
  - Sport & Lifestyle Activities
    - Volcom (4) 100%
- Kering Asia-Pacific

(1) Corporate is defined on page 240.
(2) Excluding put options.
(3) The Sowind group owns the Girard-Perregaux and JEANRICHARD brands.
(4) Discontinued.

CHAPTER 2
Group activities

WORLDWIDE PERSONAL LUXURY GOODS MARKET OVERVIEW

This section contains information derived from studies conducted by organizations 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 November 2018, rounded out with data from the full report published in December 2018. 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 worldwide personal luxury goods market includes the "soft luxury" segment (leather goods, apparel and accessories), the "hard luxury" segment (watches and jewelry) and the "fragrances and cosmetics" segment.

Market overview: size, trends and main growth drivers

Altagamma and Bain & Company have revised their methodology for estimating the market. The figures below have therefore been adjusted to exclude the "art-de-la-table" category.

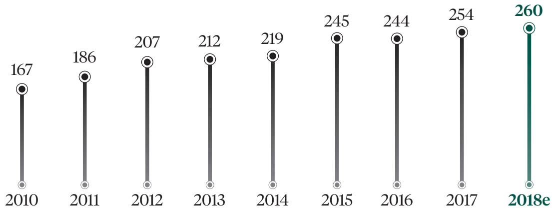
The global personal luxury goods market enjoyed strong growth from 2010 to 2012. The market gradually decelerated from late 2013, with weaker or even soft growth at comparable exchange rates up to and including 2016, when signs of a recovery were nonetheless visible in the second half of the year. 2017 saw the return of solid growth in the market, a trend confirmed in 2018.

The luxury goods market is expected to reach €260 billion in 2018, up 2% as reported and up 6% at comparable exchange rates.

Worldwide personal luxury goods market trend (2010-2018e, ***in € billions*****)**

Annual change at reported or comparable exchange rates:

reported	+14%	+11%	+11%	+2%	+3%	+12%	0%	+4%	+2%
comparable	+8%	+13%	+6%	+6%	+3%	+1%	0%	+5%	+6%



Trends

2018 was characterized by:

- lingering geopolitical tensions, numerous political changes at the national level and rising economic uncertainties likely to have an impact on consumer confidence, tourism flows and consumption trends, such as trade tensions between the United States and China, ongoing Brexit negotiations, and uncertainties in the Middle East;
- persistently high currency volatility in certain key currencies for the luxury industry, with some movements affecting local and tourist consumption patterns, including depreciation of the euro, particularly in the second half of the year, sensitivity of the British pound to each development in the Brexit negotiations, depreciation of the Chinese yuan, the Russian ruble and the Brazilian real, and gradual weakening of the Japanese yen;
- global GDP growth that remained supportive (3.0% in 2018e versus 3.0% in 2017) but progressively became less consistent and less synchronized as interest rates increased incrementally and monetary policies gradually tightened.

Main structural and cyclical factors underpinning trends in the luxury goods market

a. 2018e luxury goods market by nationality

By nationality, the worldwide personal luxury goods market is characterized by the weight of Chinese and American consumers, who together account for more than half of the market in value. In 2018, Chinese and American consumers were the main contributors to market growth, with the former increasing its share by one percentage point versus 2017.

/pts: Market share change (2018e vs 2017).

b. The market is facing a number of structural changes and more cyclical events, including:

- true core luxury consumers are extending their spending from personal luxury goods to experiences (hotels, cruises, restaurants, etc.), while new luxury consumers are entering the market, either via the "accessible" segment or by going directly to brands that are positioned in a more premium segment;
- luxury consumption and patterns are becoming more value sensitive and digital-oriented and leaning increasingly toward innovation and newness, especially as younger people enter the market and more particularly generations Y and Z (born after 1980 and around 2000, respectively);
- the key players and biggest brands have already achieved significant penetration of the main markets thanks to the expansion of their store networks, which means that growth is now mainly driven by increases in same-store sales.

Against this backdrop, luxury groups and brands need to adapt their strategy to the 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;
- management of the generational shift of consumers, whose buying decisions are increasingly influenced by digital technology (online editorial and marketing content, social media, etc.) and whose buying habits require greater use of digital features and tools (online shopping, Internet of Things, virtual reality, artificial intelligence, mobile payment, etc.);
- luxury consumers seeking a creative and differentiated product offering, together with a customer experience that is both personalized and integrated across physical and digital distribution channels;
- rebalancing of local/tourist spending through close management of international pricing strategy and the fluctuation of price differentials across regions.

Certain factors will continue to support demand and growth in 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 (HNWIs);
- increasing international mobility, generating higher travel flows and spending.

Nevertheless, the luxury goods market is exposed to short-term disruptions that could include:

- macroeconomic uncertainties and currency volatility;
- geopolitical tensions, security threats and 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, unfavorable weather conditions, etc.

Competitive environment

The worldwide personal luxury goods market is fragmented and is characterized 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 alongside some of the most global groups in the personal luxury goods market, 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 (2018e)

	Size (*in € billions*)	Reported YoY change	YoY change at comparable exchange rates	% of total market
Europe	84	+1%	+3%	32%
Americas	80	-1%	+5%	31%
Mainland China	23	+18%	+20%	9%
Japan	22	+3%	+6%	8%
Rest of Asia	39	+7%	+9%	15%
Rest of the world	12	-6%	0%	5%
TOTAL	**260**	**+2%**	**+6%**	**100%**

In 2018, the eight largest countries in the worldwide personal luxury goods market were as follows (revenue by consumption location and not by nationality):

Rank	Country	Size (*in € billions*)	Reported YoY change	YoY change at comparable exchange rates	% of total market
1	United States	71	-1%	+5%	27%
2	Mainland China	23	+18%	+20%	9%
3	Japan	22	+3%	+6%	8%
4	Italy	18	+1%	+1%	7%
5	France	16	+2%	+2%	6%
6	United Kingdom	16	+3%	+3%	6%
7	South Korea	12	+5%	+6%	5%
8	Germany	11	+1%	+1%	4%

In 2018, the Americas region was the second largest market after Europe, with the United States accounting for the vast majority of revenue (c. 89%). The region was up 5% at comparable exchange rates. In the United States, the local market was boosted by the country's economic vitality but department stores continued to struggle with traffic, affecting wholesale growth. The appreciation of the US dollar during the year spurred a shift in spend to purchases outside the domestic market, with US traveler purchases in Europe growing strongly in the second half. Conversely, the strength of the dollar impacted spending by Asian and Latin American tourists in the United States. The trends were clearly more positive in other countries in the region, especially Canada and Mexico, while the Brazilian market was hampered by political uncertainty.

Europe represented 32% of the total worldwide luxury goods market, with revenue up 3% versus 2017, at comparable exchange rates. In 2018, growth in the region was dampened by a decline in tourist spending, despite positive momentum in local demand. Inside the Eurozone, Italy remained the leading country but recorded a weak performance, with growth of just 1% at comparable exchange rates. France was the top performer, thanks to dynamic local spending combined with still relatively high tourist numbers. Spain also recorded positive growth, while Germany was impacted by flatter consumption among both locals and tourists. Outside the Eurozone, the United Kingdom once again achieved solid growth, despite a very high basis of comparison.

Japan represented 8% of the worldwide personal luxury goods market in 2018. It is the third largest country in terms of personal luxury goods consumption after the United States and China, and was up 6% at comparable exchange rates. Japan benefited significantly from increased spending by Chinese and South Korean tourists, primarily in the first half of the year, while local spending grew at a slower rate.

Mainland China was the fastest growing key country in 2018, up 20% at comparable exchange rates, and represented 9% of the worldwide personal luxury goods market, an increase of one percentage point. The consumption of luxury goods was boosted by an acceleration in the repatriation of local spending, notably driven by exchange rate trends, supportive government policies and the rise of e-commerce. Spending by locals in their domestic market represented 27% of total spending by Chinese nationals, up five percentage points compared to the previous year. The market continued to recover in Hong Kong and Macao, lifted by increased travel among Chinese consumers.

In South Korea, the market was up 6% at comparable exchange rates.

The rest of the world – including the Middle East, Africa and Australia – represented 5% of the personal luxury goods market, with €12 billion in revenue in 2018. In the Middle East, the market remained flat, reflecting lower confidence among local consumers.

Product categories

Following the change in methodology mentioned above, the worldwide personal luxury goods market is now divided into four main product categories, as shown below:

Worldwide personal luxury goods market: breakdown by category (2018e)

	Market value 2018e *(in € billions)*	Reported YoY change	% of total market
Accessories	86	+5%	33%
Apparel	60	-1%	23%
Hard luxury	58	+3%	22%
Fragrances and cosmetics	56	+4%	22%
TOTAL	**260**	**+2%**	**100%**

Accessories

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

In 2018, accessories represented 33% of the total personal luxury goods market, with total revenue of €86 billion.

The two main sub-categories were:

a) Leather goods, with estimated revenue of €51 billion in 2018. This sub-category grew at a rate of 5% between 2017 and 2018 (on a reported basis), driven notably by sales of small leather goods. In this category, Kering operates mainly through the Gucci and Saint Laurent brands, as well as Bottega Veneta, Balenciaga and Alexander McQueen;

b) Shoes, with estimated 2018 revenue of €19 billion, up 7% as reported, driven by the current trend of "casualization" (the integration into the luxury goods offering of less formal items, such as sneakers). Kering operates in this product category through most of its Houses, including Gucci, Saint Laurent, Bottega Veneta, Balenciaga and Alexander McQueen.

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 2018, totaling an estimated €60 billion, down 1% versus 2017. Men's ready-to-wear was driven by the fashion segment, while women's ready-to-wear sales were boosted by strong performances in the fashion segment and in contemporary apparel.

All Kering "soft luxury" brands operate in this product category, especially Gucci, Saint Laurent, Balenciaga, Alexander McQueen and Bottega Veneta, as well as Brioni for menswear.

Hard luxury

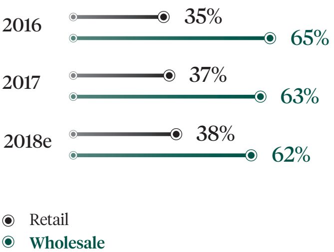
The hard luxury category generated revenue of €58 billion in 2018, representing 22% of the total personal luxury goods market, and was up 3% versus 2017 as reported. This category mainly includes watches and jewelry, representing €37 billion and €18 billion in 2018, respectively. The jewelry sub-category grew at a rate of 7% between 2017 and 2018 (on a reported basis), driven by strong demand in Asia and the emergence of a younger client base. Sales remained stable in the watches sub-category, with trends varying by region (Europe flat, Asia more dynamic) and the women's jewelry watch segment gaining market share. Kering operates in this category across different price points with Gucci Timepieces, Girard-Perregaux, Boucheron and Ulysse Nardin for watches, and Boucheron, Pomellato, DoDo and Qeelin for jewelry.

Fragrances and cosmetics

The fragrances and cosmetics category represented 22% of the total personal luxury goods market in 2018 and was worth an estimated €56 billion. Kering operates in this product category through 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 (2016-2018e)



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 2018, the retail channel accounted for sales amounting to 38% of the total worldwide personal luxury goods market.

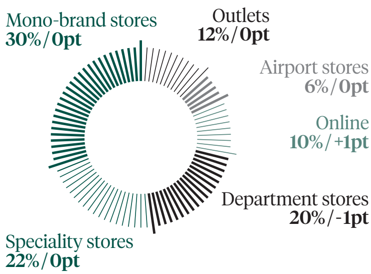
In the case of Kering's Houses, the share of retail sales is far higher (77%), reflecting both the maturity of some of the brands and Kering's strategic commitment to grow its directly operated network. This also reflects the Group's product mix, as the higher share of leather goods and accessories typically 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 62% of the total worldwide personal luxury goods market in 2018. This channel can thus be multi-brand or mono-brand. The share of wholesale sales is typically higher in ready-to-wear, watches and jewelry, and is also more important than retail in the channel mix for brands that stand at an earlier stage of maturity.

Sales formats

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 (2018e vs 2017).

E-commerce

Online sales of luxury goods reached a new record of around €27 billion in 2018 (up 22% at comparable exchange rates), representing about 10% of total worldwide personal luxury goods sales. This includes sales made through brand and department store websites and by e-tailers. Online is the fastest growing channel globally, driven by Asia and by a younger cohort of generation Y and generation Z consumers. Within e-commerce, brands and e-tailers are the top performers. Brands are accelerating their development of online activities, expanding both their 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 (sometimes supported by exclusive partnerships with brands), combined with strong e-commerce execution.

Kering's Houses are present online and propose e-commerce, either operated fully internally, as is the case for Gucci, or through a joint venture with Yoox Net-a-Porter (YNAP). When the e-commerce partnership expires in the first half of 2020, these activities will be internalized.

Kering brands are also distributed online by selected partners.

Market outlook

For 2019, Bain and Altagamma forecast overall growth of 5% excluding currency effects for the personal luxury goods market.

Key trends for 2019 include:

- a global economic outlook that has been revised downward due to fears about the trade war between China and the United States, uncertainty surrounding Brexit and the forecast slowdown in growth in both China and the United States;
- a deceleration in demand (whose scale is still difficult to quantify) in China, a key country in today's luxury goods market, notably driven by a slowdown in the country's economic growth and by the consequences of the China-US trade war;
- continued repatriation of Chinese spending to the domestic market, and the corresponding impact on spending among Chinese tourists, spurred by a reduction in the luxury goods price gap with Europe, partly due to the decline of the Chinese yuan, and government measures implemented to encourage local consumption;
- uncertainty about the strength of US spending due to the gradual slowdown expected in the country's economic growth. A further decline in the US financial markets would also have a negative impact on the wealth effect among US consumers.

According to the forecasts by Bain and Altagamma, the personal Luxury goods market is expected to reach €320-365 billion in 2025, at a compound annual growth rate (CAGR) of 3-5% from 2018, driven by:

- emerging countries: in addition to Southeast Asian countries (Indonesia, Thailand, etc.), Brazil, Australia, Africa and India are expected to make a greater contribution to the growth of the worldwide 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 fueled all of the market growth in 2018, they are expected to account for 55% of the market by 2025 versus c. 32% in 2018;
- the development of distribution channels such as discount outlets, travel retail and e-commerce. The latter is expected to 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 its relative under-penetration by European luxury brands.

LUXURY ACTIVITIES (TOTAL HOUSES)

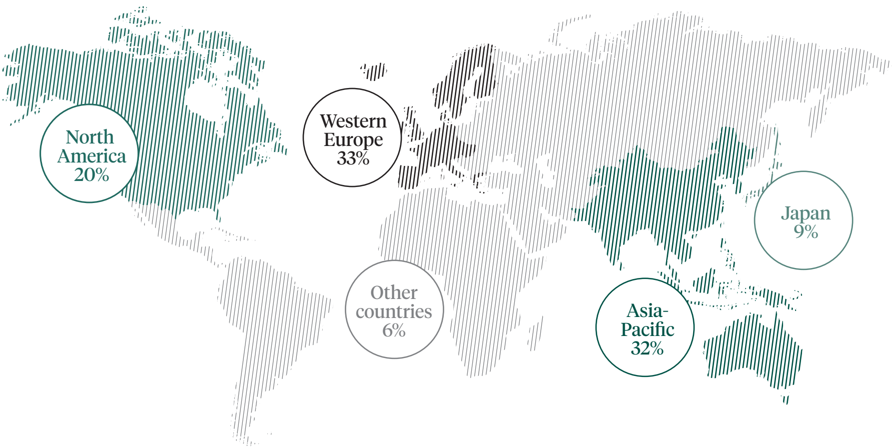
2018 key figures

€13,247 million

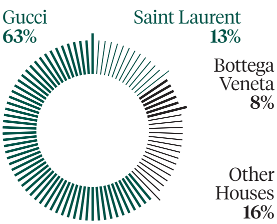
in revenue

Revenue
(in € millions)

Breakdown of revenue by region

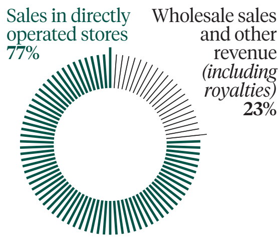


Breakdown of revenue by brand



Breakdown of revenue by product category

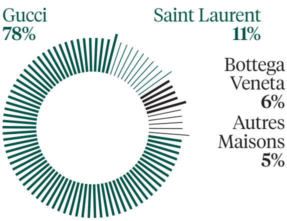
Breakdown of revenue by distribution channel



€4,191 million

in recurring operating income

Breakdown of recurring operating income by brand



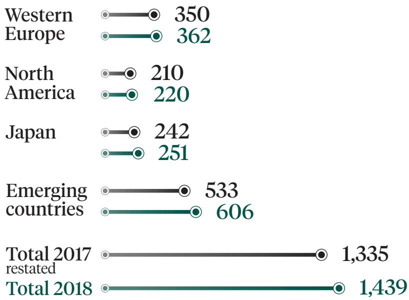
Recurring operating income
(in € millions)

27,057

average number of employees
(full time equivalent)

1,439

directly operated stores



GUCCI

2018 key figures

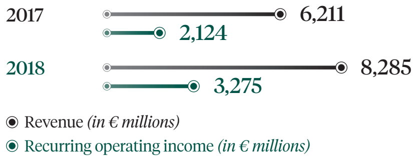
€8,285 million
in revenue

€3,275 million
in recurring operating income

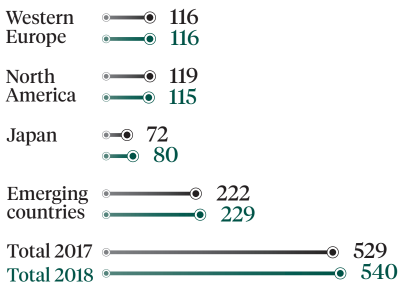
14,628
average number of employees
(full time equivalent)

540
directly operated stores

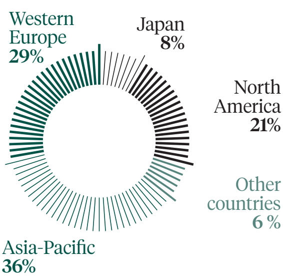
Revenue and recurring operating income



Number of directly operated stores by region



Breakdown of revenue by region



Breakdown of revenue by product category

Breakdown of revenue by distribution channel

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 Gucci rapidly re-established its reputation as one of the world's most influential luxury fashion brands.

Four years on, the indisputable success achieved by Gucci, from both an esthetic and a business perspective, has confirmed that the turnaround was not merely a "fashion moment". Thanks to a profound understanding of the brand's values and essence, the management team has given Gucci a new contemporaneity by prioritizing creativity, taking up the mantle as the voice of self-expression.

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 that feed into the whole organization through the encouragement of innovation and risk taking, a sense of responsibility and respect, an appreciation for diversity and inclusion, and a commitment to 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 540 directly operated boutiques, a directly operated online store (active in 34 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. In 2018, Gucci confirmed its leadership position as one of the world's leading luxury fashion brands both in terms of revenue and profitability.

Strategy

Gucci's willingness to challenge traditions and conventions has created significant disruption, delivering an important and sustained competitive advantage.

The focus on creating an increasingly emotional bond between the brand and its clients has been one of the key drivers of Gucci's industry-leading performance over the past four years. Deepening engagement with clients across all of the brand's touchpoints is critical for its long-term success, especially in a technologically connected society. This is achieved through the careful implementation of a content strategy centered on creating an emotional and engaging narrative, which is authentic and always consistent, season after season.

In 2018 Gucci continued to deliver outstanding growth, substantially above the industry average, as a result of the successful implementation of its innovative and bold strategy. This performance was achieved by the continued optimization and excellence of the business model, rather than relying on the expansion of its retail footprint or product category extension.

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

From a distribution perspective, the roll-out of the new store concept has been fundamental in reflecting the brand's new esthetic and creative vision, giving substance and expression to the notion of customer inclusivity, while enhancing cross-selling opportunities.

Given the stability of the retail network footprint during the past few years, the new store concept has played a key part in the significant increase in sales density, achieved across all regions. A selective approach continued to characterize the wholesale channel, while online sales grew strongly during the year, reflecting greater penetration in a higher number of countries and thanks to the seamless blend of e-commerce functionalities and rich storytelling, and a continuous focus on delivering a best-in-class experience.

2018 highlights and outlook for 2019

In 2018, revenue growth in all quarters was impressive, despite the basis of comparison becoming increasingly challenging throughout the year. Growth was driven by full-price sales across all product categories, regions and distribution channels, and this success is testament to the impact of the new vision for the brand.

In terms of products, the offer has been built to reach an equilibrium between creativity and more commercial market desires. A balanced mix between carry-over and new designs guaranteed a sustainable, healthy performance. The continuous development of the offer, with the injection of new designs accounting for approximately 30%, was accomplished through the introduction of fashion-driven products (to stimulate the interest of opinion leaders) and functionality-driven items (to complete the offer in terms of function and price points).

With the aim of further simplifying structures and processes and generating additional synergies between functions, a new organizational structure, designed to maintain and sustain momentum, was introduced in March 2018. It is based on four pillars: Merchandising & Global Markets; Indirect Channels, Outlet and Travel Retail; Brand & Customer Engagement; and Digital Business & Innovation.

As further explorations of the House's imagination and creativity, 2018 marked the openings of both the Gucci Garden, a lively and interactive experience in the heart of Florence, and Gucci Wooster, a hub for creativity, culture and innovation in SoHo, New York, created to offer a new way to experience the eclectic spirit of the brand.

In order to meet demand for Gucci's products, which has more than doubled in the last four years, Gucci ArtLab, the company's futuristic center for the development of industrial craftsmanship and an experimental laboratory for leather goods and shoes, was unveiled in April 2018. The center represents an important investment designed to help sustain the brand's moment.

Gucci's momentum was outlined in the 2018 Interbrand Best Global Brands ranking, seeing the brand climb from number 51 to 39 and positioning Gucci among the Top Growing Brands, alongside Amazon, Salesforce and Netflix.

In a rapidly evolving, global e-commerce landscape with shifting consumer expectations, Gucci's leadership in this area was endorsed by the Digital IQ Index®: Fashion. Thanks to a perfect blending of site functionality, a seamless shopping experience, integrated content and robust search and navigation, the brand was declared the Top Genius brand for the third year in a row.

In line with Kering's long-lasting commitment to sustainability, and the introduction of the "Culture of Purpose" ten-year sustainability plan, Gucci launched Gucci Equilibrium, a new portal designed to promote and broadcast the brand's perspective on environmental and social impact change.

In 2019, in line with the strategic update presented at the Capital Markets Day held in June 2018, Gucci will continue to unleash its full potential across all product categories.

The main drivers of the mid-term revenue evolution, which aims to double market growth, include continuous sales-density improvement, full roll-out of the new store concept, organic growth of the wholesale business and tripled e-commerce volumes. The progressive expansion of operating margin will be achieved by ongoing optimization of gross margin (in terms of channel mix, production internalization and efficiency) and operating leverage.

SAINT LAURENT

2018 key figures

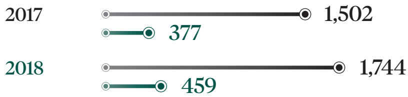
€1,744 million
in revenue

€459 million
in recurring operating income

3,087
average number of employees
(full time equivalent)

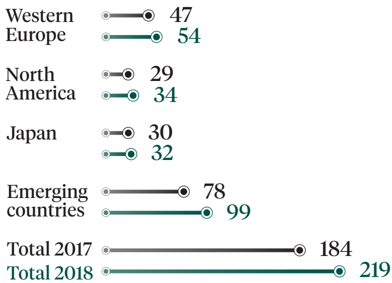
219
directly operated stores

Revenue and recurring operating income

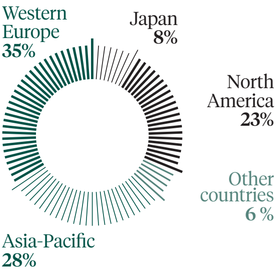


Revenue *(in € millions)*
Recurring operating income *(in € millions)*

Number of directly operated stores by region



Breakdown of revenue by region



Breakdown of revenue by product category

Breakdown of revenue by distribution channel

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 revolutionized 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. The House's products are made in Italy and France, where an historic workshop manufactures ready-to-wear garments. Under a worldwide licensing agreement with L'Oréal, the House is active in the fragrances and cosmetics segment, and also collaborates with Kering Eyewear to develop a full range of frames and sunglasses.

Anthony Vaccarello has been the Creative Director of the House since 2016. His modern, pure esthetic, which impeccably balances elements of provocative femininity and sharp masculinity in his silhouettes, is the perfect fit for the House.

As of December 31, 2018, the Saint Laurent retail network consisted of 219 directly operated boutiques, which together generated 68% of the total revenue for the year and included flagship stores in Paris, London, Dubai, 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 2018, the Saint Laurent business was very well balanced in terms of both geographic markets and product categories, with strong positions in leather goods, shoes and ready-to-wear.

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 the ready-to-wear, fashion and leather goods sectors. Saint Laurent's status as a leading fashion House is fully established and recognized, 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.

At the helm of Saint Laurent since 2016, Creative Director Anthony Vaccarello's 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 modern times, he has strongly empowered a highly desirable and sophisticated 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 achieving 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 key focus of Saint Laurent is to relentlessly work on building an innovative and sustainable future, by retaining and hiring the best talent, 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.

2018 highlights and outlook for 2019

Under the leadership of Francesca Bellettini, the Company's CEO, 2018 was another year of expansion for Saint Laurent.

Thanks to the implementation of a highly consistent strategy in terms of products, distribution and communication, and based on solid foundations, the brand confirmed its evolution driven by awareness, desirability and strong performances to enhance the fashion leadership of Saint Laurent in the market.

Back in September, under the Eiffel Tower, Anthony Vaccarello reaffirmed his mastery of tailoring techniques, pushing the brand forward with clarity and modernity in a sophisticated show featuring a water runway. A tribute to Paris and the ultimate *savoir-faire* of Saint Laurent, the Creative Director showcased an acclaimed collection that was conceived with a modern perspective naturally merging with the legacy (DNA) of the brand.

In June, Anthony Vaccarello chose New York as the perfect backdrop for his menswear collection, which was about freedom, energy and possibilities – values that also capture the House spirit. The pure esthetic applied by the Creative Director impeccably balanced elements of masculinity and audacious femininity in all silhouettes – crossing wardrobe gender boundaries.

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

Saint Laurent also made 2018 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 35 directly operated stores worldwide and reinforced its presence in China with 10 new points of sale.

In a world where high-tech is key to evolution and growth, Saint Laurent's e-commerce business, as part of the overall cross-channel strategy, was particularly successful during the year following the launch of the fourth version of YSL.com. The redesign modernized the website and created a more immersive experience while improving e-commerce functionality. Fully implemented 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 2018, Saint Laurent was present online in more than 50 countries worldwide, including the US, all major European countries, 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 brand's priority is to offer an exceptional, coherent experience across all distribution channels, including online (services, ergonomics, etc.), while maintaining a privileged relationship with customers in store.

Saint Laurent embraces a clear digital strategy and a consistent and strong social media presence establishing solid online visibility. This is achieved by developing owned channels, while reinforcing earned media relationships and creating relevant and viral content.

Since his appointment, Anthony Vaccarello has introduced a new digital strategy, pushing the House to become the fastest growing brand on Instagram, Weibo and YouTube, with high triple-digit growth on all three social networks, and clearly reaffirming 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 2018, Saint Laurent had more than 2.9 million fans on Facebook and was one of the most popular luxury brands on Twitter with close to 5.5 million followers, as well as the fastest growing brand on Instagram, with a following of 4.2 million people.

In line with its current strategy, Saint Laurent will continue to expand its retail distribution network in 2019, while reinforcing its online presence and focusing on building an excellent experience for its customers in every touchpoint with the brand.

BOTTEGA VENETA

2018 key figures

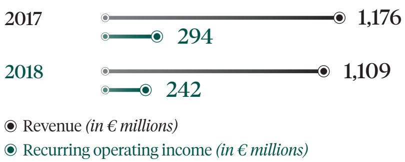
€1,109 million
in revenue

€242 million
in recurring operating income

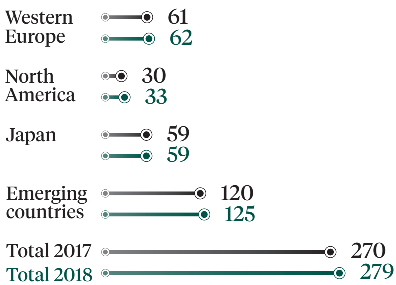
3,574
average number of employees
(full time equivalent)

279
directly operated stores

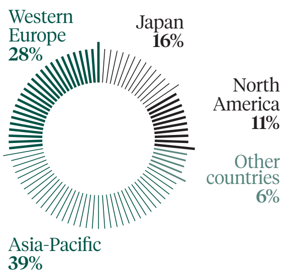
Revenue and recurring operating income



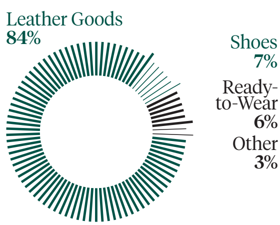
Number of directly operated stores by region



Breakdown of revenue by region



Breakdown of revenue by product category



Breakdown of revenue by distribution channel

Business concept

Founded in 1966 in the Veneto Region of Italy, Bottega Veneta began as a leather goods House. The brand became well-known for 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 colors 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 recognized and appreciated in the market. An absolute luxury lifestyle brand, Bottega Veneta has for many years applied its understated philosophy 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 and furniture.

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, Coty Prestige with a licensing agreement for fragrances, and Poltrona Frau and KPM with supply partnerships for seating and porcelain, respectively.

Bottega Veneta's products are sold through a distribution network of directly operated stores, complemented by exclusive franchise stores and selected department and specialty stores worldwide. In addition, Bottega Veneta's products are now available through the brand's online store in 67 countries, including mainland China.

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 artisans. It is a rare example of an absolute luxury lifestyle brand that never compromises on quality 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 appointed Daniel Lee as its Creative Director as of July 1, 2018. British-born Lee, 32, has a thorough understanding of Bottega Veneta's current challenges both in terms of creation and development. Armed with a new creative vision, he will help the House evolve while maintaining its outstanding craftsmanship, quality and sophistication and bringing a fresh perspective and sense of modernity.

The strategy implemented under the business leadership of CEO Claus-Dietrich Lahrs is designed to increase brand awareness globally and take the House in a new creative direction, by targeting a younger and broader audience, as well as local clients. The business and creative sides are working together to deploy this strategy across the globe, with a particular focus on the Asian market.

Historically, the brand's core business has been leather goods – which accounted for 84% of sales in 2018 – characterized by the use of the highest quality materials and attention to detail. A wider range of products appealing to an international clientele of men and women has gradually been integrated, all featuring Bottega Veneta's signature discreet, sophisticated and pared-down style.

The brand's exclusivity extends to its distribution network. Through its worldwide expansion, Bottega Veneta has reinforced its presence in both emerging and mature markets, particularly the United States and Japan.

Moreover, the company continues to nurture exclusivity within the store network by refreshing key locations across markets. Bottega Veneta's products are also going through a phase of revitalization, retaining the *intrecciato* as an essential element of their visual identity, but imbued with a fresh, modern perspective.

2018 highlights and outlook for 2019

In the first half of 2018, Bottega Veneta continued to invest in communications and to focus on consolidating its high-end positioning and exclusivity.

In the second half, the closure of the collaboration with previous Creative Director Tomas Maier and the arrival of Daniel Lee marked the start of a new chapter in the House's history. Daniel Lee is currently transforming the Bottega Veneta universe with a new contemporary vision.

A revitalization process was launched for the key category of leather goods, with fresh offerings in the shapes and functions of full *intrecciato* products already in stores, alongside innovative new seasonal items that provide an alternative to the *intrecciato* pieces and enrich the overall selection. The product mix is evolving to offer a broader range of styles that are more relevant to a younger consumer without sacrificing the high level of quality and design that define the brand. The brand is investing significantly to expand the categories of shoes and ready-to-wear.

In terms of distribution, Bottega Veneta focused on reinforcing its existing retail network throughout 2018 and continuing its efforts to enhance boutiques through both refurbishments and expansions to ensure the best possible customer experience. The brand also pursued selective store openings, bringing its total network up to 279 at the end of the year. A number of investments in the distribution network have been finalized and more are ongoing to rejuvenate the brand's stores, especially in key markets such as Europe and Asia-Pacific.

In February, Bottega Veneta celebrated the opening of its third Maison, at 740 Madison Avenue in New York. Set on five floors with nearly 15,000 square feet, it is the biggest Bottega Veneta store in the world, showcasing the most extensive range of women's and men's ready-to-wear, handbags, small leather goods, luggage, eyewear, shoes, watches, fragrances, jewelry and the Home and Furniture collections. Bottega Veneta marked this significant moment by showcasing its Fall/Winter 2018 collection at New York Fashion Week – a one-season only event.

In March, the House opened its largest store in the Middle East at the Dubai Mall Fashion Avenue, with the store's façade featuring a design that echoes the iconic *intrecciato* weave. This architectural innovation is the largest of its kind created by Bottega Veneta globally.

In September, Bottega Veneta revealed its men's and women's Spring/Summer 2019 collections to press and wholesale partners via showroom appointments. Because of the transitional period between Creative Directors – the collection was a team effort by the design studio – there was no runway show and it has not been shown to the public. The collection includes the first designs by Creative Director Daniel Lee: the Pouch and the *Maxi Cabat*. The two bags will be available in store in various sizes, finishes and materials from February 2019.

During the fall, Bottega Veneta presented "Masters of Craft", a traveling event featuring demonstrations by artisans that takes guests on an immersive and interactive journey through the brand's heritage of craftsmanship. Staged in Spain and Australia, the event was held to celebrate the recent openings of new stores on Calle Serrano in Madrid and Collins Street in Melbourne.

In November, Bottega Veneta opened its biggest store in Asia in Tokyo at 5-6-1 Ginza Chuo-Ku, generating significant traffic. Set on six floors and spanning 800 square meters, the flagship boutique was celebrated with an exclusive in-store preview of the Pre-Fall 2019 collection. It is Daniel Lee's first full collection, which was also showcased during press presentations in Milan and New York in December and January, respectively. Lee's runway debut will be staged in Milan in February 2019 during Women's Fashion Week.

In 2019, Bottega Veneta will embark on its next chapter. The introduction of a new visual language and contemporary vision for the House will re-establish its reputation as one of the world's most exclusive luxury lifestyle brands and give it far greater relevance globally within the industry. The brand's leather products will continue to represent the best of Italian craftsmanship, in terms of both quality and attention to detail. The existing retail network will be refreshed in key locations and reinforced with further selected investments, continuing to build on Bottega Veneta's reputation for excellence.

The brand will continue to cultivate its strategy based on innovation in the product range and on 360° communication. It will speak with a new creative language to both existing clients and new, younger clients, providing them all with an engaging omni-channel experience.

OTHER LUXURY HOUSES

2018 key figures

€2,109 million

in revenue

€215 million

in recurring operating income

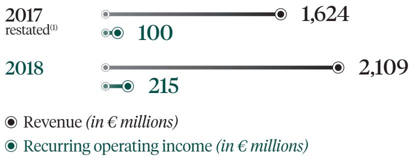
5,769

average number of employees
(full time equivalent)

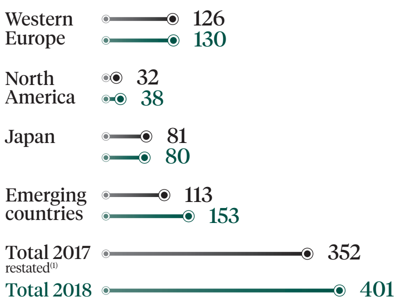
401

directly operated stores

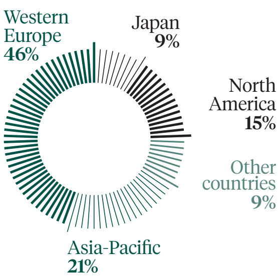
Revenue and recurring operating income



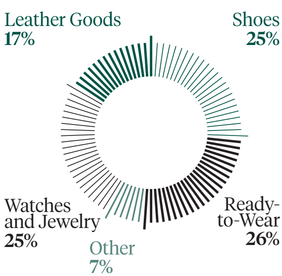
Number of directly operated stores by region



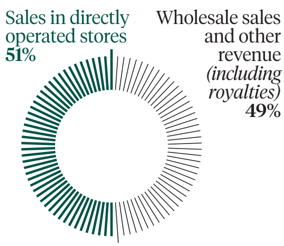
Breakdown of revenue by region



Breakdown of revenue by product category



Breakdown of revenue by distribution channel



(1) *See page 6.*

Alexander McQUEEN

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

Alexander McQueen is renowned for innovation grounded in craftsmanship and the House today has become synonymous with modern British couture. In December 2016, Alexander McQueen was awarded British Brand of the Year by the British Fashion Council (BFC).

Since her appointment as Creative Director in 2010, Sarah Burton has produced critically acclaimed collections with a focus on story-telling, experimentation and traditional artisanal techniques. Her ability to develop the design codes of the House with lightness and a distinctive, authentic touch has ushered in a new esthetic that is being translated throughout the company's culture, establishing a blueprint for the future.

The House's strength lies in the cohesive presence of a distinctive silhouette that informs designs across all product categories. Alexander McQueen has recently enjoyed strong growth in shoes and leather goods with collections built around iconic products that embody the brand's codes, while consolidating its worldwide authority in ready-to-wear.

After the successful launch, in partnership with Coty Prestige, of the inaugural fragrance from Alexander McQueen in 2016, a fragrance for women, *Eau Blanche*, was launched in 2017, followed by an exclusive *McQueen* fragrance collection in 2018.

The Alexander McQueen brand is sold in over 50 countries worldwide, through a network of 63 directly operated boutiques, a limited number of franchises and selected department and specialty stores. In 2018 the network was reinforced with seven net openings, culminating in the relocation of the London flagship store in December. At nearly 11,000 square feet, the Old Bond Street store unveils a new retail concept developed by Sarah Burton in collaboration with the architect Smiljan Radic, which translates the brand's powerful story-telling into a unique customer journey through a physical space.

At the same time, the House continues to enhance its visibility and reach with strategic openings of shop-in-shops in high traffic locations, direct entry in new, high potential markets (Malaysia and Thailand in 2018) and by further developing its online presence. The Alexander McQueen e-commerce store became the brand's number one store in terms of revenue contribution in 2018. Directly operated concessions created during the year with JD.com (Toplife) and Farfetch have extended the company's footprint in the digital eco-system.

The Alexander McQueen brand has a strong social media presence, with 7 million followers on Instagram and approximately 1.9 million followers on Twitter and Facebook as of the end of 2018. To increase honest and direct connections with its customers and build a true sense of community, Alexander McQueen continues to invest in digital communication, including through heightened engagement across Chinese social media such as Weibo and WeChat.

Alexander McQueen's social media channels are integrated into the larger brand communications strategy and fully aligned on key themes and stories.

The company has also successfully developed McQ, which was re-launched as an in-house brand in 2011 and is today well established in the popular contemporary market. The McQ brand is currently distributed in many countries, primarily as an international wholesale business across a total of more than 500 doors. Franchises also represent an important part of McQ's business. At the end of 2018, McQ had 22 franchise stores located in Asia.

In 2018, the company moved into new headquarters in the center of London's Clerkenwell district, bringing both brands under one roof.

In 2019, Alexander McQueen will pursue its growth strategy through increased investment in communication, further penetration in accessories, and an acceleration in the expansion of the network. The roll-out of the new store concept is set to gain momentum in 2019 with the opening of key flagships in Dubai, Shanghai and Hong Kong.

BALENCIAGA

Founded in 1917 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 innovation in its use of fabrics has helped it carve out a special place in the hearts and minds of its clients.

In the 1990s and early 2000s, after returning to the world of fashion, the brand experienced a re-birth, with an extension of its product universe beyond its core ready-to-wear segment to include handbags and the development of new lines of shoes and accessories. Balenciaga also significantly expanded its retail network, helping to bolster brand awareness around the globe.

Demna Gvasalia was appointed Artistic Director of Balenciaga in October 2015. His mastery of technique, expertise, and use of volume, combined with his innovative approach, make him a powerful force in today's creative world. As Artistic Director, Demna Gvasalia has begun writing a new chapter in Balenciaga's history and consolidated the House's status as a fashion authority. Demna Gvasalia has embraced Balenciaga's values and is developing them in harmony with contemporary trends.

The brand has signed a licensing agreement with Coty Prestige to develop fragrances and, in 2018, established a partnership with Kering Eyewear to design new eyewear collections for both women and men, which will be available from early 2019.

In recent years, Balenciaga has been consolidating its directly operated store network worldwide. Today, the House has a network of 156 stores in both mature markets (Western Europe, the US and Japan) and Asia (Greater China and South Korea). Balenciaga is also distributed through franchises and in leading multi-brand stores.

In 2018, Balenciaga pursued its retail expansion strategy with several net openings, including its first store in Miami's Design District and the takeover of franchise stores in Southeast Asia and the United Arab Emirates. Over the year, a number of stores were renovated in line with the new concept developed by Demna Gvasalia. The brand also extended its retail presence in upscale department stores with the opening of new shop-in-shops in Europe and Asia. And in December, Balenciaga relocated its flagship store in Milan to Via Montenapoleone.

The online store Balenciaga.com confirmed its position in 2018 as one of Balenciaga's top-performing directly operated stores, and traffic continued to increase strongly. All regions are enjoying outstanding results and the web experience is perfectly in line with the brand's audience and their shopping preferences. Mobile continues to be the preferred method for both browsing and shopping. 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 nearly 100 markets, such as the Middle East, South Korea and China.

On social media, Balenciaga had more than 1.4 million fans on Facebook in December 2018 and is increasingly popular on Instagram, counting over 8 million followers at the end of the year. This reflects growing interest for all the collections and a significant gain in brand awareness and visibility.

In 2019, the brand will continue to benefit from the momentum generated by the new creative vision and new product launches. While wholesale distribution will remain an important contributor to the brand's activity, retail and e-commerce development will continue to be the priority. To this end, new store openings are planned during the year in strategic locations both in mature markets and in Asia. In its roadmap for 2019, Balenciaga also plans to further develop its men's collection, with dedicated spaces in the new stores, and to continue to enlarge its online product and services offering, forming part of the overall cross-channel retail strategy.

BOUCHERON
PARIS

Founded in Paris in 1858 by Frédéric Boucheron, the eponymous House 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. Thanks to its founder's natural instincts, Boucheron became the first major contemporary jeweler to open a boutique on Paris' prestigious Place Vendôme in 1893. Since its creation, the House has been closely associated with the idea of freedom, not only in terms of its esthetic, creative and technical approach but also the freedom of women to wear jewelry according to their own sense of style, transcending traditional codes and conventions. For 160 years, Boucheron has been synonymous with creativity and style in jewelry and high jewelry.

The brand is focusing its expansion through its directly operated stores (47 at the end of 2018) and franchise network in key locations worldwide.

In 2018, Boucheron opened seven new boutiques, mainly in Asia. As well as making a comeback in Beijing, it also opened its first store in Shanghai and in Macao, two new stores in Hong Kong and one in Taiwan. In addition, the House transformed three of its existing boutiques – in London, Cannes and Paris – in line with its new store concept.

In January, the House launched celebrations for its 160th anniversary with an innovative take on exhibiting jewelry. Much more than a retrospective presentation, *Vendôrama* was a new kind of immersive experience. Combining the natural environment with contemporary staging, the exhibition was a chance for visitors to explore the timeless nature of jewelry.

In July, the House turned a dream into reality, pushing the boundaries of High Jewelry to create pieces that embody the beauty and energy of nature. This vision came to life in the *Nature Triomphante* collection, which pairs cutting-edge scientific techniques with the ancestral expertise of Boucheron jewelers to usher in a new era of creative High Jewelry. After several years of research and innovation, Boucheron has successfully created jewelry that captures the ephemeral beauty of flowers. The nine *Fleurs Éternelles* rings that complete the *Nature Triomphante* collection are a first for the House and for High Jewelry as a whole.

In December, Boucheron reopened the emblematic Hôtel de Nocé at 26 Place Vendôme in Paris, after 18 months of renovations. The building, which has been the House's historical location since 1893, hosts the creative studio and the workshops. Under the supervision of the Kering group, this very ambitious refurbishment project aims to highlight the architecture and original volumes of the space.

In 2019, Boucheron will launch a new global advertising campaign on the theme of freedom to wear jewelry. Focused on audacious creativity, the campaign will consist of a series of visuals tailored to the needs and expectations of local markets. It will be supported by a media investment plan designed to increase awareness of the brand.

Boucheron will also be launching a new jewelry collection, *Jack de Boucheron*. Following in the footsteps of *Quatre* and *Serpent Bohème*, these new pieces have no rules. Rather than being divided into the usual categories of necklaces, bracelets and earrings, the collection is designed for each woman to choose how she wants to wear the pieces, imbuing them with her own sense of style and movement.

In 2019, Léa Seydoux will join Laetitia Casta and Zhou Dongyu as one of the House's ambassadors.

Boucheron also intends to continue refurbishments across its retail network as it rolls out its new store concept, all the while pursuing its international expansion with franchises in the Middle East and Asia and renovations of its directly operated boutiques in Japan and Monaco.

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 colors 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 men's apparel, leather goods, shoes and eyewear. The company's identity is founded on its bespoke service, which provides entirely custom-made garments with an unparalleled level of craftsmanship.

All the brand's products are manufactured in Italy and meticulously handmade by expert artisans. The majority of the production is made in-house at Brioni's ateliers in Penne, a small town in the Abruzzo region, with a rich, long-standing tailoring tradition.

Wholesale represents an important distribution channel and, in recent years, Brioni has focused on optimizing and consolidating its distribution and franchise network.

At the end of 2018, Brioni had 40 directly operated stores, mainly located in Western Europe and, to a lesser extent, in North America, Japan and Asia.

In 2019 and beyond, Brioni will continue to optimize its store network, all the while leveraging its long tradition of Italian tailoring, to anchor the brand as a leading player in the world of luxury menswear.

Girard-Perregaux is based in La Chaux-de-Fonds, Switzerland, a town recognized by UNESCO as one of the birthplaces of watchmaking. Founded in 1791, the brand is one of the oldest high-end watch manufacturers.

The House's history is marked by watches that combine sharp design with innovative technology, such as the iconic *Tourbillon with Three Gold Bridges*, which has embodied these values since it was first introduced in 1889. The complication won a gold medal at the Paris Universal Exhibition and has featured in the brand's catalog ever since.

Combining complete dedication to state-of-the-art Haute Horlogerie and a relentless quest for innovation, 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, the brand is reinventing itself while staying true to its heritage. In 2017, 42 years after the launch of the original *Laureato*, Girard-Perregaux revealed a fresh take on the iconic timepiece with a whole new collection of sport-chic, contemporary watches, featuring different sizes, materials and designs. In 2018, Girard-Perregaux fitted the emblematic case with its self-winding chronograph movement.

Drawing on its long tradition of Haute Horlogerie, the watchmaker presented a new piece in 2018, the *Minute Repeater Tri-Axial Tourbillon*, combining two of the most advanced complications to be developed in recent years.

The prestigious SIHH international luxury watch show, held in the first half of the year, was an opportunity for the brand to present the cutting-edge developments it is known for in the key pieces of its collections. Girard-Perregaux also continued to expand its *Neo Bridges* line, first introduced in 2017, which has already become a cornerstone of the watchmaker's collections, unveiling a more classic version in gold at SIHH. These developments confirmed the brand's dedication to seamlessly combining tradition, expertise, distinctive design and modernity.

In terms of communications, the second half of 2018 was fully dedicated to the launch of the *Laureato Chrono*. Thanks to the 3D and 360° project that was presented at SIHH, the product launch became a physical exploration of the brand and its identity, particularly through the use of immersive virtual reality technology. The experience was mainly showcased in Southeast Asia, Japan and Greater China.

Regarding distribution, Girard-Perregaux is currently present in over 60 countries through independent points of sale, upscale department stores and specialist boutiques. The watchmaker also operates a network of eight mono-brand franchise stores and two multi-brand boutiques located primarily in Asia. In 2018, Girard-Perregaux pressed ahead with the reorganization of its retail network, particularly through selective, high-end targeting to attract major and renowned partners in the distribution of watches, including WEMPE in Germany and RABAT in Spain.

In 2019, the brand will continue to add to its range of watches, focusing even more on unexpected and surprising creations to strengthen its position as a watchmaker with a distinctly avant-garde flair.

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 located in Asia and Europe.

Known to the international jewelry scene for its creativity and distinctive character, Pomellato, established in 1967, was the first to introduce the *prêt-à-porter* philosophy to the world of jewelry.

Pomellato's voluminous creations are unique in their blend of colorful stones, Milanese craftsmanship, stone-cutting techniques and jewel-setting know-how. The brand's designs are immediately recognizable for their consistent, iconic style. Jewels are handcrafted by expert goldsmiths on site at Casa Pomellato, the brand's Milan headquarters, where the artisans transform the spirit of the brand into extraordinary designs.

The *Iconica*, *Nudo*, *Tango*, *Sabbia*, and *M'ama non m'ama* collections are Pomellato's product pillars. Each fully embodies the message of the brand: "The first global luxury Italian fashion fine jeweler, unconventional and colorful, The New Precious". *Nudo*, launched in 2001, continues to be a Pomellato signature collection, and is constantly expanding with new designs. The golden *Iconica* collection, launched in 2017 for the brand's fiftieth anniversary, is confirming its ongoing success by crossing over into daywear jewelry, while including more precious pieces incorporating diamonds.

In 2018, Pomellato greatly accelerated brand recognition with the expansion of both its digital and product activities. As part of its digital approach, the brand sought greater visibility with its fashion-oriented core target market as well as with Millennials. This was achieved thanks to the revamp of its website and by increasing its social media presence, but also through its #PomellatoForWomen global advertising campaign, launched as a celebration of the brand's fiftieth anniversary. #PomellatoForWomen features real-world, strong-willed, independent women of all ages and walks of life. Its 360° communication platform encompasses digital, social media, public relations and events, and celebrates the diversity and authenticity of womanhood.

Pomellato introduced Chiara Ferragni, the Italian blogger, stylist and businesswoman, as the quintessential face of the #PomellatoForWomen campaign, as she embodies a contemporary version of female beauty. The social media influencer inspires women across the globe and is simultaneously enhancing the brand's visibility worldwide.

Regarding product initiatives, in 2018 the brand consolidated the architecture of its products within each design, invested primarily in new pieces incorporating gold and diamonds, focused on upscaling its pillar collections, and increased the stackability of its entry-level products.

With an eye toward the future, Pomellato has further invested in the sustainability and social responsibility of its products. In 2018, the brand achieved 100% responsible gold sourcing, a first within the industry, and designed an entire collection, *Nuvola*, from 100% Fairmined gold. In order to preserve its traditions, Pomellato established a partnership with the Galdus Goldsmith Academy, providing programs, seminars and apprenticeships to promising young local artisans in Milan.

In 2019, Pomellato plans to increase its presence in China and other Asian markets. In addition, the House will further invest in brand communications, especially by developing greater social media prominence, to enhance visibility and build on existing market opportunities. As for products, the brand will continue to roll out its pillar strategy.

Following its strategic international expansion, the Pomellato brand currently has a distribution network that includes 43 directly operated stores, 18 franchise boutiques and approximately 560 wholesale points of sale.

DoDo is an Italian luxury charms brand created in 1994 as the first jeweler to offer composable, high-end jewelry to a broad unisex audience by coupling playful esthetics with a personal message. DoDo combines sustainably sourced precious metals and stones, high-end artisanal know-how, and the creativity of Italian design.

In 2018, DoDo reconnected with its key themes, including love, and also launched collections dedicated to dogs in January, and to nature, with models inspired by sustainability for Spring-Summer, both of which were very successful. The brand then capitalized on the launch of the highly awaited *Horoscope* collection with a special tone unique to DoDo.

A new advertising campaign, shot by Pierpaolo Ferrari, was also launched in May characterized by a modern, energetic and colorful style distinctive to the brand, marking a major step forward and making a powerful statement.

The DoDo distribution network currently includes 24 directly operated stores, 22 franchise boutiques and over 490 wholesale partners.

In 2019, DoDo's strategy will focus on boosting awareness of the brand and growing its network beyond Italy, while further strengthening the clarity of its product offering of fully composable, personalizable, and easy-to-wear jewelry.

qeelin

Created in 2004 by Dennis Chan its designer, 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, China's treasured national hero.

2018 was a year of strong expansion for Qeelin's retail (including the online business) and wholesale distribution networks.

While mainland China remains the core market, with the opening of six stores in 2018, including three directly operated stores in Guangzhou, Xian and Changsha, Qeelin also reinforced its international presence by opening new boutiques in Macau and Kuala Lumpur, as well as wholesale points of sale, notably in Canada. In addition, the brand's travel retail activities grew significantly thanks to existing business in Korea and new shop-in-shops opened in Japan (Ginza, Tokyo) and China (Sanya).

At the end of 2018, Qeelin counted 24 directly operated stores, including 21 in its priority region of Greater China, as well as 12 franchises, mostly located in Asia.

During the year, Qeelin appointed a new brand ambassador, the popular young Chinese actress Nazha, who expresses the unique personalities of modern women with the esthetic appeal of both East and West. Nazha participated in various activities throughout the year, including Qeelin's launch on Tmall's invitation-only platform Luxury Pavilion. The platform's vast, premium online shopper base represents an opportunity for Qeelin to increase its reach and upgrade its level of service across China. Qeelin is the first fine jewelry brand and also the first of Kering's brands to join Luxury Pavilion.

Among the main product launches of the year was Qeelin's dazzling new collection of *Wulu* diamond necklaces introduced in April, with a cut shaped to the contours of the House's modern classic *Wulu* design. In fall 2018, a new line of bracelets was added to the collection, with interchangeable straps featuring jeweled buckles to transform the *Wulu* from a trendy bracelet in the day to a statement piece at night. The first ever *Wulu Denim* pendant in 18K gold with diamonds was also launched at the end of the year, highlighting the brand's capacity to innovate and surprise.

Qeelin has always felt an affinity with pandas, as shown by its iconic *Bo Bo* collection, and in 2018 launched a three-year initiative with the World Wide Fund for Nature (WWF) to restore and protect ravaged bamboo forests, the panda's natural habitat.

In 2019, Qeelin will continue to invest in its expansion and enhance brand awareness with an important milestone in the first quarter of the year, in celebration of the Jeweler's fifteenth anniversary.

ULYSSE NARDIN
SINCE 1846 LE LOCLE – SUISSE

Ulysse Nardin is the pioneering Swiss watch manufacturer inspired by the sea, delivering innovative timepieces to free spirits.

Founded by Ulysse Nardin in 1846 and part of Kering since November 2014, Ulysse Nardin has written some of the finest chapters in the history of Haute Horlogerie. The company achieved early renown due to its ties to the nautical world: its marine chronometers are among the most reliable ever made, still sought by collectors around the world.

A pioneer of cutting-edge technologies and the innovative use of materials like silicon, Ulysse Nardin is one of the few Swiss watchmakers with the in-house expertise to produce its own high-precision components and movements. This exceptional level of watchmaking excellence has earned Ulysse Nardin membership of the most exclusive circle of Swiss watchmakers, the *Fondation de la Haute Horlogerie*. Today, from its sites in Le Locle and La Chaux-de-Fonds in Switzerland, the brand's continuing quest for horological perfection is anchored around five collections: the *Marine*, the *Diver*, the *Classic*, the *Executive* and the *Freak*.

2018 was the year of the *Freak*, with the launch of the *Freak Vision*, supported by a new advertising campaign featuring a shark in various urban landscapes. Boldness, exploration, freedom and disruption were the leading mottos of the brand statement, which attracted attention within the trade and from end consumers thanks to a strong online advertising campaign.

Later in the year, the new *Diver* range was launched, revisiting the brand's existing collection of genuine diving chronometers with a contemporary design and sporty features.

Remarkable work was completed over the year in the area of visual merchandising with more than 50 new corners and shop-in-shops installed throughout the world, while the total number of points of sale decreased from 500 to 485, to focus on the best locations. The brand distribution network includes 12 mono-brand boutiques, one of which is directly operated.

Plans for 2019 include the opening of Ulysse Nardin's first directly operated boutique in China, to be located in Shanghai, as well as a second store in Dubai, in partnership with its distributor. The efforts to enhance the quality of the distribution network will continue. With this in mind, a brand new visual merchandising concept for flagships has been developed.

In terms of products, Ulysse Nardin will introduce the X factor in the watchmaking industry with the launch of *Freak X* and *Skeleton X*. The *X* collections will reveal the inner design and mechanics of the watches, with a price positioning accessible to a younger client base, especially in China.

WORLDWIDE EYEWEAR MARKET OVERVIEW

This section contains information derived from data compiled by Euromonitor, an independent provider of market research. The global eyewear market covers the following product categories: sunglasses, spectacle frames, spectacle lenses, contact lenses and optical accessories.

The estimates of the size of the global eyewear 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 modeled.

According to Euromonitor, the global eyewear market generated revenue of €105 billion in 2017 (retail price value) and could reach €130 billion in 2020, representing an 8% annual increase over the next three years.

Rounded figures *(in billions of euros)*	2017	2020e	CAGR (1)
Spectacle lenses, contact lenses and optical accessories	60	72	6%
as a % of total market	*58%*	*56%*	
Spectacle frames	30	38	8%
as a % of total market	*28%*	*29%*	
Sunglasses	15	20	10%
as a % of total market	*14%*	*15%*	
TOTAL	**105**	**130**	**8%**

The spectacle frames and sunglasses segment was estimated at €45 billion in 2017, of which approximately €30 billion corresponded to premium and high-end products.

Kering Eyewear operates only in the high-end (frames and sunglasses) sub-segment, which in 2017 was estimated at €7 billion (retail price from €180) or around €3 billion at equivalent wholesale prices (source: internal).

Competition on the high-end eyewear sub-segment is relatively intense, with more than 20 players of widely varying sizes and operating models (own brands and/or licensed trademarks, different levels of vertical integration in terms of production and distribution) managing and marketing a total of around 70 luxury brands. The main player on the market is Luxottica (now EssilorLuxottica), which operates alongside mid-sized companies such as Marcolin, De Rigo and Safilo.

Future growth for the global eyewear market is expected to be sustained by i) a rapidly aging population seeking solutions for presbyopia, and ii) the development of emerging markets and a rise in disposable income.

These two factors, as well as changing consumer habits with a shift to considering eyewear as beauty or fashion accessories, are contributing to the development of the high-end sub-segment, with a high rate of product renewal.

Lastly, given their price positioning, spectacle frames and sunglasses are an accessible form of Luxury and represent a way for brands to attract a new, more aspirational customer base.

(1) Compound annual growth rate.

KERING EYEWEAR

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

Eyewear is a strategic product category and the rationale behind the creation of Kering Eyewear was to help the Houses reach their growth potential in this business segment while leveraging each brand's unique appeal, through:

- the development of a product fully reflecting each brand's identity and trends;
- an unparalleled level of quality provided by a network of industry-leading suppliers known for their technical expertise;
- distribution in line with each brand's image and positioning, by serving only the best doors worldwide.

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

In order to establish eyewear as a core category, Kering decided to internalize the entire value chain, marking a significant change in the industry's standard processes. Thanks to a strong group of talented and skilled people, Kering Eyewear directly manages design and product development, supply chain, and commercial and distribution strategies, as well as sales and marketing, thus allowing 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 the portfolio, starting with Gucci, for which the first collection was presented in October 2016.

In March 2017, Kering and Richemont announced a partnership agreement for the development, manufacturing and worldwide distribution of the Maison Cartier and Alaïa eyewear categories, resulting in Richemont becoming a shareholder of Kering Eyewear.

As of January 2019, with the recent addition of Courrèges, Montblanc and Balenciaga – the last Kering brand with an eyewear category not managed by Kering Eyewear – the company will design, develop and distribute a complete and well-balanced portfolio of 15 brands.

Kering Eyewear relies on a fast, agile decision-making process and a close collaboration with the brands to create synergies and generate incremental business growth in "shared channels", such as brand boutiques, travel retail, department stores, multi-brand fashion specialists and e-tailers.

Kering Eyewear works with the Creative Directors of the brands in order to preserve the DNA and esthetic code of each individual House when developing its eyewear, while maintaining a focus on innovation in terms of design and materials. As a result, the eyewear collections are always fully in line with the Houses' calendars and needs.

Along with the design, strong attention is also paid to sustainability and to material research and development. In July 2017, Kering Eyewear started a collaboration with Bio-on, an Italian company that researches and develops renewable materials, to create the first 100% biodegradable frame and, in 2018, the company published its first EP&L for 2017.

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

Under the deal with Maison Cartier, the Manufacture Cartier Lunettes plant, located in Sucy-en-Brie (France), was included in and contributed to Kering Eyewear. This one-of-a-kind plant is equipped with best-in-class technologies and machineries as well as undisputed expertise in solid gold, precious stones, horn and wood manufacturing.

Communications and marketing are coherent with the brands' strategies, generating synergies among advertising purchasing, event organization, celebrity seeding, public relations and media access.

Kering Eyewear has built an extensive distribution system serving over 16,000 customers and 30,000 doors worldwide in around 100 countries, directly operating in more than 25 markets through 14 subsidiaries (France, the UK, Germany, Spain, the US, Hong Kong, Japan, Singapore, Taiwan, China, Korea, Australia, India and Malaysia) and a network of carefully selected distributors.

Widespread distribution, together with a highly qualitative commercial approach, provides the brands with broad market coverage, in line with their positioning and desired visibility.

During 2018, Kering Eyewear established important partnerships and developed innovative tools to further expand its distribution in new channels, such as online. In March, the company opened a flagship store on JD.com, one of China's largest e-tailers reaching more than 290 million customers. The store has already achieved very strong results, making this collaboration the first in a series of important steps to further strengthen Kering Eyewear's online presence in China and worldwide.

Kering Eyewear also developed a new shop-in-shop concept as an innovative marketing tool for retailers, to be rolled out in key cities and locations. The first shop-in-shops opened in May 2018 at Coterie, China's most famous distributor of designer glasses, located in Beijing Sanlitun.

In the coming years, Kering Eyewear will be committed to fully exploiting the potential of all its brands, in both the sun and optical categories, as well as to expanding its presence in new channels, leveraging its expertise and unique positioning.

Thanks to its innovative business model and value-oriented approach, Kering Eyewear will continue to establish itself as the most relevant player in the high-end eyewear market.

CHAPTER 3
Sustainability

This chapter – including references to other parts of the Reference Document – constitutes the Kering group's Non-Financial Information Statement (NFIS) for 2018, and as such provides all of the information required by Articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code (*Code de commerce*) relating to the Non-Financial Information Statement. The Group's duty of care plan is also part of the Non-Financial Information Statement.

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 organization dedicated to sustainability.
- Publication of the very first Environmental Profit & Loss account (EP&L) by PUMA.
- Formalization of the strategic "Gender Equality in Leadership" program.

2012
- Formalization 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 The B Team.

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 ten 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.

2017

- Publication of Kering's 2025 Sustainability strategy, which is based on three pillars (environmental/social/innovation) and lays down targets to be achieved by all of the Group's Houses.
- Preparation of sourcing and production standards for publication in 2018, in line with the Group's open source policy.
- Promotion of high standards of integrity, responsibility and respect towards people through the Charter on working relationships with fashion models and their well-being.

Work commenced in 2016 and 2017 on the three pillars of the Group's 2025 Sustainability strategy was continued, intensified and enriched throughout 2018.

The EP&L, a tool for measuring and projecting the Group's environmental impact and for prioritizing initiatives in this area, confirmed the Group's belief in the relevance of the major projects undertaken, foremost among these rolling out and adopting the Kering Standards for sourcing and manufacturing processes within the Houses and across their supply chains.

The year's projects and achievements reflect the importance of the five pillars of the Kering Standards and progress made on each one: social impact and the place given to human rights at Kering but also in its supply chains, whether respect for fundamental freedoms, diversity or the promotion of gender equality; environmental impact and efforts to reduce the Group's carbon footprint, protect biodiversity and promote the circular economy; traceability of raw materials, the sole guarantee of responsible sourcing, and the publication of initial findings on key materials for the Group; phasing out of hazardous chemicals and the ongoing roll-out of lists of banned or restricted substances; and lastly, animal welfare, an ethical commitment that in 2018 saw the development of an additional framework, reviewed by respected independent experts, and further inspections of farms of strategic suppliers.

The diversity and complementary nature of the key events worthy of note in 2018 testify to the place of all sustainability challenges at the heart of the Group's strategy and, going forward, its culture and that of each of its Houses.

1.2 2018 highlights

Kering publishes standards on sourcing and manufacturing processes

In early 2018, Kering published on its website its standards for sourcing and manufacturing processes, in line with its open source policy and its principle of sharing on sustainability issues, aware that a commitment from all stakeholders is the only way to make a difference in view of the extent of the challenges we face. Drawing on a long process of research, consultation and sharing with the Group's Houses and a wide range of external stakeholders, the Kering Standards, based on five pillars (environmental impact, social impact, animal welfare, traceability and chemical substances), provide all of the Group's Houses and suppliers with essential guidelines geared towards reducing our environmental footprint and achieving the Group's 2025 objectives. The Standards are available on the Group's website.

Kering launches the Sustainable Innovation Award in China with Plug and Play

In December 2018, Kering, together with global innovation platform Plug and Play, launched the Kering Sustainability Innovation Award, which aims to fast-track sustainable innovation within the luxury and apparel sectors in China. Inspired by Kering's Sustainability strategy, "Crafting tomorrow's Luxury", the program will identify innovative start-ups and technologies in China with the potential to disrupt the current textile value chain, bringing a positive environmental and social impact. Kering is particularly keen to discover start-ups that address challenges in terms of alternative raw materials, green supply chains, retail and the circular economy. The start-up scouting, due diligence and project selection process will take place in 2019.

Kering publishes its integrated report, a first in the luxury industry

In 2018, Kering published its first integrated report, covering all of the Group's activities in 2017, becoming the first company in the sector to publish such a report. The report offers a fresh and comprehensive perspective on Kering, its history and its strategic vision, and sets out its integrated model and value chain in the service of comprehensive value creation, incorporating creative, financial, environmental, social and ethical aspects. It is available on the Group's website.

True to its commitment to transparency and open sourcing, Kering published its 2017 EP&L results in 2018

Kering published the results of its EP&L for the sixth consecutive year, but for the first time as a pure player in the world of Luxury. Amounting to €482 million in 2017, the results represent a 10% reduction in intensity compared with 2015 to €44 EP&L/K€ revenue, and are in line with the goal of reducing intensity by 40% by 2025. They confirm the relevance of the strategy adopted by the Group to reduce its environmental footprint, and in particular the focus on the upstream stages of supply chains for key raw materials, with 76% of the impacts in Tiers 4 and 3 (production and processing of raw materials). It also validates the Group's climate strategy, with the Group's carbon intensity (€EP&L/€K in revenue for greenhouse gas emissions) falling by 7.3% between 2015 and 2017, putting Kering in a strong position to reach its 2025 Science Based Target, compatible with a 2°C scenario.

Kering and the London College of Fashion launch the first MOOC dedicated entirely to sustainability and luxury fashion

In 2018, Kering and the London College of Fashion, in the fifth year of their strategic partnership, launched the first Massive Open Online Course (MOOC) dedicated to sustainability and luxury fashion. Designed as a continuation of the annual teaching course offered to students by Kering and London College of Fashion, and in keeping with Kering's commitment to share its sustainability initiatives and methodologies, the course is built on six modules for a total of 18 hours of teaching and exchange. Spread over a period of six weeks, the modules alternate between expert talks, films, discussions and podcasts. The two sessions held in 2018 attracted more than 17,500 participants in nearly 150 countries. A third session opened in February 2019.

The Kering Foundation: ten years of combating violence against women

2018 marked the tenth anniversary of the Kering Foundation. Since 2008, it has committed the Group to combating violence against women. It focuses its action on three regions in order to boost its international impact: the Americas, Western Europe and China, concentrating on sexual violence, harmful traditional practices and domestic violence. This year, the Kering Foundation, alongside French organization *Fondation FACE*, launched One in Three Women, Europe's first network for businesses focused on countering violence against women. The Foundation has trained more than 1,100 Group employees since 2011, with the intent of guaranteeing a supportive working environment for women who are victims of domestic violence.

Each year, on November 25, International Day for the Elimination of Violence against Women, the Foundation raises awareness about the cause through its White Ribbon for Women campaign. For the 2018 edition, the Foundation focused on cyber-bullying, targeting Generation Z in particular. Launched via the hashtag #IDontSpeakHater, the campaign reached more than 489 million people.

Strengthening and promoting a shared culture within the Group and recognizing Kering's actions in favor of diversity

Kering is implementing the means to bring together strong Houses with a shared culture to strengthen the feeling of belonging to an integrated Luxury group.

In 2018, Kering transformed its information and communication methods to foster connections between its employees, regardless of where they work. To this end, it has developed a single digital human resources platform for its employees around the world, to guarantee them a better experience and give them greater autonomy. The platform simplifies and accelerates the data sharing required for longer-term management of careers and talent. A new-generation digital and mobile social network is underpinning the establishment of this shared culture. Lastly, Kering Campus has become a digital training platform for everyone, offering a common core for all Houses, which are also able to personalize the platform for their own employees.

At the same time, the Group's commitment to promoting female talent continues, and its results have won international recognition. In 2018, Kering appeared in many rankings, including the Bloomberg Gender-Equality Index, the Equileap ranking, where the Group now features among the top three companies, and the Thomson Reuters Diversity & Inclusion Index, where Kering ranks seventh out of the 7,000 international companies assessed.

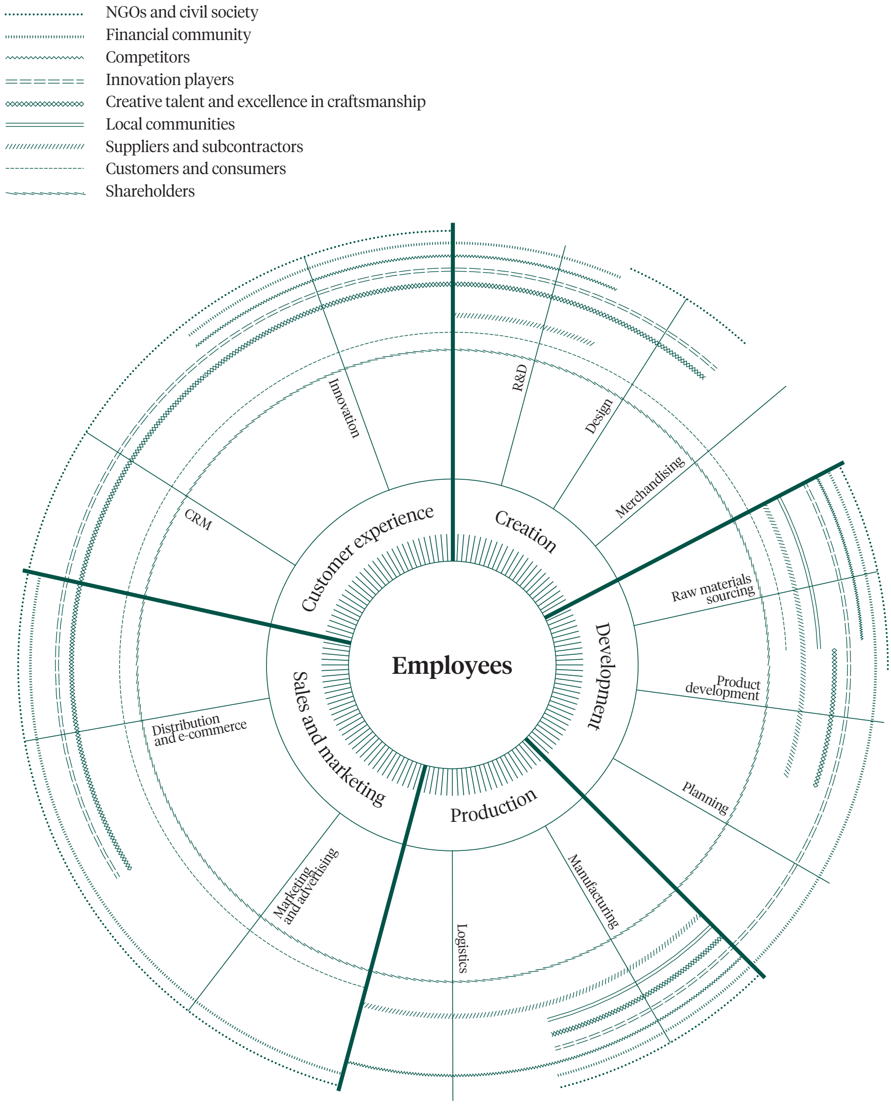
1.3 The Group's vision and business model

Kering's vision of creation in the service of a modern and bold Luxury is based on a multi-brand model that favors a long-term approach and creative autonomy of the Group's Houses and relies on agility, balance and responsibility. The strategy of capturing the full potential of Luxury to grow faster than our markets completes this three-fold approach, promoting organic growth and greater synergies within the Group. Kering's business model and strategy are set out and described in detail in Chapter 1 of this Reference Document.

The Group's vision also draws on a resolute ambition – to be the world's most influential Luxury group in terms of creativity, sustainability and economic performance – and the deep conviction that Luxury and sustainability are one: performance will only endure if it applies across the board. Modern and bold Luxury must be synonymous with standards of creation and production that are 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 Houses. Kering serves as a catalyst, encouraging them to develop even more innovative, appealing and sustainable products, aiming in this way to craft tomorrow's Luxury.

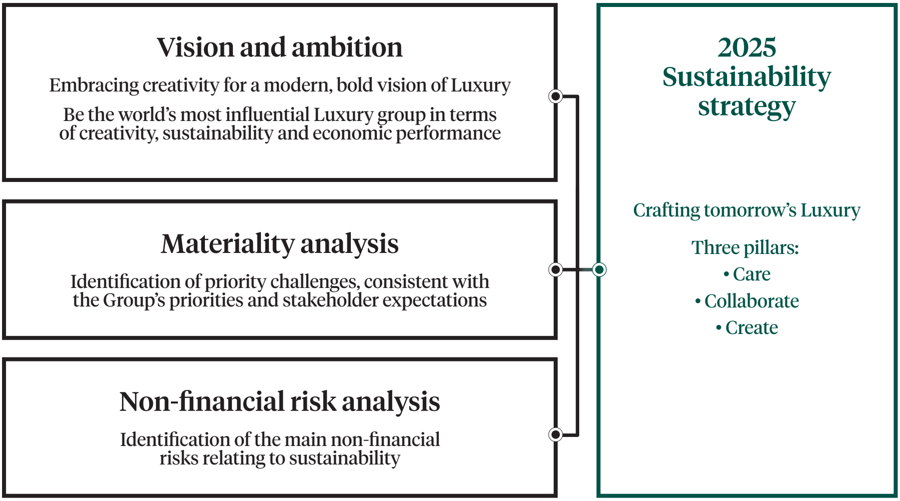
Moreover, the Group's value chain, structured around five key stages, from creation to the customer experience, identifies the players involved and reflects Kering's work with all of its stakeholders.



The details are presented step by step in the integrated report, available on the Group's website.

1.4 Materiality and main priorities, non-financial risks and Sustainability strategy

Kering is rolling out an ambitious 2025 Sustainability strategy reflecting three components: its vision and ambition carried at the highest level of the Group, the materiality analysis, and the non-financial risk analysis, serving to accurately identify key challenges and risks throughout the value chain.



The materiality analysis, the non-financial risk analysis and Kering's 2025 Sustainability strategy are described in detail below.

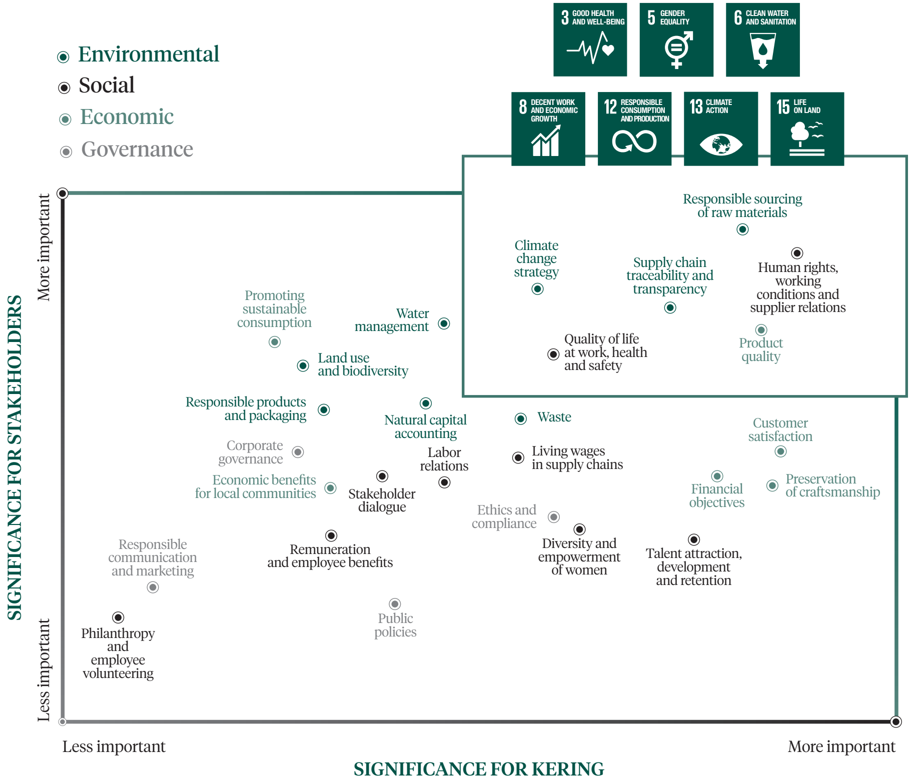
Materiality: targeting main priorities

The materiality principle, which, like the EP&L, is at the heart of Kering's sustainability approach, allows the Group 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. The non-financial risk and materiality analyses converge to identify priority areas for action.

These main priorities also align the Group with the United Nations' framework as defined in the 17 Sustainable Development Goals (SDGs), 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 recognizing the indispensable involvement of stakeholders throughout society in the service of the common good. More specifically, while Kering can contribute directly or indirectly in variable proportions to each of the 17 SDGs, there are seven SDGs for which it can have a more significant impact 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



Non-financial risk analysis

Methodology

Kering carries out a detailed analysis of the risks that the Group may face, including non-financial risks liable to jeopardize its ability to maintain its overall performance. The approach as a whole and, in general, all aspects relating to risks, are presented in Chapter 6 of this Reference Document.

Risks relating to the categories included in the Non-Financial Information Statement as defined in Article L. 225-102-1 of the French Commercial Code – environment, social/societal, human rights, corruption and tax evasion – are accordingly an integral part of the Group's overall risk identification and management process, and as such are described in Chapter 6 of this Reference Document. The Sustainability Department is involved in the process of identifying and classifying the risks that fall within its scope.

This risk analysis extends beyond the scope of Kering's operations and covers the entire value chain from the supply of raw materials to the use of products made by the Group's Houses, fully consistent with the materiality matrix and other analytical work conducted by Kering, including the EP&L.

As a result, eight principal risks out of the Non-Financial Information Statement categories have been identified, for which all policies and actions implemented within the Group, the outcomes obtained and the related performance indicators are detailed in the rest of this document:

Risk	Policies and projects implemented, outcomes and performance indicators
Talent management and know-how	See "Supporting our employees" See "Community impact and preservation of know-how"
Climate change	See "Environmental management," "Climate strategy" and "Carbon emissions" See "EP&L"
Raw materials and biodiversity	See "Land use and protection of biodiversity," and "Sustainable use of raw materials" See "Stakeholder dialogue"
Product quality and safety, consumer health	See "Risk management: product quality control, and consumer health and safety"
Image and reputation, respect for ethical rules and integrity	See "Ethics, the cornerstone of our business" See "Animal welfare" See "Stakeholder dialogue"
Respect for human rights and fundamental freedoms	See "Ethics, the cornerstone of our business" See "Supporting our employees" See "Working conditions in our supply chains"
Fraud and corruption	See "Ethics, the cornerstone of our business"
Compliance with national tax laws and international standards	See Chapter 6 of this Reference Document

2025 Sustainability strategy and targets

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 Scopes 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 all suppliers by 2025, which also raises the bar on traceability, animal welfare, use of chemicals and working conditions. √ Promote sustainable design and minimize the environmental impact of products 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 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 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 programs, 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 transportation 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.

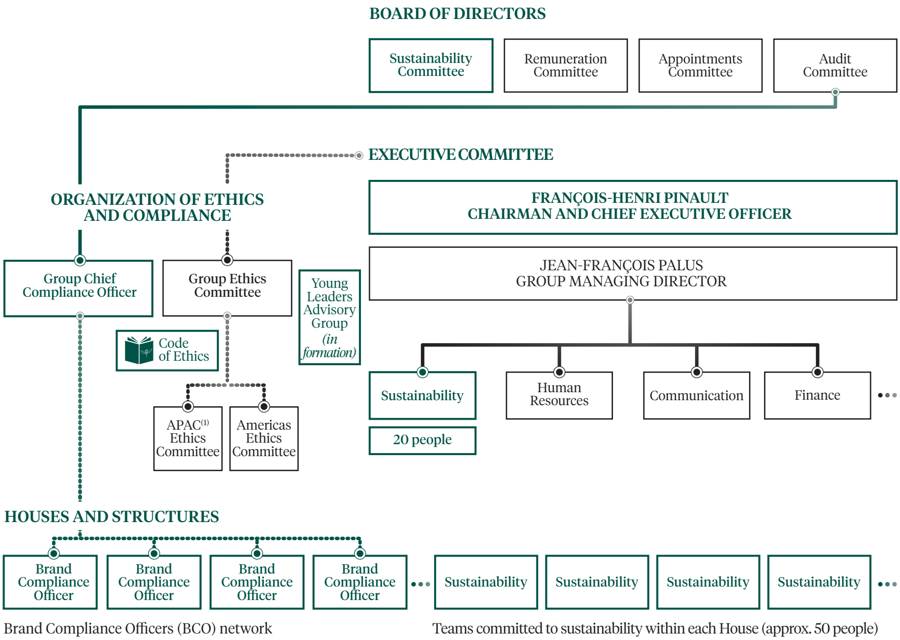
In accordance with the management and monitoring method established when the 2025 strategy was drawn up and published, 2018 again saw meetings in each House dedicated to monitoring the implementation of the Sustainability strategy and progress towards achieving the 2025 targets. In meetings attended by each Chief Executive Officer, the House Sustainability team and other teams closely involved in the implementation of the Sustainability roadmap (design, production, purchasing, logistics, etc.), and the Group Chief Sustainability Officer, each major project was reviewed to verify the direction and pertinence of the actions undertaken, and to review the initial outcomes.

Kering will publish a first overall progress report on the 2025 Sustainability targets in early 2020.

Governance and organization

Kering's Sustainability Department defines the Group's Sustainability strategy and policies, and supports the Houses 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 20 specialists, who report to the Chief Sustainability Officer, a member of the Executive Committee, assist the Houses 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 Houses. In addition, each House has at least one Sustainability Lead and for the larger Houses, entire Sustainability teams. As a result, Kering's Sustainability team numbers more than 60 people.

Regarding 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 2018. A first meeting in March served to lay out before all Committee members the outcomes obtained on each pillar of the 2025 strategy last year. The second meeting, in November, focused on the 2025 roadmap, with a particular emphasis on a number of key issues and projects for the Group, such as the Kering Responsible Gold Framework (a platform dedicated to the responsible purchasing of gold) and animal welfare.



(1) APAC: Asia-Pacific.

1.5 Recognition and inclusion in SRI[1] indices

In 2018, Kering was once again recognized as a leader in its sector by the principal non-financial ratings agencies and rankings.

- **DJSI** (Dow Jones Sustainability Indices): Kering featured in the prestigious DJSI World and Europe indices for the fifth consecutive year. 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 capitalizations, 10% of companies in each industry with the best performance in terms of sustainability.
- **CDP** (Carbon Disclosure Project): In 2018, Kering was part of the CDP's A List for the second year in a row. Of nearly 7,000 companies assessed, only 126 found their way into the prestigious A List after the CDP's rigorous analysis. Kering takes its place among the 2% 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 achieved 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**: Kering reached second place in the prestigious Global 100 ranking of the 100 most sustainable companies worldwide in 2018. This was Kering's fourth consecutive appearance in this international ranking created by *Corporate Knights* magazine in 2005 and unveiled each year at the World Economic Forum in Davos. Kering leads the Apparel & Accessories sector.
- **Other major non-financial ratings**: Kering again scored high in the non-financial rankings released by MSCI (AAA rating obtained in the MSCI ESG Ratings 2018 assessment, second in the Textile, Apparel and Luxury Goods sector and first for Luxury), ISS-oekom (Prime status, with a C+ rating obtained in January 2019) and Sustainalytics (score of 79/100 obtained in October 2018, qualifying Kering as a leader in ESG performance in the Textiles & Apparel sector). Kering's diversity performance also earned special recognition in 2018: the Group made the top three of the Equileap ranking, took seventh position in the Thomson Reuters Diversity & Inclusion Index, and was again part of the Bloomberg Gender-Equality Index.
- **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.

Index	2016 score	2017 score	2018 score
DJSI[2]	DJSI World and Europe (Silver class 83/100)	DJSI World and Europe (Industry leader 82/100)	DJSI World and Europe (Silver class 80/100)
CDP Carbon	A-	A	A
CDP Water	B	B	B
CDP Forest	A- (leather) B (wood)	A- (leather) A- (wood)	A- (leather) A- (wood)
Global 100	80th/100	47th/100	2nd/100

(1) Socially Responsible Investment.
(2) New methodology for 2018; 2016 and 2017 ratings on a pro forma basis.

1.6 2018 key figures

- 34,795 employees as of December 31, 2018, 62.88% of whom are women;
- 92.50% of employees on permanent contracts;
- 50.49% of Group managers are women;
- 8.21% of permanent employees work part time;
- 36.09 years is the average age of permanent employees;
- 5.3 years is the average length of service of permanent employees;
- 474 workers with disabilities;
- 431,051 hours of training (excluding safety training), or 20,197 employees trained;
- 12,266 permanent employees hired;
- 255,769 metric tons of CO_2 attributable to energy consumption (21.1%) and transportation (78.9%);
- 67.1% of electricity consumed is generated using renewable resources;
- Kering published its 2017 EP&L for the first time as a pure player in Luxury, reporting a 10% reduction in the intensity of environmental impacts across the Group (€EP&L/K€ revenue) between 2015 and 2017;
- 2,867 social audits carried out among the Group's suppliers;
- over 489 million people potentially reached by the Kering Foundation's annual White Ribbon For Women campaign to raise awareness about violence against women.

2. ETHICS, THE CORNERSTONE OF OUR BUSINESS

2.1 How we see ethics

General framework, guiding principles and key commitments

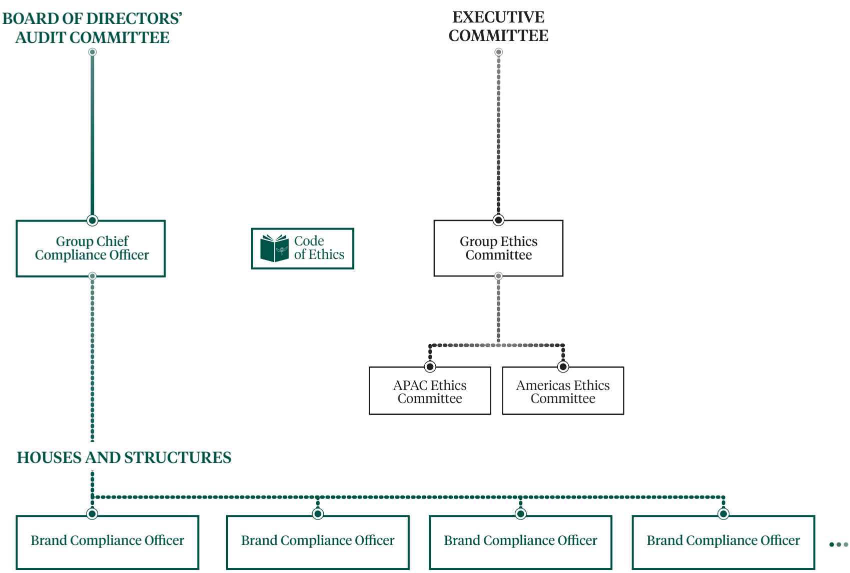
The strong values embraced by Kering and its Houses are expressed through their products and form a solid basis for trust-based relationships with customers, employees and the Group's stakeholders in general. To ensure that these values permeate its operations and ceaselessly nurture a sustainable climate of trust and successful performance across the Group, Kering is firmly committed to ethical behavior in all its activities and business relationships. Kering is fully aware of its duty to adopt extensive ethical responsibilities and to act at Group and House level, and with its suppliers and other business partners, in such a way as to promote the highest ethical standards in all circumstances, and to resolutely identify and effectively handle any situation likely to involve risk in terms of ethics or respect for human rights.

This firm commitment starts at the top, with Executive Management and the Sustainability Committee of the Board of Directors. To ensure this commitment is actively taken up throughout the Group and its Houses, Kering draws upon its Code of Ethics, the key document setting out the principles behind the Group's internal and external actions in the matter, and upon a compliance program with a robust organization and a precise system of management, promotion, transparency and metrics.

This is tightly integrated into Kering's internal control system, ensuring effective propagation of a strong culture of integrity throughout the Group and its Houses, and providing all employees with a solid framework for action along with all necessary resources and support to clarify any ethics issue. It also enables employees to confidentially report any potential violations, and ensures prompt and fair treatment thereafter. It ensures that the Group complies with applicable regulatory requirements, including French laws no. 2016-1691, known as "Sapin II", and no. 2017-399 on the duty of care.

Organization of ethics and compliance within the Group

The Group's ethics organization is coordinated and overseen by the Kering Executive Committee, under the guidance of François-Henri Pinault, the Chairman and Chief Executive Officer.



Initially consisting of a single body (the Ethics and Corporate Social Responsibility Committee – ECSRC, set up in 2005), the ethics organization 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 to ensure the existence of 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 Houses to ensure greater diversity. These Committees have three main focuses:

- ensure that the Code of Ethics is up to date and that it effectively reaches and is known to all Group employees;
- generate proposals on appropriate updates to the Code and on the implementation of appropriate behaviors and practices;
- process ethics issues reported by Group employees and, since January 1, 2018, by external and temporary staff working for external partners or service providers under contract with the Group and/or its Houses. Issues may be reported directly or by means of an ethics hotline. Kering's ethics whistleblowing system is described below in the section entitled "Whistleblowing mechanism for reporting unethical conduct".

Employees can also call on the Ethics Committee of their choice to request clarification or ask questions on the interpretation of the Code, if they are unsure how to behave in a specific situation.

The Compliance structure, established in 2015, is coordinated by a Group Chief Compliance Officer (CCO), who supervises a network of Brand Compliance Officers at the individual Houses and structures, each appointed by their respective Chief Executive Officers, and a network of Local Compliance Officers.

At Group level, the Group Chief Compliance Officer is responsible for implementing the Group compliance program as approved by the Board of Directors. The Group Chief Compliance Officer, appointed in October 2015 by Kering's Chairman and Chief Executive Officer, reports to the Audit Committee, an important factor given the independence required of this function. The Group Chief Compliance Officer also has direct access to the Chairman and Chief Executive Officer. The Group Chief Compliance Officer does not hold any other position, and is thus fully dedicated to this function.

At the level of the Houses, the policies and procedures drawn up by the Group Chief Compliance Officer are implemented by a network of Brand Compliance Officers, each appointed by the House Chief Executive Officer. All the Brand Compliance Officers report to the Group Chief Compliance Officer.

Local Compliance Officers in the largest Houses take charge of implementing the compliance program at local level, reporting to their Brand Compliance Officers.

As a general rule, the positions held by the Compliance Officers in parallel with their compliance duties are sufficiently high-ranking to ensure they have the necessary authority and independence.

2.2 Implementation throughout the Group and beyond

Kering's Code of Ethics

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 responsible business practices. Kering's Code of Ethics was first introduced in 2005, and underwent major updates in 2009 and 2013. The latest update, in 2018, will be issued to all employees in 2019.

The Code clearly sets out the ethical principles that should be applied everywhere and by everyone, as well as the Group's values, what it believes in and what it does not tolerate.

It aims to comply 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 possible 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 most widely spoken languages in the Group on the Group's intranet, and on Kering's website for readers outside the Group.

System for detecting and preventing corruption

Kering's Code of Ethics emphasizes the fact that employees must at all times act with integrity, loyalty and a sense of responsibility. It clearly sets out the Group's commitment to zero tolerance on corruption, and encourages employees to report any instance of corruption. It stipulates the absolute necessity of avoiding conflicts of interest, any risk of which must be promptly identified and resolved.

To ensure effective application of these commitments, a map of corruption and influence peddling risks has been drawn up with assistance from an outside consultancy firm under the supervision of the Group Chief Compliance Officer and the Internal Audit Director. Analysis of this map, which covers all Group operations worldwide, has given rise to a series of action plans.

The Group Chief Compliance Officer submitted the risk map analysis and ensuing action plans to the Audit Committee of the Board of Directors at the session of June 7, 2017.

Risks were identified following an analysis process running over several months. This required involvement from all the employees concerned at Group and House level, a full document review, and interviews. House operational managers were actively involved in the process, to develop the fullest possible understanding of the risks identified, their impact, their probability, and the means of mitigating or eradicating them.

The risk map showed that the existing compliance program is able to handle practically all existing risks of corruption and influence peddling. Specific action was only found to be required on residual risks concerning corruption of public officials and conflicts of interest. This action was taken promptly, as outlined hereafter in this section.

Steering

In 2016, Kering brought in an anti-corruption policy, standing side-by-side with the Code of Ethics to offer employees fuller guidance in their everyday practices and ensure tight control over risks of corruption and conflicts of interest. This policy identifies prohibited behaviors and sets out guidelines enabling employees to detect instances of corruption and report them to management. Kering's Chief Compliance Officer, who reports directly to the Ethics Committee, independently of the Houses and support functions, is responsible for implementing the anti-corruption policy under the Group's overall compliance program. Roll-out of the anti-corruption policy is monitored closely by the Audit Committee and Executive Management.

The policy extends to detailed procedures on the following subjects:

- **Procedure on gifts, hospitality, entertainment and travel**

The procedure for gifts, hospitality, entertainment and travel sets out rules on gifts, invitations, and travel and business entertainment expenses throughout the Group. It details which sorts of gifts and hospitality (such as invitations to sports or other events) are acceptable and which are not, thus helping Group employees determine appropriate behavior with regard to accepting or making offers. Employees are advised to consult their Compliance Officer if in doubt.

Prior written authorization from the Compliance Officer is required whenever a gift or invitation involves a public official or is of significant value.

- **Procedure on third-party due diligence**

The procedure for third-party due diligence, introduced in October 2015, specifies that relationships with third parties must be evaluated on the basis of the risks of corruption liable to ensue therefrom. All of the Group's contractual relationships must be with a clearly identified third party, for a clearly specified service under clearly specified financial terms and conditions. Employees are required to fill in a questionnaire prior to signing a contract. If any warning signs appear, they must be reported to the Compliance Officer concerned, who will consult investigatory services and specialized databases in order to make a decision on the matter.

The third-party due diligence system is applicable throughout the Group. Kering has also called in an outside specialist in third-party due diligence to carry out verifications on the specialized databases used by the Group's Compliance Officers.

- **Procedure on due diligence for mergers and acquisitions**

The M&A Anti-Bribery and Corruption Due Diligence Procedure introduced in October 2016 requires an evaluation of the third party concerned by the transaction (generally the target). Based on the third-party due diligence procedure outlined above, it requires the employees concerned to collect information on the target from publicly accessible sources from the onset of negotiations. If any warning signs appear, the employee must fill in a specific questionnaire. During the acquisition process, more in-depth due diligence, covering corruption issues, must be conducted, with cooperation from the acquisition target. The findings are then submitted for analysis by the appropriate Compliance Officer.

- **Procedure on donations and sponsorship**

The Group applies a specific procedure specifying requirements on transparency and written documentation regarding donations and sponsorship. All beneficiaries are required to undergo due diligence. Before they can go ahead, donations and sponsorship operations require prior written approval from the Compliance Officer concerned, and must be recorded in a special register. Under the procedure, any donation or sponsorship request involving a public official must be reported to the relevant Compliance Officer.

Kering's Code of Ethics and anti-corruption policy prohibit any political, trade union, cultural or charitable financing in exchange for any direct or indirect material, commercial or personal advantage. They also prohibit payment of contributions to a political party and donations to charity with undue intention or non-compliant with the donations and sponsorship procedure.

Since August 22, 2017, the Group has been listed on the register of the French government's *Haute Autorité pour la Transparence de la Vie Publique*, and complies with all ethics requirements stipulated by French law.

- **Procedure on conflicts of interest requiring annual signature by a target population**

In 2016, Kering brought in a specific procedure on conflicts of interest, which is available in French, English, Italian and Chinese. It requires employees to report any connections, relationships or other situations giving rise or that may potentially give rise to any conflict of interest by signing a specific declaration and discussing the situation with their managers. The Group's policy on conflicts of interest was updated in 2017 under the action plan drawn up on the basis of the risk map.

Several procedures, including that on the involvement of suppliers in the production chain, refer to this procedure. Employees involved in decision-making processes with regard to third parties are invited to report any potential conflict of interest.

- **Guidelines on interactions with public officials**

To guide employees in their interactions with public officials in certain high-risk regions, country-specific sheets have been established and issued to the Compliance Officers concerned. In Italy, the Houses also apply the rules defined in Italian law no. 231/2001 on matters such as the identification of key employees in contact with the authorities and the documentation and tracking of relationships between Group employees and public officials.

A compliance manual was issued Group-wide in 2018, setting out practical examples on the main ethics risks, including corruption, conflicts of interest and human rights violations. The manual outlines the basic concepts and legal challenges involved, giving practical examples enabling employees to pinpoint areas requiring vigilance in their day-to-day work. It encourages effective adoption of the Group's anti-corruption policy and procedures across the workforce.

Kering also implements policies and procedures on competition law for Europe, the Asia-Pacific region and the Americas, as well as a procedure for participation in professional bodies.

Whistleblowing mechanism for reporting unethical conduct

Introduced in 2005, Kering's whistleblowing system was strengthened in 2018 to ensure full compliance with France's Sapin II law. It is accessible to all people working for the Group: employees and interns of the Group and its Houses, and external and temporary personnel working for external partners or service providers under contract with the Group and/or its Houses.

All employees may use the system to submit reports via their direct or indirect manager or employer, the Human Resources Department, the Group Chief Compliance Officer, the Compliance Officer network or the Ethics Committee. It may be used to report any of the following:

- criminal offense;
- serious violation of law or regulations;
- conduct or situation contrary to the Group's Code of Ethics;
- threat or serious harm to the general interest.

Reports are transferred for processing by the ethics or compliance organization via authorized contact persons who ensure the confidentiality and security of the information transferred. The contact persons are also responsible for verifying the facts reported.

When a report is submitted, one of the Ethics Committees or the Group Chief Compliance Officer will contact the person reporting the matter to request permission to contact the House concerned, specifying that the person's identity will remain confidential and that issue will be investigated within three months at most. Kering is committed to protecting whistleblowers, and explicitly prohibits, in its ethics policies and procedures, any form of reprisal. This protection is clearly stated in the annual e-learning module on the Code of Ethics.

2.3 Promoting and respecting ethics within the Group and beyond

Propagation of a culture of integrity

A training program on ethics and the related Code was established for all Group employees worldwide and has been implemented throughout Kering since 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. The topics covered in 2014 included corruption, fraud, conflicts of interest and the confidentiality of information on social media. In 2015, the program covered diversity, corruption, respect for human rights and protection of the environment. In 2016, the themes of corruption, conduct in the workplace, responsible sourcing of raw materials, traceability, and compliance with business confidentiality were highlighted. In 2017, emphasis was once again put on corruption, respect for others, conduct in the workplace and the effect of climate change on the sourcing of raw materials. In 2018, the program included a specific focus on the need to combat all forms of harassment.

In July 2017, the Group launched a 45-minute e-learning module on anti-corruption, addressing all employees. To ensure the widest possible reach, the module is available in nine languages. It seeks to provide employees with a full view of the subject, from (i) typical corruption-prone situations, (ii) applicable anti-corruption regulations, and (iii) appropriate behavior with regard to gifts and hospitality, to (iv) appropriate reactions to facilitation payments, and (v) working with business partners.

Kering's Compliance Officers also benefit from regular personalized training, and the Group's internal auditors have been trained on the key factors involved in assessing anti-corruption procedures.

As well as providing training, Kering also runs an ongoing program of information and awareness-raising on ethics, addressing employees and managers. All new recruits are systematically issued with a copy of the Code of Ethics, and are required to follow the ethics training program for the current year. This sets a sound basis for a culture of ethics and integrity from an employee's earliest days with Kering.

The Group's intranet includes an Ethics & Compliance section in French and English, giving ready access to policies and procedures, along with a list of compliance managers at the Houses and structures.

Relationships with business partners

Since 2013, Kering's Code of Ethics has included the Group Suppliers' Charter, which sets out in detail Kering's specific expectations of its business partners on ethics, social and environmental issues.

For any contractor of Kering or one of its Houses, notwithstanding any contractual clauses, compliance with the Charter is a precondition of the business relationship. The Group requires its suppliers to commit formally to applying high ethical standards themselves and to ensuring the preservation of human rights.

The Group's supplier selection criteria include ethical, social and environmental aspects, the assessment of which must be documented. This assessment is part of the Hercules compliance management system applicable to Kering's suppliers of non-retail goods. Supplier qualification is conditional on positive findings in the audits on ethical, social and environmental aspects carried out by Kering supply chain audit and supply chain security teams. After qualification, suppliers' continued compliance with Kering requirements is verified by follow-up audits.

Audit findings are centralized in a dedicated database, to which all Houses have access.

See "Environmentally and socially responsible supply chains" for details of the Group Suppliers' Charter, the conditions for application of sustainability principles in supply chains, and the findings of audits and assessments carried out in 2018.

2.4 Impact of policies and initiatives

Claims addressed to Ethics Committees

In 2018, Kering's three Ethics Committees handled 38 complaints, which were brought to the attention of the Committees either directly or through the ethics hotline.

Wherever feasible in the light of the information provided, these complaints gave rise to an inquiry involving both sides, under the responsibility of the Committee contacted. Four violations of the Code have been identified to date and were followed up with the appropriate corrective action. Several cases (reported late in the year) were still under investigation at the end of 2018. The other inquiries did not show a failure to comply with the Code of Ethics, although some cases were indicative of management or communication issues.

Performance monitoring

Kering closely monitors the roll-out of the e-learning module on the Code of Ethics, finding take-up of 84.9% in 2018 and 90% in 2017 for all Group employees worldwide..

By the end of 2018, a total of 16,818 people had taken the anti-corruption training outlined above.

In 2018, Kering carried out more than 10,000 due diligence assessments (as opposed to 600 in 2017) under the third-party due diligence procedure outlined above, which forms part of the steering system. This very significant increase is indicative of the pace of roll-out of the Group's compliance program.

2.5 Duty of care plan

Kering falls within the scope of France's legislation on the duty of care, which applies to French companies of a certain size. More specifically, the rules apply to (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.

Introduction

Kering has a long history of corporate responsibility in its approach to customers, employees, suppliers and other stakeholders. Its first Ethics Charter was released in 1996. Kering considers the requirements of duty of care legislation as an integral part of its ethical commitments, and undertakes to ensure compliance with these requirements throughout its own operations and its value chain.

Kering's Code of Ethics is closely aligned with major international conventions on human rights and fundamental freedoms (see the section entitled "Kering's Code of Ethics").

Scope

Kering's duty of care plan covers human rights and fundamental freedoms, individual health and safety, and respect for the environment.

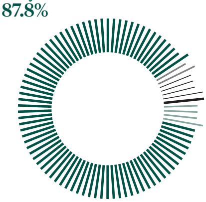
Kering activities and Houses

Kering has refocused its operations on Luxury, with two Divisions: Couture and Leather Goods, and Watches and Jewelry. The duty of care plan applies to the Group's 13 Luxury Houses: Gucci, Saint Laurent, Bottega Veneta, Balenciaga, Alexander McQueen, Brioni, Boucheron, Pomellato, DoDo, Qeelin, Ulysse Nardin, Girard-Perregaux and Kering Eyewear. It also covers the parent company Kering SA. Following the sale of PUMA and the classification of Volcom, Stella McCartney and Christopher Kane as discontinued operations under IFRS 5, these entities are no longer covered by the Group plan.

Scope of the Group's suppliers

Kering works with several thousand different suppliers to produce its Houses' collections and products. On December 31, 2018, the Internal Audit Department and the Security Department, in charge of supply chain security and social audits (using the Hercules system), managed a total of 3,636 Group suppliers in the centralized database.

The chart below shows the geographical breakdown of supplier locations:



Duty of care – Scope and risk mapping

The objective of risk mapping is to identify and classify risks in the Group's business operations and value chain in order to assess potential breaches to Kering's duty of care. It was carried out in 2017 across the Luxury business, under supervision by a Group coordination committee following consultation with a panel of stakeholders.

Risk mapping distinguishes between inherent risks (in the absence of control or attenuating factors) and residual risks (remaining after mitigating measures have been taken), and ranks each risk according to the rating given.

Concerning the value chain in particular, Kering collected information for all raw materials used in its luxury product manufacturing processes. These raw materials were grouped into various categories according to type. Kering deliberately took into account an extended list, including all agricultural, mining and extraction resources.

The inherent risks involved in producing and processing these raw materials were then determined by means of in-depth documentary, economic and statistical reviews, culminating in a final classification.

A review of existing tools and processes was carried out to catalogue the means of control and mitigation used by the company, thus producing a map of residual risks to human rights, health and safety conditions and the environment.

Risks of violation of human rights and fundamental freedoms can occur at all levels of the supply chain and the production process, for third parties as well as persons directly involved in Kering's activities.

In the same way, health and safety risks are possible at any stage along the value chain, for Kering employees, suppliers, subcontractors (or their stakeholders), and end customers.

Lastly, the environmental risks mapped concerned waste, biodiversity, ecosystem conversion, water pollution and climate change.

Regular assessment procedure and action plan

1. The Group's Code of Ethics

Kering's approach to responsibility with regard to third parties is shaped by the principles set out in its Code of Ethics, and by a strong determination to implement these principles internally and externally.

Details of the Code of Ethics and related means of control are provided in section 2.2. "Implementation throughout the Group and beyond" of this chapter. The Code of Ethics was updated in 2018 and will be circulated to all employees in 2019.

2. Additional control measures and systems for assessing risks in the operations of the Group and its subsidiaries

The main risks for Group operations within the scope of the duty of care plan are consistent with the non-financial risks listed in the section "Materiality and main priorities, non-financial risks and Sustainability strategy" of this chapter. The policies addressing these risks are set out in the same section.

Internal control systems are outlined in the compliance manual issued across the Group in 2018. The manual clearly expresses the central place given to the protection of human rights among the Group's ethical values. It restates the definition of human rights and sets out the key principles that Kering undertakes to apply, along with case studies and recommendations for Group employees. The compliance manual also emphasizes Kering's commitment to protecting the human rights of its suppliers' employees and protecting local communities.

A description of the compliance manual can be found in section 2.2. "Implementation throughout the Group and beyond".

3. Control measures and systems for assessing risks in the Group's supply chain

Hercules compliance management system

The Hercules compliance management system, introduced in 2015, aims to create and share best practices in risk assessment and provide supply chain analysis for Kering's production processes:

- supplier management procedures: The Houses apply a set of consistent procedures for managing interactions with suppliers (qualification, relationship, assessment, contract termination). Kering has also introduced a shared contract template that incorporates its Code of Ethics and Sustainability Principles. Both documents are thus systematically issued to suppliers and form an integral part of their contractual relationship with Kering;
- social and safety audits: The Group has fine-tuned and clarified its standards on social audits, which are carried out by a specialist team. These standards are used in monitoring the Group's supply chain, and provide support for the supply chain audit and security teams in carrying out their work. The team reports to the Group's Internal Audit Director, which ensures team member independence and impartiality. All new suppliers must be audited as a prerequisite for qualification;
- supplier database: All Kering's Houses have access to a common supplier database. At the end of 2018, this database listed 3,636 suppliers; for 2018, the supply chain audit and security teams carried out a total of 2,867 audits. In 2018, audits were carried out across all the main geographical regions on key points including compliance with statutory working hours, absence of modern slavery practices, sufficient remuneration, compliance of employment contracts, and implementation of anti-fraud measures.

See "Working conditions in our supply chains" for the findings of the social audits carried out by the Group in 2018.

Third-party audits – desktop due diligence

In addition to the Hercules process outlined above, Kering monitors its relationships with service providers through the third-party management system provided for in the Group's anti-corruption policy. To identify and manage its financial, regulatory, and reputation risks, Kering utilizes databases such as WorldCheck, which collate information from various sources. These databases not only gather local and government records, they also take into account violations of human resources policies and procedures.

Kering Standards

Kering has defined and openly shares its standards with respect to raw materials and manufacturing processes. The key factors covered by the Kering Standards include environmental impact, working conditions and human rights in production and extraction processes for the main raw materials it used by the Group, be they mined, otherwise extracted or of plant or animal origin. Under its 2025 strategy, Kering is committed to seeing that all its suppliers apply these standards by 2025.

A detailed description of the Kering Standards is given in the section entitled "The Kering Standards".

Whistleblowing procedure

The whistleblowing procedure outlined above in the section entitled "Whistleblowing mechanism for reporting unethical conduct" is open both to Kering employees and interns, and to external and temporary staff working for suppliers, partners or service providers under contract with the Group. It also enables suppliers to report breaches of the Code of Ethics and violations of human rights.

An extensive communications plan on the whistleblowing procedure will be implemented in 2019 to ensure the system is effective, for suppliers' personnel in particular. Communications will be tailored to local conditions and will emphasize the aspects of confidentiality and protection afforded to whistleblowers.

Monitoring and reporting systems

The Audit Committee approved Kering's risk mapping and action plan, as outlined above, on June 6, 2018.

Tracking and performance indicators have been set up for monitoring the action plan on the duty of care, including training on the Code of Ethics for Kering employees and the findings from supplier audits. The table below lists some of the indicators and good practices applied. Details are provided later in this Sustainability chapter.

	Kering group operations	Kering group supply chains
Human rights and fundamental freedoms	***Indicators*** Reach of training on the Code of Ethics (2018: 84.9%) Number of complaints received by Ethics Committees (on all subjects, including human rights and fundamental freedoms) in 2018: 38 ***Examples of implementation*** Gap analysis between Kering practices and the United Nations Guiding Principles on Business and Human Rights, to determine specific focuses for progress and action plan SA8000 certification for internal and outsourced production processes (e.g., Gucci and Bottega Veneta)	***Indicators*** Number of third-party due diligence procedures in 2018: more than 10,000 Supplier compliance monitoring in 2018: 88.7% of suppliers audited wholly or partially compliant 11.3% non-compliant or progress expected ***Examples of implementation*** Inclusion of Sustainability Principles and Group Suppliers' Charter in contractual relationship with suppliers Centralized supplier management and common audit methodology Roll-out of Kering Standards on raw materials, including requirements on human rights
Individual health and safety	***Indicators*** Frequency and severity of work-related accidents: 5.05% and 0.11%, respectively ***Examples of implementation*** Employee awareness-raising on good health and safety practices OHSAS 18001 certification for relevant sites (Gucci headquarters, Bottega Veneta, LGI, Group tanneries)	***Indicators*** Supplier compliance monitoring in 2018: 88.7% of suppliers audited wholly or partially compliant ***Examples of implementation*** Inclusion of a section on employee health and safety in supplier audit questionnaire (88 questions on 13 subjects in all)
Environment	***Indicators*** Environmental Profit & Loss account (EP&L) – Tier 0 (Kering operations): €48.6 million (2017 results, published in 2018) – Carbon intensity across Group operations down by 12% from 2015 to 2017 Proportion of renewable energy in 2018: 67.1% ***Examples of implementation*** LEED certification for real estate Roll-out of Kering Standards for stores	***Indicators*** Measurement and regulation of carbon footprint, EP&L 2017 results published in 2018: greenhouse gases account for 30% of supply chain impacts (Tiers 1 to 4) Environmental Profit & Loss account (EP&L) – Tiers 1 to 4 10% reduction in EP&L intensity from 2015 to 2017 (Tiers 0 to 4) ***Examples of implementation*** Roll-out of Kering Standards – environment pillar Clean By Design program Action plans on leather, plant & animal textiles, skins & furs, metals & precious materials, plastics

2.6 Protection of human rights at Kering

An approach rooted in Kering values: founding principles and general framework

The protection of human rights, for all Group employees as well as for all employees of the supply chains of its various Houses, is central to Kering's ethical commitments. In many respects, it outweighs all other concerns. The Group's ethical approach to business and overall behavior forms a consistent and central component of its identity and development. This approach fits in with the Group's global framework on ethics and with the requirements of French legislation on the duty of care.

More specifically, the Kering group is committed to observing the major international conventions on ethics and human rights, as outlined in the section entitled "Kering's Code of Ethics". This commitment is reflected in and rolled out through the Group's key reference documents on human rights:

- the Code of Ethics, which sets out the Group's principles on ethical business conduct, and the Group Suppliers' Charter, which details what the Group expects of its business partners as regards social and environmental responsibility. Details on these two texts are provided in the sections entitled "Kering's Code of Ethics" and "The Suppliers' Charter";
- the Sustainability Principles, set out in 2015 for all Houses, spanning the three broad fields of human rights, labor rights, and health and safety: elimination of child labor, forced labor, 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. These principles are outlined in the section entitled "Implementation of the social audit system within the Group" and on the Group's website;
- the Kering Standards: standards of excellence on procurement and manufacturing processes, with the five main focuses, namely environmental impact, social impact, animal welfare, traceability and use of chemicals. The Standards are aimed at the Group's Houses and all their suppliers with a view to achieving Kering's responsible supply chain targets by 2025. Kering has pledged that 100% of the key raw materials used by the Group, and the production processes using these materials, will comply with the Kering Standards by 2025. The Standards encourage the adoption of socially responsible labor relations practices by specifying requirements on the take-up of international initiatives in each sector, such as GOTS certification for cotton, RJC or Fairmined for precious stones and metals, and the international Fairtrade framework. For reasons of transparency and open sourcing, the standards have been accessible to all on the Group's website since 2018;
- Kering also complies with the UK Modern Slavery Act 2015 and the California Supply Chains Act of 2010. A public declaration by the Kering group to this effect was approved by the Board of Directors on October 18, 2016. This declaration is available on the Group's website.

To identify the main human rights challenges, against a backdrop of increasing stakeholder attention on respect for human rights in the supply chains of major international groups, in 2017 Kering analyzed its practices by comparing them to the United Nations Guiding Principles 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.

Following on from this analysis, Kering took steps to comply with the requirements of French duty of care legislation, and to identify and evaluate the risk of a breach of the principles set forth therein, especially as regards human rights and fundamental freedoms, which are the universally applicable principles determining minimum standards for ensuring people are treated decently. They are normally guaranteed on a national level by a country's constitution as well as on a supranational or international level. Violations of human rights and fundamental freedoms can occur at all levels of the supply chain and the production process, for third parties as well as persons directly involved in Kering's business. Examples of human rights and fundamental freedoms include: (i) freedom of association; (ii) the right to non-discrimination; (iii) abolition of slavery and forced labor; (iv) abolition of child labor; and (v) the right to fair remuneration.

The materiality analysis carried out by the Group identified respect for human rights as one of the six strategic challenges central to discussions on preparation of its 2025 strategy, and tied in with the following Sustainable Development Goals: #3 (good health and well-being), #5 (gender equality), #6 (clean water and sanitation), #8 (decent work and economic growth), and #12 (responsible consumption and production).

Lastly, as part of the Group's overall risk analysis outlined in the section entitled "Analysis of non-financial risks", "Respect for human rights and fundamental freedoms" was identified as one of the Group's principal risks. In addition, during the process of drawing up the Kering Standards, an analysis of human rights conditions in countries from which materials are sourced was undertaken.

The following sections detail how Kering monitors progress on these major challenges and effectively implements the principles set out above, for its own operations and in its supply chains.

Implementation within the Group: objectives and actions

Ambitions incorporated into the Group's 2025 Sustainability strategy

In January 2017, Kering defined and published its 2025 Sustainability strategy. Human rights objectives feature in two of the three pillars of this strategy.

The Care pillar commits Kering to achieving 100% implementation by suppliers of the strict requirements set in the Kering Standards on raw materials and production processes by 2025. These include standards on traceability, animal welfare, use of chemicals, environmental impact and social impact.

Though the Collaborate pillar on Kering's strategic labor relations commitments is not exclusively about human rights, it does include these six points:

- 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;
- amplify forward-thinking employment practices, including the global parental policy, a well-being at work policy, and an employee benefits policy;
- achieve gender parity in all positions and business lines and at all hierarchical levels of the Group;
- establish sponsorship and mentoring programs, and develop innovative career paths for all employees;
- aim to be the preferred employer in the luxury sector.

Shared governance and central systems rolled out at Group level

Kering takes a cross-functional approach to governance over human rights challenges, which involves the following key Group organizations:

- a Sustainability organization, responsible for coordinating the Sustainability strategy and the Collaborate pillar in particular. This organization comprises a Board of Directors' Sustainability Committee, meeting twice a year to monitor progress on the Sustainability strategy and arbitrate on the decisions involved, and a Sustainability Department in charge of actually implementing the strategy. Details of this organization are provided above in the section entitled "Governance and organization";
- an ethics organization and an organization overseeing Group compliance, as outlined in the section entitled "Organization of ethics and compliance within the Group";
- the Group Human Resources Department, and individual Human Resources Departments within the Houses;
- Group labor relations bodies, such as Kering's European Works Council and French Works Council, as discussed in the section entitled "Labor relations";
- the Internal Audit Department and the Security Department, in charge of supply chain security and social audits, as discussed in the section "Implementation of the social audit system within the Group". The Internal Audit Department is also responsible for coordinating risk management for the Group;
- the Health and Safety management systems, specific to each House's operations, liaising with the Group Security Department.

This governance is backed by central Group systems handling the roll-out of the human rights policy, whether across Group operations through the Group Human Resources teams or the occupational health and safety management structures, or through the Group's centralized social audit system for Kering supply chains.

For many years now, Kering's commitments on human rights have also been expressed through the Kering Foundation. The Foundation, formed in 2008, combats violence against women. It commits Kering to a key issue that ties in with its Houses' activities and customers, and an area where the Group has a vital role to play alongside governments and NGOs.

Human rights considerations are also included in the annual performance evaluations of Group executives. Thirty percent of the variable remuneration of the Chairman and Chief Executive Officer and of the Group Managing Director is linked to fulfillment of non-financial goals concerning human rights and the operational roll-out of the 2025 Sustainability strategy. Variable remuneration for the Leadership Group, comprising the 250 Group executives, is also linked to fulfillment of non-financial goals.

Stakeholder involvement

Human rights initiatives figure among the many cross-cutting programs in Kering's committed stakeholder approach (see the section entitled "Stakeholder dialogue"):

- Sustainable Apparel Coalition (SAC): since 2012, Kering has been a member of SAC, which brings together major players (brands, retailers, suppliers, NGOs, etc.) from the textiles, footwear and accessories sector. The Group is involved in rolling out SAC's HIGG Index, for measuring environmental and social impacts in the sector, with a particular focus on supply chain;
- Textile Exchange: Kering sits on the Board of Directors of this organization, and is actively involved in a number of its sub-groups to promote the production and use of more sustainable textiles throughout the apparel industry: Sustainable Fiber Alliance (responsible cashmere), Responsible Leather Roundtable, Responsible Wool Standard and Responsible Down Standard;
- BSR (Business for Social Responsibility): as a member of this international network of more than 300 companies, Kering takes part in three joint initiatives including Business Action for Women, which seeks to improve conditions for women in society, and the Global Business Coalition Against Human Trafficking (GBCAT), formed by major private groups and NGOs to combat modern slavery, primarily by detecting and eradicating it from companies' complex supply chains;
- Zero Discharge of Hazardous Chemicals (ZDHC) group: Kering joined this group in 2015, working to eliminate the most dangerous chemicals from textile, leather and footwear industry supply chains;
- the Mekong Club: as a member of the Mekong Club, Kering takes part in the discussions run by the organization and is looking into the possibility of applying the Club's risk metrics to the Group's supply chains;
- the network set up by UNICEF and Norges Bank Investment Management on children's rights in the textile and footwear sector;
- Pledge Against Forced Child Labour in Uzbekistan Cotton: Kering is a signatory to this pledge;
- the OECD consultative group on due diligence for the garment and footwear sectors as part of the sector-by-sector roll-out of the OECD's guidelines for multinational enterprises;
- the Social & Labor Convergence Project, a joint initiative from the Sustainable Apparel Coalition and the Social & Labor Convergence on a common social evaluation framework for supply chains;
- the discussion platform formed by the International Labour Organization (ILO) and the *École Nationale Supérieure de Sécurité Sociale Française* (French National School of Social Security, or EN3S) as outlined in the section entitled "Quality of life at work".

Under its ambitious strategy on the sustainable use of resources, Kering also initiates or is involved in many projects that seek not only a positive environmental impact but also a strong social impact and enhanced human rights in the Group's key raw materials supply chains. Such initiatives include Cotton Connect (see "Plant textile fibers"), and the Kering Responsible Gold Fund (see "Metals, stones and other precious materials").

Kering also works in partnership with BSR and the Fair Wage Network on expanding one of the main global databases on decent wages, for use as an operational decision-making tool in the industry.

In December 2018, Kering shared its experiences by contributing to discussions on the assessment of human rights in the textile sector through the Human Rights Benchmarking in the Apparel Sector webinar run by the Corporate Human Rights Benchmark (CHRB) and Know The Chain. At a personal level, François-Henri Pinault, Chairman and Chief Executive Officer of Kering, is involved in B Team, whose Tactical Guide to CEOs on Modern Slavery was released in 2018.

Lastly, aware of their trend-setting role in the sector, 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 representing an adult; and (iv) to adopt specific rules for models aged from 16 to 18 (working hours, chaperon, accommodation). The Charter came into force as soon as it was published, in September 2017.

Initiatives by the Houses

The reference framework and the implementation thereof at Group level applies without exception to all of Kering's Houses, wherever they operate. The Houses are free to expand on the framework or to integrate it into their own procedures and materials, but it continues to form a 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 labor, forced labor, 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. Gucci and Bottega Veneta have held SA8000 certification for all their activities since 2009 and 2013, respectively. Gucci's certification was renewed in 2017 and Bottega Veneta's in 2018. Kering's international logistics platform for its Luxury Houses (Luxury Goods International – LGI) also has 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 Board.

In addition to meeting these certification requirements, the Houses also develop many of their own programs on respect for human rights.

In 2018, Gucci was especially active on the question of migrants, partnering *Fondation Fondazione Adecco per le Pari Opportunità*, UNHCR and the labor cooperative *Cenacolo di Firenze* on a project for the social inclusion of refugees in Italy. Through a vocational training pilot scheme launched in 2018, Gucci offered internships in Gucci Corporate divisions and its leather goods and footwear production facilities for a group of 11 people under political asylum and humanitarian protection. For World Refugee Day 2018, Gucci organized a Human Library event at its Florence offices, at which employees could converse with refugees on the difficulties they had experienced, including cultural revolutions, migration routes, personal histories and discrimination.

Gucci also entered a three-year partnership with I was a Sari, a social enterprise working to offer underprivileged Indian women the prospect of financial independence through training in embroidery and sari recycling. In its first year, this program reached a total of 78 women.

Gucci is a signatory to the UN's Standards of Conduct for Business Tackling Discrimination against Lesbian, Gay, Bi, Trans & Intersex People.

Working from sound historical roots and its strong stakeholder dialogue profile in Italy, Gucci partners with many organizations and industry initiatives working for a positive impact on human rights. Examples include *Sodalitas*, on questions including community and life at work, *Valore D*, on women's leadership in the Italian private sector (as with the Ageless Talents project, on women at the mid- and late-career stages, aged 50-65), and PARKS – Free and Equals, an NGO working on value creation through strategies and best practices on inclusion and diversity.

On behalf of Kering, Bottega Veneta runs an ambitious pilot project on equal access to career opportunities for women in the Italian luxury sector. On this project, Kering, Gucci, Pomellato, Kering Eyewear and Bottega Veneta are working with institutional partner *Camera Nazionale della Moda Italiana* (*CNMI)* and the NGO *Valore D*. In addition to promoting a culture of diversity, the project also seeks to develop women's talents in the luxury supply chain. During the initial diagnosis phase, in 2018, Kering carried out a risk and opportunity assessment on gender in supply chains, culminating in a ranking for actions in Italy. In particular, this work highlighted poor visibility on working conditions for women in luxury supply chains in Italy, and came up with several ideas for remedial action. The plan for 2019 involves a data collection operation through surveys addressing a broad public, site visits, and working groups spanning employees, management teams and unions. This will be backed by regular communications campaigns throughout the project, to achieve wide exposure for key findings.

Performance and transparency of the measures taken by the Group to protect human rights

Performance of Kering's human rights policy

The section entitled "Supporting our employees" sets out the findings and key performance indicators concerning the protection of human rights within the Group's operations in terms of human resources, occupational health and safety, and labor relations. The section entitled "Impact of policies and initiatives" describes performance monitoring for the Group's ethics and compliance procedures. The findings of the social audits carried out within the Group's supply chains in 2018 are presented in the section entitled "Findings obtained in 2018 and key indicators".

Correspondence between Kering's human rights approach and the United Nations Guiding Principles Reporting Framework

Chapter of the Framework		Corresponding section in the Reference Document
Part A: Governance of respect for human rights		
A1	Policy commitment	
	A1.1	2.2, 2.6
	A1.2	2.2, 2.6
	A1.3	2.2, 2.3, 2.6
A2	Embedding respect for human rights	
	A2.1	2.6
	A2.2	2.6
	A2.3	2.3
	A2.4	2.3, 4.2.1
	A2.5	2.6, 4.3.1
Part B: Defining the focus of reporting		
B1	Statement of salient issues	2.6
B2	Determination of salient issues	2.5, 2.6, 5.4.1
B3	Choice of main focal geographies	2.5, 2.6, 5.4.1
B4	Additional severe impacts	2.4, 2.5, 4.3.3
Part C: Management of salient human rights issues		
C1	Specific policies	
	C1.1	2.2, 2.3, 2.6, 5.4.1
C2	Stakeholder engagement	
	C2.1	2.6, 5.2, 5.4.1
	C2.2	2.6, 5.4.1
	C2.3	2.6, 5.4.1
C3	Assessing impacts	
	C3.1	2.4, 2.5, 4.3.3
	C3.2	2.4, 2.5, 4.3.3
C4	Integrating findings and taking action	
	C4.1	2.1, 2.6, 4.3.1
	C4.2	2.1, 2.6, 4.3.1
	C4.3	2.4, 2.5, 4.3.3
C5	Tracking performance	
	C5.1	2.4, 2.5, 4.3.3
C6	Remediation	
	C6.1	2.2, 4.3.1
	C6.2	2.2, 4.3.1
	C6.3	2.4, 4.3.3
	C6.4	2.4, 4.3.3
	C6.5	2.4, 4.3.3

3. SUSTAINABILITY AT THE HEART OF THE GROUP AND ITS HOUSES

3.1 Supporting our employees

The employees of the Kering group and its Houses 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 Houses 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 the Houses. 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 goal is to be the preferred employer in the luxury industry, with empowered, motivated employees who want to make a difference in a diverse and open-minded environment.

The aim is to build a respected group that brings together strong Houses united by a shared culture and sense of motivation and in which every employee feels committed.

2018 was particularly shaped by the implementation of Group tools and processes via the Global Talent program, designed to help share the pool of talent available, give managers and employees the resources they need to be autonomous and empowered, and promote dialogue through a common language.

Kering therefore continued in 2018 to pursue the HR priorities identified in its 2025 Sustainability strategy: to develop talent, preserve craftsmanship, and promote well-being at work and employee commitment.

3.1.1 The Group's human resources profile[(1)]

3.1.1.1 Breakdown of the workforce[(2)]

The total workforce as of December 31, 2018 was 34,795, an increase of 20.4% at constant scope of consolidation or 5,898 employees.

Changes stemmed primarily from internal growth in the Group's Houses.

The introduction of a new, digital HR platform for all of the Group's Houses and regions worldwide provided an opportunity to review job definitions and deploy new criteria for determining manager/non-manager status. The change had the effect of reducing the number of managers reported this year. The new definition of a manager is based on job level and does not include, for example, all store managers.[(3)]

Breakdown of the workforce as of December 31, 2018 (men/women managers, men/women non-managers) by region

2018	Managers		Non-managers	
	Women	Men	Women	Men
Africa/Middle East	16	20	344	305
Asia	448	336	7,328	3,058
Eastern Europe	7	6	696	281
France	264	233	1,726	1,018
North America	182	134	1,916	1,438
Oceania	11	4	278	88
South America	11	9	248	250
Western Europe (excluding France)	546	714	7,858	5,022
TOTAL	**1,485**	**1,456**	**20,394**	**11,460**

All figures are presented *pro forma* and at constant scope of consolidation.

(1) *For each social indicator presented, 2017 data has been restated in accordance with the pro forma scope to take into account the change in the Group's scope of consolidation in 2018. Furthermore, the rate of coverage calculated as a percentage of the Group's workforce as of December 31, 2018 is 100% for all indicators, with the exception of the number of workers with disabilities, which is 86.1% (excluding the United Kingdom and the United States). Data for the Middle East is now presented with data for Africa, rather than Asia.*

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

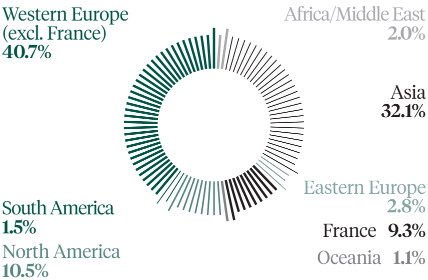
(3) *The method for counting managers was modified in March 2018, impacting the breakdown of managers and non-managers in all of the Group's Houses.*

Breakdown of the workforce as of December 31, 2017 (men/women managers, men/women non-managers) by region

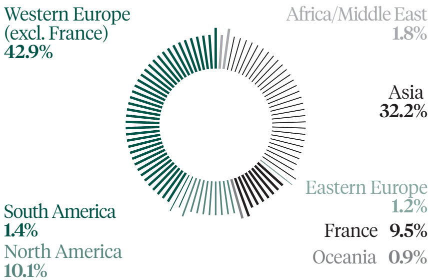
2017	Managers		Non-managers	
	Women	Men	Women	Men
Africa/Middle East	41	51	238	198
Asia	911	578	5,585	2,245
Eastern Europe	25	14	135	181
France	505	351	1,220	656
North America	504	326	1,161	914
Oceania	26	9	168	50
South America	54	35	161	166
Western Europe (excluding France)	761	902	6,596	4,130
TOTAL	**2,827**	**2,266**	**15,264**	**8,540**

Change in the regional breakdown of the workforce as of December 31, 2018 and December 31, 2017

2018

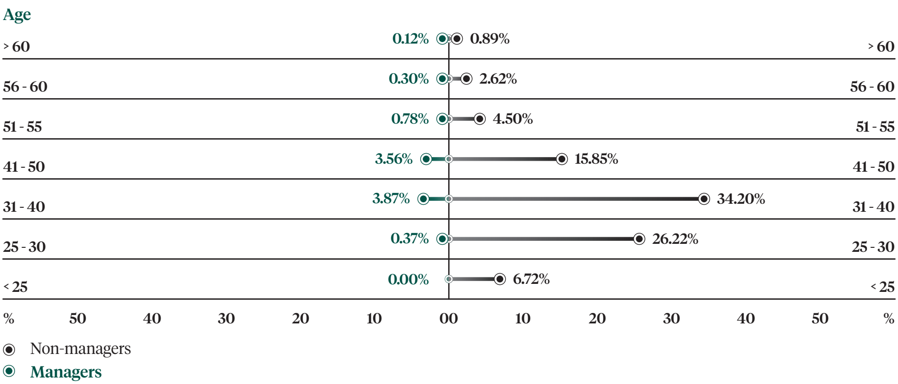


2017



Data for the Middle East is now presented with data for Africa, rather than Asia.

Age structure of the permanent workforce: managers & non-managers, 2018



3.1.1.2 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

Kering continues its policy of forging international partnerships with prestigious business and design schools worldwide.

In 2018, Kering continued the strategic partnership launched in 2014 with the Centre for Sustainable Fashion (CSF) at the London College of Fashion. 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 program 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. In 2018, Kering and the London College of Fashion, UAL (University of Arts London) also launched the first Massive Open Online Course (MOOC) on luxury fashion and sustainability. Entitled "Fashion & Sustainability: Understanding Luxury Fashion in a Changing World", the course spans a six-week period and uses a mix of films, podcasts, activities and discussions. The two sessions held during 2018 attracted more than 17,500 participants. Given its popularity, a new session of the course opened in early 2019.

Kering and CSF also organize 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 Houses. The competition provides a unique opportunity to recognize and reward the most remarkable student projects in the field of sustainable innovation. In 2018, five winners were selected 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 Alexander McQueen or Pomellato.

In 2018, Kering strengthened the partnership created in 2010 with HEC Paris School of Management's Luxury Chair. The Luxury Certificate is a unique program that aims to help future leaders learn how best to handle the management challenges of a luxury brand. It includes basic courses, more in-depth, theme-based teaching, and a series of practical seminars led by leaders or members of the executive Committees of Kering and its Houses. Students also have the opportunity to visit stores and workshops, and participate in a team consulting project on a topic set by Kering, culminating in a presentation before a panel consisting of the Chair'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 Houses. In 2018, 40 students of 20 different nationalities took part in the program.

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

The Group and its Houses support numerous institutions, building on the close relationships developed by Kering's entire HR community worldwide, including the *Institut Français de la Mode* (IFM), *Istituto Marangoni*, *Politecnico di Milano*, Bocconi University, *Istituto Polimoda*, *Istituto Europeo di Design*, *Accademia Costume & Moda* of Rome, Tsinghua University and Hong Kong Polytechnic University.

Finally, many of the Group's Houses support craft guilds and offer training programs. They have established a number of professional organizations 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-backed *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 center for Bottega Veneta employees and apprentices alike, allowing them to immerse themselves in the craftsmanship and values of the brand.

In 2018, Gucci unveiled its *École de l'Amour* education program, created as part of the brand's ArtLab opened earlier in the year. The *École de l'Amour* includes a Craftsmanship School (*Scuola dei Mestieri*), offering a six-month program to train students to professional standards; a Factory School (*Scuola di Fabbrica*), training technical production operators; and a Technical Academy to create experts in advanced technologies, with a focus on digital techniques in the creation process.

Recruiting the best professionals

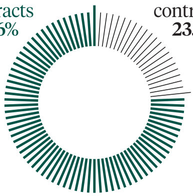
In addition to partnerships with schools, Kering uses highly effective social media and other tools to recruit the best profiles available. Kering also encourages its employees to recommend fresh talent to the Group and its Houses through a referral program set up in May 2017.

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

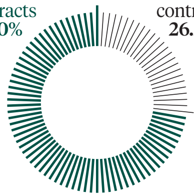
In 2018, a new digital tool was launched by the Group to enhance employee access to the program.

Breakdown of fixed-term and permanent contracts among new hires

2018



2017

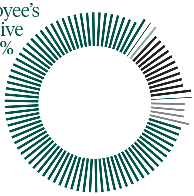


In 2018, 12,266 people were hired on permanent contracts, of which 69.95% were women and 91.30% were non-managers.

The Kering group also had a monthly average of 2,123 temporary employees across all its Houses in 2018.

Breakdown of permanent employee departures by category

2018



2017

Departures of permanent employees, on all grounds, totaled 6,788 in 2018, of which 5,474 at the employee's initiative (80.64% of departures) and 819 dismissals (12.06% of departures).

3.1.1.3 Supporting organizational changes in a responsible manner

In 2018, 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 HR managers from the Houses led by Kering's Human Resources Department, which is tasked with proposing individual redeployment solutions. It aims to assist employees when an organizational 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 the Houses, 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 Houses, when departures are being considered following reorganizations, the efforts made to find employees another position go beyond what is required by law, and priority is given to voluntary mobility measures.

3.1.2 Promotion of employee well-being in a stimulating and inclusive work environment

3.1.2.1 Promotion of diversity and inclusion

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. This is why Kering makes every effort to establish a culture of equality at all levels of the organization and provides its teams with an open-minded, diverse and stimulating work environment, thereby contributing to the Group's success.

As part of its 2025 Sustainability 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 program 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. An equivalent Charter was also signed 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 seventh out of 7,000 international listed companies in 2018 (up 15 places versus 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.

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 Group's program for promoting diversity and inclusion focuses on three key priorities:

1/ instilling a culture of equality and inclusion across the Group via awareness initiatives undertaken throughout the year;

2/ developing women's skills through specific programs, such as mentoring sessions, to help talented women gain access to senior management positions. The Group participates for this purpose in the EVE women's leadership program;

3/ fostering work-life balance via a Group-wide policy for all employees that promotes well-being at work and equality for all. In 2017, for example, the Group introduced a new parenting policy that provides for a minimum of 14 weeks' maternity or adoption leave on full pay and a minimum of 5 days' paternity or partner leave on full pay for all Group employees worldwide. Many other initiatives have also been adopted by Kering's various Houses and entities, including telework, flexitime, childcare solutions, and daycare centers for employees based in France.

Kering's commitment and ongoing efforts in this area have been recognized. In 2016, the Group received the Gender Equality European & International Standard (GEEIS) label for its Corporate entities in Europe, confirming Kering's exemplary approach to gender equality. The impact of the Group's initiatives in favor of gender equality are therefore assessed regularly. An interim audit was carried out by Bureau Veritas in June 2018 among the Kering group, Corporate France, Corporate Italy and Corporate United Kingdom teams.

In 2018, Kering ranked seventh out of 7,000 international companies in the Thomson Reuters Diversity & Inclusion Index (D&I) and among the top three in the 2018 Equileap ranking, which recognizes companies that lead the way in achieving gender equality.

The Group is also included in the Bloomberg Gender Equality Index, which was launched in 2018 as the world's first cross-industry index for companies with the best performance in gender diversity and equality.

In November 2018, Kering also collected the "Most Feminine Board of Directors" award in the European Gender Diversity Index published by the European Women on Boards (EWoB) and Ethics & Boards organizations. The comparative ranking analyzes the 200 largest companies in the Stoxx Europe 600 Index through three main criteria: the percentage of women on Boards, the presence of a woman serving as Chair of the Board, and the number of women among the Chairman and Chief Executive Officer and Executive Committee members.

In 2018, women accounted for 50.49% of the Group's managers, 62.88% of the total workforce, 33% of its Executive Committee members and 60% of its Directors, making Kering one of the CAC 40 companies with the highest proportion of women in senior management positions. The Group has set a target of achieving a balanced gender mix and equal pay at all levels of the organization by 2025.

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;
- in its supply chains, notably via Kering's pilot project to support talented women in the luxury industry in Italy, led by Bottega Veneta with support from Gucci, Pomellato, Kering Eyewear and *Camera Nazionale della Moda Italiana* (CNMI), and via the Group's participation in the Business Action for Women initiative led by non-profit organization BSR (Business for Social Responsibility), which aims to improve women's position in society.

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 an 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 maximize the value of all the initiatives put in place by the Group and its Houses by promoting them to the entire workforce.

To coincide with International Women's Day, Kering and its Houses organized a large number of initiatives aimed at raising awareness among employees. As part of the "Have Your Say" campaign, teams were invited to participate in a series of workshops organized in nine cities worldwide (Paris, London, Hong Kong, Tokyo, Beijing, Florence, Milan, New York and Secaucus, New Jersey) to discuss new ways of improving gender equality and well-being at work. Each workshop brought together employees from all of the Houses and was sponsored by one of the Group's leading figures, including Kering's Chairman and Chief Executive Officer, François-Henri Pinault, Kering's Chief People Officer, Béatrice Lazat, and Kering's Chief Sustainability Officer and Head of International Institutional Affairs, Marie-Claire Daveu.

Lastly, the Kering Foundation, which combats violence against women and celebrated its tenth anniversary in 2018, also worked to raise awareness among employees by involving them in many of its projects. From November 16 to 30, for example, the Foundation held the seventh edition of the White Ribbon for Women campaign: #IDontSpeakHater. The global and exclusively online campaign targets Generation Z – those born after 1995 – and urges them to take a stand against cyber-bullying. The campaign encourages everyone to reformulate insults seen on the web or in social media in a positive way, with humor and wit, to show that hate serves no purpose. The campaign reached more than 489 million people.

In addition, firmly committed to promoting a culture of diversity, Gucci has signed the UN's LGBTI Standards of Conduct for Business and organizes events for its employees in Italy to raise awareness about hurtful language and discrimination on the basis of sexual orientation ("Words that exclude, beyond the mirror what is there?").

As part of its 2025 Sustainability 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 program for women at the international level.

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

In 2013, Kering launched a pilot session of inter-brand and inter-business mentoring in France for talented women. The idea was based on a structured process lasting a year, building on an interpersonal relationship in which an experienced female manager (mentor) would share 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 program, 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 organization dedicated to improving the lives of women and girls in Hong Kong, Kering Asia-Pacific launched in 2016 the first edition of the mentoring program. This year, 21 talented women from the Group's various Houses in Hong Kong, China and South Korea enjoyed a year's individual support from the Group leaders.

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

Promoting a better work-life balance

The Group and its Houses are implementing actions in favor of a better organization of professional and personal lives, benefiting both men and women.

The first avenue in this regard is a strong parental policy:

Kering's new global parental policy is the finest testimony to its commitment in favor of work-life balance and its respect for working parents. The policy was deployed uniformly in 60 of the Group's host countries worldwide on January 1, 2017.

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.

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 program at its Italian headquarters. 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.

The second avenue is the introduction, where possible, of more flexible work methods that enable employees to better organize their lives, such as telework (Kering Corporate France) and smart working (Gucci and Bottega Veneta in Italy, and soon Kering Italia).

Assessing the impact of our policy

To assess the effectiveness of its action in favor 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, human resources and managerial practices and the overall impact of gender equality policies. When receiving the GEEIS label in September 2016, Kering reaffirmed its commitment to advocating a shared vision of workplace equality within the Group.

An interim audit was carried out in June 2018, once again recognizing the Group's commitment to gender equality and enabling three of the audited entities (Group, Corporate France and Corporate United Kingdom) to move up the GEEIS scale.

The Group's Houses will be encouraged to participate in this certification process in the coming years.

Promoting the integration of people with disabilities

As of December 31, 2018, the Kering group employed 474 workers with disabilities (coverage rate of 86.1% excluding the United Kingdom and the United States).

For over ten 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.

In November 2018, Kering and its Houses in France organized awareness-raising initiatives to mark European Disability Employment Week. In particular, Kering headquarters, Balenciaga, Boucheron and Manufacture Cartier Lunettes invited their employees to innovation workshops led by disability experts, where they were able to discover a range of technologies (including apps, 3D printers and a virtual reality therapy room) in support of disability awareness.

This was followed in Asia by a talk at Kering Asia-Pacific headquarters on the topic of innovation for everyone and for disabled people in particular. Start-uppers and social entrepreneurs like Kevin Johan Wong (ORII ring) and Ernest Chan (Aesir Ltd) were invited to discuss their innovations and practices for improving the situation of disabled people.

The Group's Houses in France and Italy also continue to outsource to the sheltered sector to promote the employment of people with disabilities. 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. Gucci is also supporting a project to help people with Down syndrome integrate its production site in Florence, with support from a specialized NGO.

Forging partnerships to facilitate youth employment

To preserve and pass on their expertise, several of the Group's Houses, namely Gucci, Bottega Veneta and Brioni, have created vocational schools and training programs, with the support of trade associations. The aim is to give young people the opportunity to learn a trade that will ultimately enable them to join one of the Group's Houses or find employment elsewhere in the luxury or fashion industries.

In France, to support the government's urban equality efforts, Kering signed two partnership agreements in 2018 to enable young people from priority neighborhoods to join the Group's Houses as interns, apprentices or employees.

3.1.2.2 Development of talent and skills

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 Houses to share the knowledge of our talents and enhance mobility;
- establishing Group programs and tools for the Houses, especially in terms of training, with the launch of the Kering Campus in 2018.

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 organizing succession plans

Talent and leadership potential are 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 Houses have set up their own systems for their employees. These systems follow the very same logic and serve the same objectives.

Once talented individuals have been identified, the aim is to gain a clearer picture of talent and to draw up succession plans and support initiatives needed in terms of the organization and its development. Group Talent Committees have been created, bringing together all the Houses' Human Resources Directors. They met in 2017 and 2018, providing a venue for sharing, with a common vocabulary, the pool of talent existing within the Group. They serve to lay down development plans and build succession plans to ensure the effectiveness of the organization.

The Houses have also developed specific programs for retail talent in particular. Saint Laurent, for example, has developed succession plans 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 Houses

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

The internal mobility platform launched on the Group's 360° intranet in 2013 was replaced in October 2018 by a more robust and more modern digital tool, which remains central to the Group's mobility system. Its aim is to allow employees to view job opportunities, published by each entity within the Group. All the Houses are present on the platform and post job offers to provide greater visibility for their organization and possibilities for career development. The introduction of the new platform enables the Group to strengthen its communications about the internal mobility program and improve the digital experience of internal candidates. In 2018, 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 2019.

Developing a structured training policy for all employees

In 2018, the Kering group devoted a budget of €28.52 million to employee training, corresponding to 1.8% of the total Group payroll. On this basis, 431,051 hours of training (excluding safety training) were provided across Kering's Houses in 2017, and 20,197 employees took at least one training course. More than half of all employees received training in 2018, representing an increase on 2017.

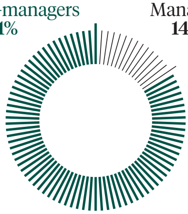
Women accounted for 63.5% of the workforce trained in 2018 (excluding safety training). Furthermore, 85% of employees trained in 2018 were non-managers.

In light of the Houses' 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. The exceptional increase in certain training courses also reflects the roll-out of new tools and processes, such as the Group's new, integrated digital HR platform.

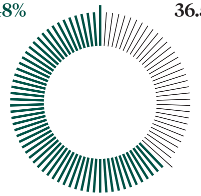
Training (excluding safety), permanent and fixed-term contracts

2018

Non-managers **85.01%** Managers **14.99%**



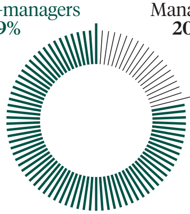
Women **63.48%** Men **36.52%**



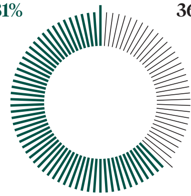
In 2018, **20,197 people** received training, or **58.05%** of the workforce

2017

Non-managers **79.69%** Managers **20.31%**



Women **63.81%** Men **36.19%**



In 2017, **16,235 people** received training, or **56.18%** of the workforce

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

The Kering Learning Community brings together various Directors and Learning & Development managers from the Houses, regions and Kering Corporate to develop and share a common framework for the co-development by the Houses of a training offer that is both decentralized and consistent.

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

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

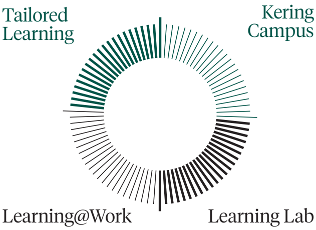
1. Kering Campus

The Kering Campus digital platform has been launched to provide online training for employees.

Digital learning

In 2018, Kering expanded and enhanced its portfolio of digital training solutions. Under the new "Kering Campus" label, Kering now offers a very diverse range of resources that are open to all Group employees. The topics covered are associated with the Professional, Management and Leadership paths, and the content is developed internally or in partnership with external service providers. The Houses, such as Saint Laurent, Bottega Veneta and Brioni, have been able to personalize the platform by adding content that corresponds to their particular image, collections and expertise.

The Kering Campus training offer



3 LEARNING PATHS FOR EVERYONE

PROFESSIONAL	MANAGEMENT	LEADERSHIP
TOPICS • #Academy • Business software and tools • Languages • Kering Group Essentials	TOPICS • Self-management • Team management • Project management	TOPICS • Change • Vision • Innovation • Organization

3 LEARNING CHANNELS FOR EVERYONE

LEVEL 1: ONLINE	LEVEL 2: WORKSHOPS	LEVEL 3: PROGRAMS
Learning resources and modules available on demand, covering everything from basics to skills qualification	Online and face-to-face workshops lasting between 2 hours and half a day, with a focus on practice rather than theory	Multiple-day seminars, hybrid online/offline training programs

Within the Kering Campus, there are three training paths:

The Professional path: This training path covers languages and business software and tools, as well as the dissemination and transmission of professional skills and know-how or functional expertise. These professional "academies" are organized by the entities specialized in each area, such as Merchandising, Retail or Human Resources.

The Management path: The aim is to offer training that accompanies the different stages in managers' individual development. This might include training on self-management, team management and project management.

The Leadership path: The Leadership training path is open to employees singled out during Talent Reviews and centers around the topics of vision, change and innovation. This training path offers opportunities for sharing the culture and strategy of the Houses and the Kering group as a whole. The nomination process makes it possible to ensure a high level of diversity within each training group, in terms of culture, function, geography, gender, brand, etc. This is important, because it enables participants to share their knowledge among all of the various Houses, functions and regions, thereby fostering a strong sense of belonging to the Group.

Training is provided via e-learning modules, brief workshops and applied learning programs. The Group increasingly favors a hybrid approach to course delivery, combining online learning with face-to-face instruction.

Kering Leadership

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

The class of 2018 consisted of seven different nationalities from nine Houses and Group entities.

The first module, Exploring Kering, which gets the program 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 Houses.

The second module, Leading Kering, is organized 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 organization 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 program.

In 2018, the third module, Transforming Kering, rounded off the program at Fashion for Good, an incubator that seeks to develop start-ups committed to sustainability in the luxury and fashion industries. This module involves organizing visits to incubators and joint development sessions between Kering talent and entrepreneurs, as well as managing a major innovation project using design thinking methods.

Kering Influence

The Group has implemented a new international program known as Kering Influence, targeting young leaders in the Group. This training, which precedes the Kering Leadership program, 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.

2. Tailored Learning

A system of 360° feedback and coaching "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, clients, etc.), the approach serves to enhance development potential. Each leader has a one-on-one coaching session to analyze 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 programs as described in the Kering Leadership program. The objective is both to customize as far as possible what each participant takes away from the course, but also to foster a culture of development feedback between experienced participants.

3. Learning@Work

Eager to instill a learning culture across the organization and beyond the training room, Kering wants to make learning part of its employees' day-to-day routine. Learning@Work is a long-term initiative aimed at promoting a culture in which employees themselves become trainers for their colleagues, and encouraging managers and staff to make on-the-job learning part of their daily routine.

4. Learning Lab

Lastly, training and learning increasingly take place outside the traditional classroom setting. Research shows that companies can speed up the acquisition of new skills and work methods by enabling employees to practice them intensively. Kering has therefore launched Learning Lab, which focuses on Action Learning, hackathons and events that bring employees into contact with trends and thought leaders outside the luxury industry. The first pilot projects were tested in 2018 as part of the Kering Leadership program. The aim is to launch more projects of this nature in 2019.

3.1.2.3 Employee commitment: strengthening the feeling of belonging to an integrated Luxury group

In 2018, the Kering group identified the development of employee commitment as one of its strategic priorities. The Group therefore provided all its employees worldwide with access to a global, shared communication tool. The launch of a next-generation corporate social network in June radically changed the style and scale of the communication campaigns conducted within the Group and with its Houses.

In this way, Kering fosters employee commitment through shared experiences, helps to create a common culture, and strengthens the feeling of belonging to an integrated Luxury group. The new corporate social network contributes to the change by enabling a significant improvement in the quality of Group information and in its accessibility for all employees worldwide. Everyone at Kering now has a voice and can access Group information at any time, via any device (computer, smartphone or tablet).

This new era of increased transparency gives unprecedented visibility to the Group's global communication campaigns about its values and policies. In December 2018, six months after its launch, the platform had already achieved an employee take-up rate of 75%. Close to 1,500 active working groups have been set up via the platform and 90% of employees use it at least once a month.

For employees based in China, a solution that complies with local laws and regulations will be available for use in the first quarter of 2019.

Global communication campaigns about the Group's values and policies

The major internal communication campaigns conducted by Kering have strengthened the Group's shared history and vocabulary and enabled the deployment of new HR resources and policies centered around the Group's shared values:

- Code of Ethics: a four-week communication campaign was conducted via the corporate social network to inform all employees about Kering's Code of Ethics and the ethical principles applicable across the Group. The campaign served as a supplement to the online training module on the Code of Ethics, which is mandatory for all employees in all Houses and focused in 2018 on combating all forms of harassment;
- a compliance handbook was circulated throughout the Group in 2018 to help employees adopt the Group's anti-corruption policy. It presents practical examples illustrating the main ethics risks, such as bribery and corruption, conflicts of interest and human rights violations;
- the key HR policies deployed worldwide, such as the internal mobility policy, the "Refer a friend" referral program and the parental policy, now enjoy greater visibility thanks to a monthly testimonial from an employee who has benefited from one of the policies;

- the new, integrated digital HR platform has driven a radical change in the way human resources are managed throughout the Group, offering greater transparency, agility and autonomy for both managers and employees. It has received unprecedented coverage across internal communication media. A dedicated campaign was created for the corporate social network, and a range of communication tools were developed to reach all employees, in workshops, sales outlets, offices, tanneries and logistics platforms. They included postcards, flyers, handbooks, user guides and videos, available in 12 languages and designed to promote the new shared tool and to help human resources managers adapt to the change;
- given the nature of its businesses and the client base of its Houses, combating violence against women is a key issue for the Group, which has been committed to this cause since 2008 through the Kering Foundation. Since 2011, 1,125 employees, including Group Executive Committee members, have received training to ensure that Kering provides a supportive work environment for women who are victims of domestic violence.

Shared experiences

Team-building events based on the Group's values give employees the opportunity to make new acquaintances and create internal networks, thereby fostering employee commitment. The Group regularly organizes such events, either for fun or for a good cause:

- a picnic was organized in the gardens of Kering's headquarters in Paris for the second year in a row, bringing together more than 800 Paris region-based staff from all Houses for a unique evening of fun and enjoyment;
- the 2018 edition of the "Imagine" event saw 200 Group leaders united in Berlin for a series of innovation-related experiences and discussions. Organized every two years, the event significantly enhances the feeling of belonging among Group executives and provides an effective forum for sharing best practices and defining a strategic vision for Kering;
- every year, the Group organizes "Solidarity Day", a day of corporate volunteering for the benefit of non-profit organizations involved in women's causes, to supplement the initiatives undertaken by the Kering Foundation. The aim is to foster employee commitment to the values of sharing and solidarity and forge long-lasting ties and a shared culture within the Group. In 2018, Solidarity Day was held in five cities in Italy (Florence, Milan, Rome, Padua and Vicenza), as well as in Secaucus, New Jersey, in the United States, and in Paris, France;
- since 2014, thanks to the Kering Foundation's international volunteering program, employees who take two weeks' solidarity leave for an assignment in a foreign country have been given two to four days' paid leave. In 2018, the Group gave 32 days' paid leave for volunteer work in support of women and for pre-departure training;
- lastly, the corporate social network facilitates the promotion of local events around the world, whether they are initiated by the Group or its Houses.

3.1.2.4 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 Houses. In 2010, the European Works Council and Kering group's management signed a "Charter framework of commitments on quality of life at work and prevention of work-related stress". Since 2015, health, safety and the quality of working life have been the key thrusts of Kering's commitments under the European agreement signed with the European Works Council on February 19, 2015.

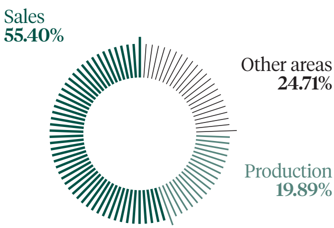
Within this framework, the Houses are adopting procedures and taking action to identify, assess, reduce and prevent the key risks associated with their activities. They are also taking initiatives designed to achieve continuous improvements in the quality of work life. Kering has in turn undertaken to 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.

A joint study on the right to disconnect was undertaken by the Group and its Houses in France and presented to a select committee from the European Works Council in October 2018. Training on the right to disconnect has been added to the Kering Campus e-learning platform, which is open to all Houses.

Promotion of workplace safety and management of psychosocial risks

In 2018, 278 lost-time accidents were recorded across all of the Group's Houses, compared with 232 in 2017. However, the total number of accidents decreased in comparison to 2017. Awareness-raising campaigns run by the Group's Houses were instrumental in achieving this decrease.

Employee profiles as of December 31, 2018 by area of activity(1)



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

Frequency and severity rate of accidents in 2018 and 2017

	2018	2017 (*pro forma*)
Frequency of work-related accidents (Number of accidents per million hours worked)	5.05%	5.21%
Severity rate of work-related accidents (Number of days lost per thousand hours worked)	0.11%	0.09%

Across all of the Group's Houses, 19 employees were recognized as suffering from a work-related illness in 2018.

Health and safety is a priority for the Group. The Houses are committed to the principle of risk prevention and work with multiple stakeholders to preserve occupational health and safety, including the Health, Safety and Working Conditions Committee, ergonomists, occupational physicians and external prevention specialists. In terms of risk prevention, 35,904 hours of safety training were provided to 4,783 Group employees in 2018, representing an increase from the previous year.

2018 was also marked by the following initiatives and projects:

- support with the renovation of stores, workplaces and customer reception areas. Boucheron's historical flagship site at Paris' Place Vendôme 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 and Working Conditions Committee came together to discuss the project and assess the implications in terms of working conditions;
- continued efforts towards achieving certification and formalizing employee health and safety rules and procedures. Gucci and Bottega Veneta renewed their SA8000 certification for social accountability and decent working conditions in 2017 and 2018, respectively. OHSAS 18001 certification for occupational health and safety management was also renewed for Gucci's headquarters, LGI and three of the Group's four tanneries in 2017 and for the Novara site in 2018.

Overall lost time and sick leave (%), 2018 and 2017

	2018	2017 (*pro forma*)
Overall absenteeism rate	4.70%	4.47%
Rate of absenteeism due to illness	2.32%	2.25%

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.

Kering also works to prevent psychosocial risks and offers its employees psychological support. In France, a toll-free number is available to all employees who feel that they require psychological support, regardless of the reason. Support is also provided when employees are collectively affected by a particular event or situation.

In addition to these initiatives, the Houses explore various other avenues, including:

- identifying psychosocial risk factors at work (e.g., Bottega Veneta and Gucci through SA8000 and OHSAS 18001 certification, and the Kering headquarters with the assistance of IAPR, the French institute of psychological support and resources);
- preventing psychosocial risks and stress by bringing in healthcare professionals, such as physiotherapists, osteopaths, sophrologists and yoga/pilates/meditation teachers (at the Kering and Saint Laurent headquarters), and providing social assistance services for employees;
- promoting work-life balance (smart-working, extension of the telework program, flexitime, etc.) and introducing the right and duty to disconnect in France as a result of legislative changes. These changes notably relate to the right of all employees to disconnect from work during non-working hours and their duty to regulate their use of digital devices during working hours.

Organization of work

Kering strives to implement an organized 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 39.5 hours per week. In 2018, 75,410 overtime hours were recorded in France, a decrease versus 2017.

In 2018, 2,642 employees had contractual weekly working hours below the standard number in effect within their company. Staff working part time accounted for 8.21% of permanent employees, down from the previous year, 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 organization of each House, either over certain days of the week, or over reduced time slots on all working days.

The organization of working time in the Group's Houses varies according to the countries, sites and employees concerned. In France, work is most commonly organized on the basis of a fixed number of hours or days, with annualized working time and the possibility of flexitime.

Beyond these legal aspects, the Houses try to find and offer more flexible ways to organize 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 Houses, the introduction of a smart working pilot plan at the Bottega Veneta and Gucci headquarters in Italy, continued telework at the Kering headquarters in Paris, leave to care for sick children at Boucheron and part-time work at Pomellato.

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 headquarters. Topics relating to the work environment and organization, work-life balance and the promotion of the parental policy were therefore addressed during the plenary meeting of the European Works Council on December 5, 2018.

The deployment of the HR platform in 2018 has also contributed to improving quality of life at work by creating a shared language for information, communication, learning and listening. All Group employees now have access to the same platform, regardless of their location, profession or position, representing a key factor in employee well-being.

Every two years since 2001, Kering has conducted a worldwide in-house social climate survey, "What's the weather like where you are?", to measure the perceptions of employees of all the Houses across the Group on topics related to their work and their work environment. In 2018, Kering decided to remodel its global employee survey to better meet the Group's specific needs and make it easier for employees to have their say by using a concise questionnaire available in several languages and accessible worldwide from any device (smartphone, tablet or computer). Replacing the previous employee survey, the Kering People Survey, which was rolled out in January 2019, is intended for all employees at Kering and all of its Houses. It covers four aspects of quality of life at work: work organization and processes, working conditions and the work environment, communication and subjective factors.

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 host countries. 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.

Moreover, 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 programs. 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 program was published in November 2017.

In line with its 2025 Sustainability strategy, Kering participated in the fourth annual meeting of the Global Business Network for Social Protection Floors in Geneva on October 23, 2018, to continue to promote private-sector participation in the extension of social protection systems, alongside other French-speaking companies.

Lastly, the Houses also implement programs to improve quality of life at work. For example, in 2018, Pomellato/DoDo continued to develop its "Well-being program" initiated in 2017, which aims to promote physical, mental and emotional well-being in the workplace, as well as a healthy work-life balance for all employees. The Houses regularly organize special events that strengthen social ties between employees. Examples include Kering *Chouette* family time at Kering's headquarters in Paris, which allowed employees to share precious moments with their children in their work environment, and the second Family Day organized by Brioni in Italy in October 2018. Other initiatives designed to enhance well-being at work have also been implemented, such as team sports organized by Ulysse Nardin or the osteopathy and yoga sessions held at Kering's corporate headquarters in Paris. Kering Asia-Pacific has participated for several years in the Stanley Dragon Boat Championships organized annually in Hong Kong. In 2018, the Kering crew was made up of employees from the various Houses present in Asia, including Saint Laurent, Balenciaga and Bottega Veneta.

3.1.3 Remuneration and employee benefits

- Total Group payroll in 2018: €1.62 billion;
- €104.571 million in employer contributions from the Houses in mainland France in 2018.

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, more than 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.

In 2018, as part of the implementation of the Group's new global HR information system, a new job classification system ("Job Catalogue") was introduced. Shared by all of the Houses, it serves as a support for determining bonuses for each level of responsibility. It will also enhance the reliability of comparisons between the Group's various functions, during the internal and external competitiveness analyses that are regularly conducted.

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 Houses. 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 Houses. Moreover, 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 recently revised 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.

Since 2017, the long-term profit-sharing plan is based on Kering Monetary Units and monetary units linked to the Houses, 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 26, 2018.

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 Houses.

For some years, various Houses have offered more comprehensive benefit plans allowing employees to balance their work and personal lives. Such plans often take the form of an offer of education, recreation, transportation or family support. These popular plans are constantly changing to better meet employees' expectations.

Kering has issued 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 five 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 a profit-sharing and incentive plan governed by an agreement for their legal entity. Tax and payroll deductions may apply to the amounts derived from these plans in accordance with the applicable regulations.

3.1.4 Labor relations

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. The main events in 2018 included the reorganization of the European Works Council to take into account changes in the Group's scope of consolidation in Europe (notably following the deconsolidation of PUMA), the presentation on Group strategy given by François-Henri Pinault, the Group's Chairman and Chief Executive Officer, to members of the Council and a visit by Council members to the *École de l'Amour* at the Gucci ArtLab.

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, 2018.

The commitments have also been adopted within each Group House. In 2018, 107 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 organization of working time (telework, flexitime, generational agreements, temporary work, donating leave, the right to disconnect, etc.), but also included video surveillance in the workplace.

In 2018, the Houses in France negotiated with the unions the terms governing the implementation of work on Sundays with a view to allowing more stores to open taking into consideration the wishes of employees and their ability to organize their time.

Meanwhile, the number of working hours of industrial action totaled 6,601 in 2018, versus 747 in 2017 and 16,223 in 2016. The increase was mainly attributable to pay negotiations that took place at one of the Group's sites.

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 organization, strategy and main challenges.

In 2017, a new agreement was signed for an indefinite period. Membership of the Kering EWC was renewed and reorganized in 2018, following the distribution of the majority of the Group's shares in PUMA. 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.

The EWC's latest ordinary plenary meetings took place in Paris on June 21 and in Florence on December 5, 2018. 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 analyze 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.

In 2018, the plenary session was held on June 8 and included presentations on the Group's 2017 results, the findings of the Group's new employee survey and the roll-out of the new, integrated digital HR platform.

Within all of its Houses in France, the Group engages in social dialogue with employee representative bodies and as part of negotiations with unions.

3.2 Environmental footprint of Kering's operations

3.2.1 Strategy and management

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 protection through innovation;
- make environmental concerns central to the activity of the Houses by involving all stakeholders along the entire value chain;
- go beyond mere compliance with legal environmental obligations, through a comprehensive approach such as that of the EP&L;
- drive the Group's sustainability leadership, through a collaborative approach that favors 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.

Environmental management

Strategy and objectives

The environmental pillar of Kering's 2025 Sustainability 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 the intensity of its overall Environmental Profit & Loss account (EP&L) by 40% by 2025;
- this target is reinforced by an approach founded on data from the Science Based Targets initiative, relating to the Group's greenhouse gas emissions spanning both operations and supply chain:
  - 50% reduction by 2025 of the intensity of its Greenhouse Gas Protocol Scope 1 and Scope 2 emissions, and its Scope 3 emissions from upstream transportation and distribution of goods, business air travel and fuel and energy consumption,
  - 40% reduction in the intensity of 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:
  - 95% of key raw materials to be traceable back to their country of origin by 2018, and 100% by 2025,
  - 100% of raw materials to be compliant with the Kering Standards 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.

Climate strategy

Given the consensus among scientists about the urgency and criticality of climate change on the one hand and the link between climate protection and the long-term viability of its business on the other, Kering firmly believes that businesses have a decisive role to play in the fight against climate change and has therefore made it a key component of its corporate strategy. The nature of its products and the quality standards required of a luxury goods company mean that the Group is heavily dependent on raw materials from natural sources (such as wool, cashmere, leather, cotton and silk) and thus on the associated ecosystems, whose protection is essential to the production of quality raw materials. Some of these ecosystems are already being impacted by climate change. It is therefore essential to strengthen their resilience: Kering helps address the impacts of climate change in two ways:

- by directly reducing the carbon footprint associated with its energy consumption and the transportation of people and goods, as described later in this chapter;

- 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 Houses. This approach is also a key tool in Kering's strategy for adapting to climate change, as demonstrated in the report analyzing 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 Chapter 6 of this Reference Document). The Group's climate strategy is also described extensively in Kering's Climate Change 2018 CDP response, which is publicly accessible via the website www.cdp.net. In line with the recommendations issued by the Task Force on Climate-related Financial Disclosures (TCFD), which CDP uses for its assessments, Kering's response includes information on:

- the governance of climate-related risks and opportunities for the Group, which is fully integrated into the Group's governance of sustainability, described in detail in the section entitled "Governance and organization";
- the analysis of impacts on the Group's businesses and the climate-related scenarios used for the analysis, based on the RCP 2.6 scenario from the Fifth Assessment Report of the UN Intergovernmental Panel on Climate Change (IPCC) or the 2°C scenario, which states the need to achieve an absolute reduction in greenhouse gas emissions of between 41% and 72% by 2050;
- the Group's management of climate-related risks;
- the Group's climate-related targets and performance metrics.

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 each year, as presented in the section entitled "EP&L: Environmental Profit & Loss account". 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): 84% vs 16%. In fact, Kering's activities are not subject to carbon emissions quota regulations;
- 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 fibers and particularly those of animal origin;
- to set a relevant carbon footprint reduction target covering its main GHG emission sources, Kering opted to take up the framework defined 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 transportation 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.

Aware that the response from the luxury industry and the broader fashion industry must be collective and global, the Group also helps address the issue of climate change alongside its peers, in addition to its own initiatives. This is why the Group signed the Fashion Industry Charter for Climate Action in December 2018. An initiative coordinated by UN Climate Change, the Charter unites the world's leading fashion houses, retailers, suppliers and professional associations around the common goal of drastically reducing the industry's carbon footprint, in line with the objectives of the Paris Agreement.

Energy footprint

Kering has set the ambitious target of reducing the intensity of its Scope 1 and Scope 2 emissions, and its emissions from the transportation and distribution of goods, business air travel and fuel and energy consumption, by 50% between 2015 and 2025. For Kering, this means:

- minimizing energy use by taking measures to improve energy efficiency at Kering's facilities and in its transportation methods (see "Measures to improve the energy efficiency of Kering's operations" and "Optimizing logistics flows and switching to alternative transportation methods");
- favoring renewable energy, by producing renewable energy on its sites, notably through the use of rooftop solar panels, and by purchasing power made from renewable sources (or "green electricity") wherever possible;
- offsetting residual Scope 1 and 2 greenhouse gas emissions.

Internal organization for environmental issues

The Kering Sustainability Department comprises around 20 specialists tasked with planning the operational roll-out of the Group's environmental strategy and helping the Houses implement action plans for achieving its objectives. For this purpose, Kering develops systems such as the environmental reporting system, or EP&L, along with standards for raw materials and production processes to help the brands manage their environmental impact.

Coordination between the Group and the Houses is ensured through a network of managers dedicated to sustainability issues, and each House has at least one Sustainability Lead to spearhead the drive towards sustainability. This is also the case for the Kering group Operations structure (logistics, production, development, etc.), which has seven people dedicated to sustainability. This means that around 60 employees in total are focused on sustainability within the Group and its Houses.

In addition to these dedicated positions, working groups are formed regularly to bring in other key business functions to engage in the roll-out and application 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, Boucheron, Girard-Perregaux, Pomellato, Qeelin, Ulysse Nardin and Kering Eyewear.

Environmental reporting is also backed up by a substantial global network of nearly 300 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 teams from the Houses, meets physically once a year for two days of work sessions. The 2018 Sustainability Network Meeting was about "Putting ambition into action" and enabled the network's members to translate the Group's 2025 Sustainability strategy into real-world initiatives. The event also gave sustainability network members an opportunity to interact with people from other parts of the Group and with external stakeholders invited to participate in the discussions about key issues for Kering. Noteworthy guests included the CEO of animal welfare organization Compassion in World Farming; the Executive Director of the Natural Capital Coalition, which highlights the economic value of natural resources; the founder of a brand that is setting new standards in ethical practices across the entire value chain; and the CEO of one of the Group's Houses, who talked about how he makes sustainability central to the brand's strategy and development. The two-day event ended with a "Make It Happen" challenge, which identified disruptive, real-world solutions for issues such as animal welfare, the EP&L and responsible sourcing of raw materials.

In 2018, Kering pressed ahead with its Idea Labs: working groups bringing together experts and operational staff from several Houses 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 2018 to workshop the following issues:

- the Kering Standards for raw materials and production processes;
- energy management and purchases of green energy;
- environmental efficiency in stores;
- gender parity in the supply chains;
- the circular economy;
- precious skins;
- leather;
- gold;
- silver.

Informing and raising awareness among employees

To enhance accessibility to Group information, the Kering intranet was replaced in 2018 by a corporate social network, which notably enables the Group and its brands to circulate news about sustainability issues to all employees worldwide. The network is available to all employees and on all devices (computers, tablets, smartphones, etc.). This means that Kering and its Houses can easily communicate with employees about sustainability projects, news and key events, such as those relating to The Kering Planet. Launched in 2017, this program regularly offers Group employees the opportunity to participate in contests and quizzes that test their knowledge of sustainability in general and their understanding of the three pillars of the Group's 2025 strategy in particular. Two contests were held in 2018, attracting more than 5,000 participants worldwide. A Kering Planet group has also been created on the corporate social network to support a community of sustainability-sensitive employees throughout the year by regularly sharing news and information about sustainability-related issues.

A number of internal newsletters are also published widely across the Group, such as Sustainability Monitoring, a review of national and international press coverage of the sustainability-related achievements of Kering, its brands or the Group's competitors, 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. In 2018, Kering's Chief Sustainability Officer and Head of International Institutional Affairs was interviewed about the Group's Sustainability strategy and initiatives by *Brut*, a new "100% video, 100% digital" media outlet. Gucci also picked World Environment Day to launch Gucci Equilibrium, its web platform for communicating about its ten-year Culture of Purpose plan, which provides the House with an overall sustainability strategy.

Caring Day is an event organized by Kering every year to sensitize Group employees to sustainability issues and share with them the milestones achieved by the Group in this area. In 2018, it was held in Florence, in June. It was attended by around one hundred employees from the Houses and the corporate teams, for a day of conferences and workshops on such topics as up-cycling and responsible design. It enabled the Group to raise employee awareness about environmental challenges in the luxury industry and to present the solutions implemented by Kering and its Houses.

The Kering group is aware that its impact on biodiversity primarily relates to its sourcing of raw materials and therefore to the use of land associated with those raw materials.

With this in mind, the Group and its Houses wish to sensitize as many people as possible about biodiversity through their actions. This commitment has notably led to the installation of several beehives at Group headquarters and at certain Houses, such as Girard-Perregaux, which now produce honey locally. In 2018, Bottega Veneta organized two "Family Days" during which employees' partners and children were invited to its Milan and Montebello headquarters for a day of educational fun. A seed-bomb workshop for children raised awareness of the need to protect biodiversity and a dedicated stand presented general information about biodiversity and examples of the initiatives undertaken by the House in this area.

The Houses are also developing their own training and awareness-raising actions on environmental issues, starting with the induction pathway laid out for all new employees. An onboarding process has been created for new hires to familiarize them with the brand universe and raise their awareness about its key sustainability initiatives. This is the case, for example, at Gucci, Brioni and Saint Laurent. In 2018, an e-learning module on sustainability was created by Bottega Veneta. It was added to the induction pathway for all new employees and completed in 2018 by 1,231 employees, or one-third of the House's workforce. 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 store management. In collaboration with the MIL and Kering Operations, Brioni organized a sustainability workshop about the Kering Standards and eco-friendly materials for its creative and product development department. 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. Similarly, Alexander McQueen has added a sustainability section to the monthly newsletter it sends to store managers.

Alexander McQueen has also organized workshops dedicated to eco-friendly materials, which brought together about 30 employees from its design and merchandising teams. Balenciaga continues to roll out its training program on the Kering Standards, which are addressed via specific training modules for the design, merchandising, development and production teams. Saint Laurent has in turn developed an online course platform, *E-Université*, which includes a sustainability module. In just 15 minutes, the interactive module enables all of the House's employees to understand its environmental challenges, objectives and projects and to identify the ways in which they can contribute to achieving those objectives. Close to 700 Saint Laurent employees have completed the sustainability module. In 2018, Kering Eyewear launched the Smart Worker Challenge, a series of around ten very short challenges that enable the company to promote eco-friendly practices among its employees and at the same time collect data to help identify the main avenues for reducing its environmental impact. Some events are particularly conducive to creating a culture of sustainability, such as the ArtLab Expo organized by Gucci in October 2018, which enabled the House to communicate its CSR commitments to all employees at the ArtLab site. Gucci also took advantage of the occasion to renew its collaboration with Treedom, a website that allows users to plant trees in Africa, Latin America, Asia and Italy and then follow them online. As a result, the House planted another 287 trees, on top of the 500 already planted, thereby contributing to its efforts to offset carbon emissions.

Training on reporting tools

To ensure consistent, standardized reporting practices across the Group, specific training is provided every year on the tools used for environmental reporting and the EP&L. The reporting guidelines or "handbooks" are updated annually and distributed throughout the Group in three languages, backed by a communication campaign via the corporate social network. The support documents are also accompanied by online training modules for all users.

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 centers and tanneries.

In 2018, 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) recently moved to a new site, for which an ISO 14001 certification process is currently under way.

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
	LGI headquarters	Offices	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	Florence headquarters	Offices	ISO 14001
	Casellina warehouse	Distribution	ISO 14001
	Casellina headquarters	Offices	ISO 14001
	Tigerflex	Production	ISO 14001
Bottega Veneta	Altavilla Vicentina	Distribution	ISO 14001
	Montebello Vicentino	Offices/Production	ISO 14001 ISO 14064
	Vicenza	Production	ISO 14001
	Vigonza	Production	ISO 14001
	Milan headquarters	Offices	ISO 14064

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 Houses, these indicators fall into eight categories: energy consumption, water consumption, water pollution, management of environmental risks, goods transportation, business travel, waste production 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 2018, 573 stores had been hooked up to the NUS tracking system. 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 prioritize 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 1,545 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 three consecutive years.

To improve the distribution of support documents to all participants in the reporting process, a group has been created on the corporate social network, enabling members to gain easier access to the various content available and to ask questions or share best practices in the area of environmental reporting.

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 (Memo on Kering environmental reporting methodology, 2018).

3.2.2 Environmental footprint of Group operations in 2018

3.2.2.1 Measurement and reduction of the carbon footprint of our operations

Kering's climate strategy (see "Environmental management") goes beyond the regulatory measurement of its carbon footprint to include an annual analysis of the entire value chain, from cradle to gate, via the EP&L approach (see "EP&L: Environmental Profit & Loss account"), which guides and validates the Group's strategic decisions.

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 transportation 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 Houses.

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, shoes, watches and jewelry, and eyewear) 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 characterizing 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 Houses, 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.

Even though the majority of its EP&L impact lies in its supply chains, Kering nonetheless takes an interest in the impact of the various sites over which it has the most control (Tier 0), which are its operations and represent 10% of its EP&L.

As a result, the 2017 EP&L, which was published in 2018, showed a reduction in the environmental impact of the Group's operations. This is a particularly encouraging performance given the strong growth in revenue and therefore business volumes recorded by Kering between 2016 and 2017.

In addition, at the level of the Group's operations (Tier 0 in the EP&L), the Group's carbon intensity (€EP&L/€ revenue) declined by 12% between 2015 and 2017. This progress is notably the product of the energy efficiency measures undertaken at stores, offices and industrial sites by Kering and its Houses. Kering's ongoing efforts in this area, together with its strategy of purchasing green electricity, should enable it to maintain this positive performance in the coming years, in line with the 2°C trajectory defined by Kering on the basis of the Science Based Targets initiative.

The transportation 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, transportation, electricity line losses, etc.).

Carbon footprint of Group operations

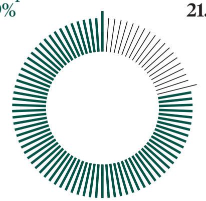
Energy consumption and the transportation of goods and people are the two main sources of the Group's CO_2 emissions. Total emissions for 2018 came in at 255,769 metric tons of CO_2.

In 2016, all emission factors used for calculating the CO_2 footprint associated with energy consumption and transportation 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 organized every five years, but an analytical review is nevertheless conducted annually to take into account any material developments.

Details of the emission factors used are set out in the memo on Kering environmental reporting methodology 2018, which is available on the Group's website.

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

Breakdown of total transportation and energy-related CO_2 emissions in 2018



Total: 255,769 metric tons of CO_2

The proportion of transportation-related emissions to energy-related emissions rose from 59.1% in 2017 (based on 2018 scope of consolidation) to 78.9% in 2018. This is explained chiefly by the increase in goods transportation, 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

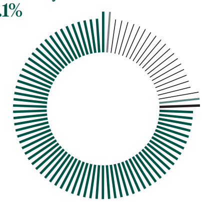
Energy-related emissions

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 and heating oil and consumption of vehicle fuel on site 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 2018

	Energy consumption *(MWh)*	Related CO_2 emissions *(metric tons of CO_2)*
Electricity	216,184	41,681
Natural gas	46,683	11,383
Heating oil	986	319
Steam	2,533	545
LPG	76	21
Fuel for transportation and on-site handling	423	127
Biomass	756	-
TOTAL ENERGY	**267,641**	**54,076**

Breakdown of energy-related CO_2 emissions in 2018



Total: 54,076 metric tons of CO_2

The Kering group's energy consumption relates mainly to the heating, lighting and air conditioning of stores, warehouses and offices. In 2018, it amounted to just under 270 GWh. Electricity is the Group's main source of power, representing 81% of total energy consumption, a relatively stable reading compared with 2017.

CO_2 emissions related to the Group's energy consumption in 2018 totaled 54,076 metric tons. Some 77% of the emissions 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 (in metric tons)**

	2016-2018 *pro forma* scope			Year-on-year
	2018	2017	2016	2016/2018
Electricity *(MWh)*	173,223	181,020	177,056	-2.2%
of which electricity from renewable sources	*116,226*	*68,682*	*57,546*	*+102.0%*
Natural gas *(MWh)*	43,177	39,796	41,806	+3.3%
Heating oil *(MWh)*	969	1,545	1,780	-45.6%
Steam *(MWh)*	2,140	1,938	2,098	+2.0%
LPG *(MWh)*	76	68	72	+5.6%
Fuel for transportation and on-site handling	404	407	365	+10.7%
Biomass *(MWh)*	756	842	739	+2.3%
Total energy *(MWh)*	**220,745**	**225,616**	**223,916**	**-1.4%**
of which energy from renewable sources	***116,982***	***69,524***	***58,285***	***+100.7%***
Direct emissions (Scope 1) *(metric tons of CO_2)*	9,220	8,674	9,151	+0.8%
Indirect emissions (Scopes 2 and 3) *(metric tons of CO_2)*	37,396	83,300	88,646	-57.8%
TOTAL ENERGY-RELATED EMISSIONS *(metric tons of CO_2)*	**46,616**	**91,974**	**97,797**	**-52.3%**

On a *pro forma* basis, the Group's energy consumption decreased by 1.4% from 223 GWh in 2016 to 221 GWh in 2018. The decline reflects the extension of energy optimization measures to different sites and the discontinued use of heating oil at one of the Group's industrial sites. The improvement was made possible despite the size of the Group's business volumes in 2018, notably thanks to a 4% reduction in energy use by the Group's stores.

CO_2 emissions from energy consumption fell by 52% between 2016 and 2018 as a result of a significant transfer of conventional electricity to renewable electricity (+102%), thanks to sizable purchases of renewable energy certificates during 2018 in Asia, North America and Europe.

Measures to improve the energy efficiency of Kering's operations

Managing stores' energy performance centrally

In 2011, the Group's Sustainability Department and the Indirect Purchasing Department launched a partnership with NUS Consulting and all of the Houses. 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 2018, 573 Group sites, excluding shop-in-shops and stores in shopping centers, were covered in Europe, the United States and Asia, representing 79.6% of all sites eligible for the system. The project also covers:

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

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

Minimizing energy use and measuring energy efficiency improvements

The Group takes two main types of measures to optimize the energy efficiency of its sites:

Systematically obtaining recognized, high-level certification for new sites renovated by Kering.

Certification is therefore being sought for all of the new sites targeted by Kering's Real Estate teams in 2018. LEED (Gold and Platinum level) and BREEAM are the preferred certification systems selected by the Group. Optimized energy performance, the use of renewable energies, and other energy-related criteria are critical to obtaining green building certifications. Following the gain of BREEAM and HQE certifications in 2016 for the offices occupied by Kering and Balenciaga at 40 rue de Sèvres in Paris, other Group sites have also been certified, including the offices of Kering Milan in 2017 and of Kering Hong Kong in 2018. Other certification processes (initial certification or renewal) are under way for many other sites.

The Houses are also increasingly requesting certification for their sites and stores. Gucci, for example, had eight stores and two office buildings with LEED certification in 2018 and launched the LEED certification process for ten more stores during the year. Balenciaga has obtained LEED certification for four of its stores, including three at Gold level. Lastly, Saint Laurent continued its certification drive in 2018, obtaining LEED Platinum certification for two new stores, Wanfujing (Beijing, China) and Ginza (Tokyo, Japan), bringing the number of Saint Laurent stores worldwide with LEED Platinum certification to six. In addition, the new store in Beijing was certified under the latest version of the system, LEED v4. Inaugurated in December 2018, Saint Laurent's new headquarters on rue de Bellechasse in Paris also meet the highest environmental standards. Renovation work was carried out in compliance with requirements for both heritage buildings and sustainability, earning the House double environmental certification.

A comprehensive energy audit was carried out at Bottega Veneta's Montebello site in Italy, bringing to light high levels of energy consumption. Suggested improvements related to the facade's structure and to the technical settings on the building's heat pump and heating distribution system.

Agreeing on a Group-wide standard for stores. Kering has been working with the Houses since 2017 to develop a "Standard for Stores" that sets out expected performance levels in 11 key areas. These include energy management, lighting, renewable energy, water use and waste treatment. The standards cover all phases in a building's lifecycle, namely site selection and relations with the lessor, design, construction or renovation, and operation. In Summer 2018, the "Standard for Stores" was submitted for an external peer review by academic and engineering experts and NGOs, which helped improve its ambitions and operability. A test phase has been under way since Fall 2018, involving 13 Group stores for the renovation aspects and 6 stores for the operation aspects.

In addition, certain Houses publish and distribute their own guidelines. Gucci, for example, circulated a document in 2017 containing technical guidelines and recommendations on sustainable store management, aimed at the brand's regional facility managers. Energy optimization efforts continued in 2018 thanks to the installation of low energy lighting and the implementation of a monitoring system.

In turn, Alexander McQueen also rolled out good environmental practices aimed at increasing energy efficiency in its stores. Energy efficiency practices were added to the store opening checklist in 2018 and will be applied to all stores via a best practices handbook.

In 2018, Saint Laurent included sustainability in its new project management information system so that it can closely monitor the impact of the good environmental practices carried out at each store. The implementation of these practices enabled the House to improve energy efficiency by 40% between 2012 and 2018.

Ulysse Nardin has signed up to the Swiss Energy Agency's energy conservation program, and met its energy consumption reduction targets several years ahead of schedule at the Le Locle and La 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 all of the Houses. This practice is part of the Kering Standards and also a criterion for obtaining environmental certifications such as LEED, BREEAM and HQE.

Girard-Perregaux has continued to roll out its energy conservation program with the Swiss Energy Agency. Various measures were implemented in this area in 2018, including heating optimization and the replacement of traditional lighting with LED.

Favoring renewable energy by producing it on site or purchasing renewable energy certificates

The proportion of renewable electricity used within the Group increased overall between 2016 and 2018 on a *pro forma* basis, thanks to increased on-site production of renewable energy and the numerous green energy contracts implemented by the brands with the Group's support. It amounted to 67.1% in 2018, compared with 37.9% in 2017 on a *pro forma* basis.

In 2018, the Group purchased green certificates for various countries in order to cover 100% of its energy consumption in those areas. The certificates break down as follows:

- RECs (Renewable Energy Certificates): USA and Canada;
- iRECs (international Renewable Energy Certificates): China, Hong Kong and Macao;
- GOs (Guarantees of Origin): Europe. To avoid encroaching on the work already carried out by the Houses in the area of green electricity purchases, these certificates relate exclusively to shop-in-shops.

As a result, electricity consumption is 100% renewable in seven countries and 67.1% renewable across the Group (up 29 points versus 2017 on a *pro forma* basis). In Europe, 77.6% of the electricity consumed is generated using renewable resources.

The Group's Houses 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 83% in 2018. It was 94% for Bottega Veneta sites, 94% for Saint Laurent, 95% for Balenciaga, 85% for Alexander McQueen, 87% for Brioni, 76% for Boucheron and 91% for Pomellato. In 2018, Girard-Perregaux once again opted exclusively for green hydroelectricity at its Swiss sites, which represent over 98% of its total consumption. Similarly, Ulysse Nardin has been using close to 100% of locally generated green hydroelectricity at its Le Locle and La Chaux-de-Fonds production sites since 2017.

On top of external purchases, the brands have been boosting their reliance on renewable energy, for example by installing solar panels. Some brands have already installed solar equipment on the roofs of their buildings, including a warehouse in the United States and three Bottega Veneta sites in Italy. The solar panels supply between 2% and 4% of each site's power needs. Saint Laurent also fitted solar panels to the roof of its Beverly Hills store in 2015 and at its shoe workshop in Vigonza, Italy, in 2017.

In 2018, Brioni installed new photovoltaic panels on its workshop in Montebello, which are used to heat water for the site's locker rooms and rest rooms. Kering Eyewear has increased its portion of renewable energy produced on site, following the installation in 2017 of a wind turbine that helps power parking lot lighting at its Padua headquarters in Italy.

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 since November 2015, using green energy has significantly reduced the site's carbon footprint. In Paris, three Saint Laurent flagship stores and the new headquarters on rue de Bellechasse are all fitted with the Climespace air conditioning system. This urban cooling system uses water from the River Seine to cool buildings, thereby reducing electricity consumption and CO_2 emissions compared to conventional air conditioning systems.

Offsetting residual greenhouse gas emissions via carbon offset projects

Carbon offset projects

As defined in 2012 as part of its sustainability targets, Kering continues to offset its residual Scope 1 and 2 greenhouse gas emissions. In 2018, Kering offset the 132,957 metric tons of CO_2 emissions it generated in 2017. Carbon credits have been obtained through the provision of support for several REDD+ (Reducing Emissions from Deforestation and Forest Degradation) programs, with VCS (Verified Carbon Standard) verification. Not only does this generate carbon credits, it also provides substantial support for local populations and biodiversity (see "Land use and protection of biodiversity").

In 2018, Bottega Veneta once again offset all the 2017 GHG emissions of its Milan headquarters, i.e., 329 metric tons, of which 68 metric tons offset by Kering. Similarly, as part of its ISO 14061 certification, 1,145 metric tons corresponding to the emissions of the new Montebello workshop were offset in 2018, including 340 metric tons of CO_2 offset by Kering.

In November 2018, Gucci organized a carbon offsetting awareness day for employees in Milan, in partnership with NGO *Rete Clima*. The House has contributed to the absorption of around 350 metric tons of CO_2 over three years by planting 500 trees. 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 simply buying carbon credits. IPI comprises companies, NGOs and climate experts working on the centralization of member companies' projects.

Transportation-related emissions

Methodology

Transportation-related data collected under the reporting system is divided into three main categories:

- B2B transportation: this includes all transportation of goods paid for by the brands between suppliers and logistics platforms or industrial sites, and between logistics centers and points of sale. The transportation of goods between logistics centers also falls into this category. B2B transportation includes road freight, rail freight, sea freight and air freight. Express transportation includes goods delivered by express transportation service providers via road and air freight;
- B2C transportation: 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 transportation that is paid for by the brands is taken into account. B2C transportation includes road freight but is relatively insignificant for the Group;
- 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 recognized public sources (academic establishments or institutions) and were updated in 2016 on the basis of new editions of these sources. A review is also conducted every year so that emission factors can be updated if there have been any significant changes. These emission factors are also aligned with those used for the EP&L. Full details on the methods used are available in the memo on Kering environmental reporting methodology, on the Group's website.

Work was also initiated in 2016 on the methodology for calculating CO_2 emissions from B2B transportation so as to more accurately reflect the improvements and optimization work carried out by the Group's brands and logistics platforms. This approach was continued and expanded in 2017 and 2018 to include new B2B carriers, allowing the use of their reporting of CO_2 emissions to provide a clearer picture of emissions from different transportation flows. The carbon data reported by each supplier are scrupulously analyzed against the European standard EN 16258 to ensure consistency with the Group's reporting process. Particular attention is paid to the inclusion of upstream Scope 3 ("well-to-wheel") emissions.

Emissions related to transportation and travel

Transportation- and business travel-related CO_2 emissions in 2018 (in metric tons of CO_2)

	2018
B2B transportation	149,908
B2C transportation	46
Business travel	51,739
TOTAL	**201,693**

In 2018, the Group's transportation- and business travel-related CO_2 emissions totaled 201,693 metric tons. B2B transportation accounted for 74% of these emissions.

B2B transportation volumes in 2018 and related CO_2 emissions

Kering uses road transportation to carry its products from workshops to distribution warehouses and from warehouses to outlets. Air transportation is also used frequently to move goods quickly to far-off destinations.

B2B transportation volumes in 2018 and related CO_2 emissions

	Total 2018 *(t/km or teu/km for sea freight)*	Related CO_2 emissions *(metric tons of CO_2)*
Road freight	32,277,136	6,093
Sea freight	8,037,700	89
Air freight	176,943,935	124,523
Rail freight	106,631	6
Express air delivery	22,566,030	18,497
Express road delivery	4,240,232	700
TOTAL EMISSIONS		**149,908**

Pro forma change vs. 2016 in CO_2 emissions from B2B transportation (in metric tons of CO_2)

	2018-2016 *pro forma* scope			Change
	2018	2017	2016	vs. 2016
Road freight	6,093	3,897	2,439	+149.8%
Sea freight	89	81	19	+368.4%
Air freight	124,523	72,757	55,103	+126.0%
Rail freight	6	-	-	-
Express air delivery	18,497	22,901	17,850	+3.6%
Express road delivery	700	3,094	1,377	-49.2%
TOTAL EMISSIONS	**149,908**	**102,730**	**76,788**	**+95.2%**

The Group's *pro forma* B2B transportation emissions increased by 95% between 2016 and 2018. The increase in this item chiefly reflects significant growth in the Group's business in 2017 and 2018, as well as greater use of air transportation against the backdrop of strong demand for in-store availability of goods, especially in the Houses' faraway markets.

B2C transportation-related CO_2 emissions in 2018 and *pro forma* change vs. 2016 (in metric tons of CO_2)

	Related CO_2 emissions *(metric tons of CO_2)* in 2018	2018-2016 *pro forma* scope			Change vs. 2016
		2018	2017	2016	
B2C – own vehicle fleets	29	24	1	1	+2,300%
B2C – subcontractors' vehicles	17	16	24	7	+129%
TOTAL	**46**	**40**	**25**	**8**	**+400%**

CO_2 emissions from B2C transportation totaled 46 metric tons in 2018. On a *pro forma* basis, B2C transportation emissions increased threefold, but across a very limited scope on all transportation-related emissions (a new vehicle). In 2018, there was a shift from "B2C subcontractors' vehicles" to "B2C own vehicle fleets", thanks to the acquisition of an additional vehicle enabling the Group to make client deliveries.

Business travel

CO_2 emissions from business travel in 2018 and *pro forma* change vs. 2016 (in metric tons of CO_2)

	Related CO_2 emissions *(metric tons of CO_2)* in 2018	2018-2016 *pro forma* scope			Change vs. 2016
		2018	2017	2016	
Business air travel	46,209	45,158	39,631	31,879	+41.7%
Company cars	5,530	3,665	4,644	4,055	-9.6%
TOTAL	**51,739**	**48,823**	**44,275**	**35,934**	**+35.9%**

CO_2 emissions associated with employee business travel amounted to 51,739 metric tons in 2018. On a *pro forma* basis, emissions increased by 36% over three years. The increase is partly attributable to business growth, which generates increased travel, and to growth in Kering Corporate teams worldwide.

To limit the impact of travel by the employees of Kering and its Houses on the Group's carbon footprint, some Houses factor environmental criteria into the selection of company cars. Bottega Veneta, for instance, is renewing its fleet with the inclusion of hybrid vehicles. Of 134 company cars, 67 – or 50% of the fleet – are hybrids or electric vehicles. Kering Eyewear has also integrated hybrid vehicles into its fleet. 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 vehicles at its headquarters with more efficient models. In 2018, its fleet contained 72 hybrid cars, up from 52 in 2017, plus 3 electric vehicles. Similarly, Kering Corporate updated its company car catalogue in 2018, removing all diesel models and expanding the range of hybrid vehicles, which now make up two-thirds of the catalogue.

The Houses also encourage the use of public transportation 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 transportation networks. The Novara production site offers all employees bicycles free of charge for short trips. Gucci launched a car-pooling program for its Italian employees in 2018, thereby reducing the impact of commuting.

Optimizing logistics flows and switching to alternative means of transportation

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

Work conducted in 2018 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 transportation-related carbon impact within the Group. The mapping was performed in accordance with the EN 16258 standard, and all major freight carriers were met to discuss carbon strategies. Moreover, specific clauses on carbon performance are systematically integrated into contracts with carriers.

Delivery schedule optimization is illustrated through numerous examples. Gucci intends to optimize all transportation, from raw materials to finished products.

Another source of improvement is to change the mode of transportation wherever possible.

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 2018, 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 carried out by electric vehicle. Charging stations have been installed at the brand's headquarters in the French capital.

Emissions testing in accordance with Scopes 1, 2 and 3

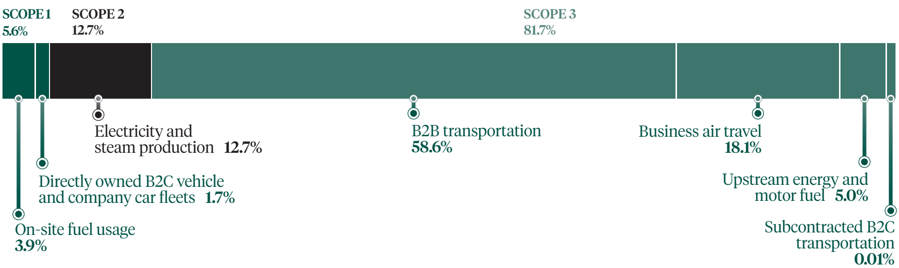
CO_2 emissions by Scope as per the GHG protocol in 2018 (in metric tons of CO_2)

Scope 1	14,406
Scope 2	32,448
Scope 3	208,915
TOTAL	**255,769**

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 consumed by Kering's 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.

Breakdown of CO_2 emissions in 2018



In 2018, 5.6% of the Kering group's CO_2 emissions were under its direct control. Consumption of electricity and steam now accounts for just 12.7% of CO_2 emissions. The more-than-50% reduction reflects the significant efforts made by the Group to purchase green electricity (with a certificate guaranteeing its source) and to increase the use of renewable energies at its industrial sites and warehouses. The increase in the largest portion of emissions, which are those not under the Group's control (Scope 3), reflects significant growth in the Group's business and the wider geographic distribution of its sales. Taking a proactive approach, Kering is working closely with its transportation service providers and taking steps to optimize logistics flows (by using full containers and minimizing trips, for example), and increasing the use of cleaner means of transportation in terms of CO_2 as a way of reducing its carbon footprint.

***Pro forma* change 2018 vs. 2016 in CO_2 emissions (in metric tons of CO_2)**

	2018-2016 *pro forma* scope			Change
	2018	2017	2016	vs. 2016
Scope 1	12,189	12,378	12,405	-1.7%
Scope 2	27,566	67,958	72,749	-62.1%
Scope 3	206,683	152,566	132,651	+55.8%
	246,438	**232,902**	**217,805**	**+13.1%**

On a *pro forma* basis over three years, overall emissions across the Kering group rose by 13% due to increases in B2B transportation and air travel (Scope 3), driven by the Group's significant growth. Scope 1 emissions decreased by 2% and Scope 2 emissions fell by 62%, due to increased use of electricity from renewable sources.

Group carbon intensity over three years

	2018	2017	2016	Change 2018 vs. 2016
Group CO_2 emissions/Group revenue	18.72	22.05	26.50	-29.4%
CO_2 emissions relating to store energy consumption/ store surface area	0.08	0.07	0.23	-64.8%

The remarkable reduction in carbon intensity (CO_2 emissions in relation to revenue) of nearly 30% over three years shows that the Kering group is well on track to achieving the ambitious objectives in its 2025 strategy. In particular, the sharp decline in CO_2 emissions per unit of store surface area reflects the Group's rapid transition to a renewables-oriented energy and electricity mix.

3.2.2.2 Water consumption and wastewater discharges

Kering's water consumption

Across the Group, 60% of water consumed is used for domestic purposes (store cleaning, rest rooms, air conditioning, etc.) and 40% for industrial purposes. The Group's industrial water consumption is primarily attributable to its tanneries, none of which is located in water-stressed zones. Moreover, Kering is 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 is a serious environmental concern.

Water consumption in 2018 and *pro forma* change vs. 2016 (in cu.m)

		2018-2016 *pro forma* scope			Change
	Consumption in 2018	2018	2017	2016	vs. 2016
Industrial water	338,248	335,948	271,235	218,000	+54.1%
Non-industrial water	505,605	453,567	486,049	470,268	-3.6%
TOTAL WATER	**843,853**	**789,515**	**757,284**	**688,268**	**+14.7%**

In 2018, Kering's water consumption amounted to approximately 843,853 cu.m. On a *pro forma* basis, total water consumption increased by 14.7% between 2016 and 2018, largely due to a significant 54.1% increase in industrial water consumption on the back of a substantial increase in business volumes on certain industrial sites owned by the Group. Water used for sanitation fell by 3.6%.

Policies and initiatives for reducing water consumption and management of wastewater

Given the nature of Kering's operations, the direct environmental impact of its water consumption is not significant. However, the Houses still work tirelessly to come up with innovative tanning processes that eliminate heavy metals and use less water. As a result, water consumption intensity (cubic meters of industrial water consumed/Group revenue) declined by 6.6% between 2016 and 2018.

Gucci's Scrap-Less initiative enables the House to only treat the leather needed for product fabrication. The unused sections are cut away before tanning, thereby reducing the amount of chemicals and water used during the tanning process. Nine months after the project's launch, Gucci had reduced its water consumption by more than 5 million liters.

At Bottega Veneta's Montebello site, rainwater is collected for use on the gardens, reducing the House's water consumption. Aerators have been fitted to faucets at various sites, resulting in a water saving of around 30%.

Though the water discharge impact from Kering's directly owned 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 required. Each tannery has its own on-site wastewater treatment plant. As a result, 100% of the wastewater from Group tanneries is pre-treated on site before continuing the wastewater treatment process. 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. To ensure compliance with local wastewater legislation, analyses are regularly carried out at each tannery and the results continuously monitored. If any anomalies are recorded, dedicated procedures and action plans are put in place and, where applicable, described in the ISO 14001-certified environmental management system. Each tannery communicates monitoring data via the Group's environmental reporting system.

The percentage of wastewater pre-treated on site for all of the Group's industrial sites is 99.99%.

Water management is an integral part of the Kering Standards published in early 2018, which set out guidelines for the Group's main manufacturing processes (tanning, textile processing and leather goods manufacturing).

3.2.2.3 More sustainable packaging

Packaging challenges in the luxury industry

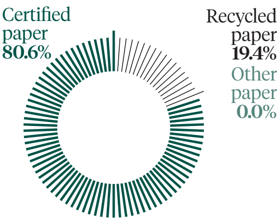
A significant amount of cardboard, paper and plastic packaging is used to protect and transport products sold in stores or online. The use of this packaging relates directly to the Group's business. To limit the environmental impact of its packaging, Kering and its Houses make every effort to opt for the most sustainable solutions available. They also carry out initiatives aimed at reducing the use of packaging while maintaining an optimal level of protection for the goods manufactured. The Couture and Leather Goods Division's multi-brand logistics platform also aims to reduce packaging volumes used for product delivery worldwide and complies with the Kering Standards in this regard.

Packaging consumption in 2018 and change vs. 2016 (in metric tons)

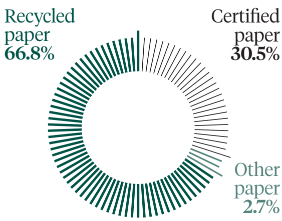
		2018-2016 *pro forma* scope			
	Consumption in 2018	2018	2017	2016	Change vs. 2016
Paper packaging	9,902	9,767	7,011	4,822	+102.6%
Plastic packaging	1,188	817	761	528	+54.7%
Cardboard	12,183	11,956	9,453	7,075	+69.0%
Textile	2,073	1,977	1,457	940	+110.3%
Wood	78	78	35	114	-31.6%
Metals	478	90	74	73	+23.3%
TOTAL PACKAGING	**25,902**	**24,685**	**18,791**	**13,552**	**+82.2%**

In 2018, Kering consumed 25,902 metric tons of packaging, 47% of which was cardboard and 38% paper. On a *pro forma* basis, total packaging consumption increased by 82% between 2016 and 2018. The substantial increase was attributable chiefly to increased business volumes across most brands. In addition, some Houses renewed their packaging inventory following changes to their visual identities. In 2018, the proportion of certified or recycled packaging was 98% for paper packaging and 96% for cardboard used across the Group.

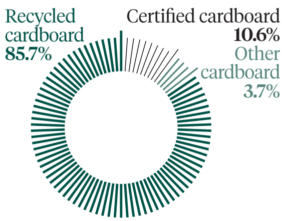
Paper bags



Paper packaging



Cardboard



Measures to promote more sustainable packaging

Most of the Group's Houses opt for FSC certification for their packaging, including Gucci, Bottega Veneta, Saint Laurent, Balenciaga, Alexander McQueen (100% for customer packaging), Pomellato, DoDo, Boucheron, Kering Eyewear, and Girard-Perregaux for its wooden watch boxes. Some brands focus on the integration of recycled fibers. At Bottega Veneta, for instance, 100% of paper and cardboard packaging used in 2018 was either recycled or certified. In addition, the House decided in 2018 to replace the plastic wrapping used to protect its products during delivery to stores with a new biodegradable polymer version, starting with the Fall/Winter 2019 season.

Saint Laurent has developed new packaging for its e-commerce site that can be transported folded, thereby reducing the space used and in turn CO_2 emissions during transportation.

In 2018, Balenciaga continued with its No Box project to cut down on packaging and the amount of cardboard used for goods transportation, adopting lighter yet equally resistant solutions to reduce resource consumption like Alexander McQueen, which launched the same initiative for the leather goods in its stores back in 2017. 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, and for the garment covers given to clients.

3.2.2.4 Paper consumption: printed publications and office paper

Paper consumed by the Kering group and its Houses 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.

Paper consumption in 2018

In 2018, Kering's overall paper consumption totaled 1,679 metric tons. A breakdown by category is presented below.

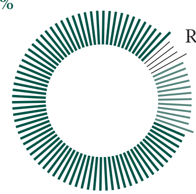
Paper consumption in 2018 and *pro forma* change vs. 2016 (in metric tons)

		2018-2016 *pro forma* scope			Change
	Consumption in 2018	2018	2017	2016	vs. 2016
Paper – indirect purchases	1,089	1,086	963	958	+13.4%
Office paper	590	490	489	581	-15.7%
TOTAL PAPER	**1,679**	**1,576**	**1,452**	**1,539**	**+2.4%**

Between 2016 and 2018, the Group's paper consumption increased by 2.4% driven by increased activity, particularly for certain brands. Office paper consumption fell by 15.7%, reflecting the Group's ongoing efforts to reduce paper consumption and promote paperless alternatives.

In 2018, the proportion of certified (PEFC or FSC) or recycled paper was 86% across the Group, breaking down as 82% certified paper and 4% recycled paper. The proportion exceeds 95% in several Kering brands, including Bottega Veneta, Saint Laurent, Brioni, Boucheron, Ulysse Nardin and Girard-Perregaux. In addition, the majority of brand catalogues and office paper used by all of the Group's Houses is certified (PEFC or FSC) or recycled.

Type of paper used in 2018 (%)



3.2.2.5 Waste production and management

Hazardous and non-hazardous waste

As is the case for consumption of packaging, the production of waste in the Group's operations is directly related to the intensity of its retail activities. The repackaging of goods and the use of pallets for transportation 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.).

The main source of the Group's hazardous waste production is its industrial operations, and more particularly its tanneries. One of the main challenges for Kering's waste management operations is the presence of heavy metals, which are used during the tanning process. Kering's tanneries are therefore actively involved in the research and development of alternative tanning methods that are more environmentally friendly. As a result, a heavy-metal-free tanning method has been introduced at the Group's exotic and non-exotic leather tanneries and lifecycle assessments have been carried out to confirm the improvement in environmental impact associated with the new process, which does not use chrome or heavy metals. A portion of production was carried out using the new method in 2018 and is expected to increase in 2019.

Tanning processes can also give rise to odor pollution because they emit hydrogen sulfide, especially at the stripping stage. Unpleasant odors are managed by an air evacuation system at the stripping tubs, which channels polluted air through a filter that traps sulfur bearing particles and outputs clean air.

Total waste produced in 2018 and *pro forma* change vs. 2016 (in metric tons)

		2018-2016 *pro forma* scope			Change
	Production in 2018	2018	2017	2016	vs. 2016
Non-hazardous waste	18,723	14,674	11,265	8,254	+77.8%
Hazardous waste [(1)]	599	397	271	231	+71.9%
TOTAL WASTE	**19,322**	**15,071**	**11,536**	**8,485**	**+77.6%**

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

In 2018, Kering group's total waste production amounted to 19,322 metric tons, 97% of which was non-hazardous. On a *pro forma* basis over three years, hazardous waste increased by 71.9% due to increased activity in the tanneries and industrial sites.

Non-hazardous waste increased by 77.8% *pro forma* over three years. The increase is directly in line with growth in business volumes. In addition, certain warehouses renewed their inventory of boxes and pallets over the period, significantly increasing the amount of non-hazardous waste in 2018.

Waste reuse and recycling

Rate of recycling and reuse of waste as energy in 2018 (%)

	% reused in 2018
Non-hazardous waste	69.6%
Hazardous waste	56.9%
TOTAL WASTE	**69.2%**

Some 56.9% of the hazardous waste and 69.6% 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 69.2%.

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) specializing in the recovery and recycling of conventional office waste (paper, envelopes, flyers, etc.), as well as cardboard, plastic, cans and fabric. Since the operation began, 100 metric tons of paper and cardboard, 4.5 metric tons of plastic and 6.6 metric tons of fabric have been recycled. A waste sorting system is also in place at the stores located on avenue Montaigne and rue Saint Honoré in Paris. Saint Laurent also continued its efforts to recycle waste and unused materials in 2018. Partnerships have been established with French vocational rehabilitation organizations 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 and Balenciaga recycle cardboard from their Parisian stores. Brioni continued to roll out its sorting system for waste paper and fabrics during the year.

At its new headquarters on rue de Bellechasse in Paris, Saint Laurent has eliminated plastic water bottles to reduce the amount of plastic waste. Instead, each employee is offered a reusable water bottle designed with charity: water, an NGO supported by the House, which they can fill at the water dispensers available on each floor. Saint Laurent's Sustainability Department also offers a mug to each new employee worldwide to reduce the use of disposable cups.

Kering Eyewear has made similar efforts to reduce waste by installing micro-filtered water dispensers in its Italian offices and providing all employees with personalized stainless steel bottles designed with a carbon-neutral partner. By avoiding the production, transportation and packaging of plastic water bottles, Kering Eyewear saved around eight metric tons of CO_2 in 2018 (and five metric tons in 2017). The company also works with a specialized service provider to organize the collection of all production waste containing its flagship material acetate.

4. ENVIRONMENTALLY AND SOCIALLY RESPONSIBLE SUPPLY CHAINS

4.1 Managing our impacts beyond our own operations

4.1.1 A vision of responsible sourcing based on transparency and traceability

The Kering group believes that sustainability can only exist within an ethical framework. The Group is aware that its social and environmental responsibility goes beyond its own operations and extends throughout its supply chains. It further believes that respect for human rights applies to everyone, be they employees, workers in supply chains or members of local communities.

This vision, embodied by Kering's 2025 Sustainability strategy, also informs the Group's approach to human rights. The result is a need for transparency and traceability within its supply chains, and thus to identify, understand and map the chains so as to develop synergies and priority programs wherever significant impacts are found, within the raw materials industries that are essential to the Group's activities.

In operating terms, this vision is expressed in the two strategic management tools implemented by the Group: the EP&L, which measures its environmental impacts across its various supply chains, even outside the regulatory framework, and the Kering Standards.

The Kering Standards, an unprecedented approach in the luxury sector, were published in 2018. They lay down the Group's requirements in terms of traceability for the key raw materials used by the Houses. The overall level of traceability is consolidated annually through the EP&L tool. The level of traceability required by type of material was set on the basis of a risk matrix for each type of raw material, as well as the level of transparency achievable by the market. The origin of the raw materials is established by supplier declaration, and may be supplemented by specific protocols: certification (such as ICEC for leather), verification by the Houses, etc.

4.1.2 The Kering Standards

In 2012, Kering set out basic principles and guidelines on responsible sourcing consistent with its general sustainability policy, targets and existing good practices. 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, use of chemicals, social impact, environmental impact and animal welfare. The Standards lay down minimum requirements for prospective Group suppliers in each of these five areas, and set out the more demanding requirements that suppliers will be required to meet by 2025. They are based on founding notions of integrity (material traceability, chain of custody certification, etc.), circularity (use of recycled materials where possible, consideration of the recyclability of products, etc.) and the precautionary principle (no GMOs, no nano-materials, etc.).

A first in the luxury sector, and fully consistent with Kering's spirit of sharing and its desire to encourage the world of fashion to adopt more sustainable practices, the Standards were published in January 2018 and can be downloaded in English, Italian and French from the Group's website. They cover the key materials used by the Group. Leather and precious skins, fur, wool, cotton, paper, wood, plastic, feathers and down, cellulosic fibers, gold and diamonds are dealt with in the first version. In 2018, Kering worked to add four new Standards (silk, synthetic fibers, colored stones and silver) for the second version, which is to be published in early 2019. 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 will subsequently be extended to include metal refining and precious stone cutting processes.

In 2017, Kering traced 82% of its key materials back to the country of origin at least, and even further for animal-based materials (fur, leather, precious skins). The Kering Standards aim to increase this level of traceability by 2025, going as far back as the farm for all animal products.

More specifically by material, the Kering group achieved the following levels of traceability in 2017: 83% back to the slaughterhouse for leather; 90% back to the country of origin for wool; 89% back to the country of origin for cashmere; 70% back to the country of origin for cotton; 90% back to the country of origin for silk; and 55% sourced through the Group's gold purchasing platform for gold. For furs, traceability must go back to the farm; for precious skins, it extends back to the farm for farmed species and the slaughterhouse for harvested species; lastly, for diamonds, it goes back to the country of origin.

4.2 Relationships with subcontractors and suppliers

4.2.1 The Suppliers' Charter

Since 2013, the Group's Code of Ethics 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.

For any contractor of Kering or one of its Houses, notwithstanding any contractual clauses, compliance with the Charter is a precondition of the business relationship. The Group requires its suppliers to commit formally to applying high ethical standards themselves and to ensuring the preservation of human rights.

The Charter reminds them of the need to promote human rights within their production units and among their subcontractors, and to advise Kering and/or its Houses of any serious difficulties in applying the Charter. Compliance is further measured by means of social audits in production sites, as described under "Working conditions in our supply chains".

Among other aspects, Kering and its Houses require their suppliers to commit to the following fundamental principles, in line with the major international reference texts as presented in the Code of Ethics and described in "Ethics, the cornerstone of our business": to ban child labor; to proscribe the use of slavery or forced or compulsory labor; to prohibit any type of work liable to compromise health, safety or morals; to prohibit all behavior contrary to the principle of dignity at work, in particular any practice contrary to labor regulations, including on pay, working hours and conditions; to respect the directly applicable right of representation and expression of employees; to prohibit discrimination, notably on racial, ethnic or sexual grounds; to forbid sexual or psychological harassment; to respect environmental regulations and, beyond that, to work towards the implementation of the Global Compact's three principles of environmental protection, including the precautionary principle.

The Suppliers' Charter, as an integral part of the Code of Ethics, was revised in 2018 with a view to its distribution to all of the Group's business partners in 2019.

4.2.2 Responsible purchasing policy for non-market purchases

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 formalize 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 further formalized 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 body – 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 respect for each party's rights and duties.

4.2.3 Circulation of the Kering Standards

In 2018, Kering's teams worked on the circulation of the Kering Standards, first of all to the staff within its Houses. Each House held one or more sessions internally, sometimes with support from the Materials Innovation Lab (MIL) or teams from headquarters. The MIL team trained the Brioni, Balenciaga and Alexander McQueen teams in a series of half-day meetings in each House, each attracting between 10 and 40 participants from the creative, product and other departments.

The Kering Standards have been shared with all of the Group's key suppliers. A number of explanatory and training sessions were also held in 2018, particularly for suppliers of the Leather Goods, Fashion and Watches activities.

To round out these training courses, Kering's Sustainability Department worked in 2018 to develop an e-learning program presenting all of the Kering Standards. It is designed to adapt to the learner's profile (design, merchandising, material research, product development, purchasing, production/series production, quality, etc.). For each material or process, it explains the related environmental and social challenges, and then sets out the measures to be taken to ensure responsible sourcing. Scheduled for initial roll-out in the Kering Fundamentals section of the Group's e-learning platform in 2019, the new module will then be offered to all suppliers.

4.2.4 The Group's collaborative approach with its suppliers and business partners

Initiatives aimed at supporting suppliers and encouraging them to adopt sustainable practices

In line with the roll-out of the Kering Standards, training and raising the awareness of suppliers and helping them adopt best practices is the preferred avenue taken by the Group and its Houses to achieve tangible improvements in practices across their supply 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 aspect 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 Houses, individually or collectively.

As such, throughout 2018, the Group continued its dialogue and sharing with its partners: in March 2018, the Novara Supplier Summit brought together nearly 450 representatives of Tier 1 and Tier 2 suppliers of the Group's Ready-to-Wear and Accessories Houses for a one-day seminar on the 2025 Strategy, "Shaping the Luxury of Tomorrow". The day was split between a plenary morning presentation of the overall strategy and an afternoon of workshops devoted to the Kering Standards and innovation.

The presentation of the Kering Standards was complemented by more detailed training sessions organized by the Materials Innovation Lab (MIL) by type of supplier. Four half-day sessions were held for this purpose between October and November, for spinners, weavers and manufacturers of wool, cashmere, cotton, silk, and cellulosic and synthetic fabrics. Each session was attended by between 20 and 30 of the Group's key suppliers. The training sessions presented the aims underpinning the Standards, and set out practical ways of applying them for the Group's Houses. Sessions of this nature are important and unifying moments of exchange, and more will be held in 2019. The goal is to cover all of the Group's key suppliers.

Leather Goods suppliers and tanneries were also brought together several times in 2018 to discuss the Kering Standards, chemicals management and metal-free tanning. In 2018, Kering established a Metal-free Technical Roundtable to speed up the transition to chrome-free tanning. Two one-day meetings took place in Florence (Italy) in June and November, bringing together the Houses' production managers, the 19 biggest tanneries for the Group, and key players in the sector, including Italy's *Unione Nazionale Industria Conciaria* (UNIC). They served to discuss technical challenges in concrete terms, and to set out a joint strategy for the transition to metal-free tanning.

Kering also partnered with the Zero Discharge of Hazardous Chemicals (ZDHC) Programme and other luxury brands outside the Group to unite textile and leather suppliers around the notion of proactive management of chemicals and the application of the Manufacturing Restricted Substance List (MRSL). The meeting held on the issue in Italy in March 2018 was attended by 200 participants.

In 2018, Gucci organized a number of meetings with its suppliers to share its Sustainability strategy, the Kering Standards for supply and production, and the flagship projects implemented within its supply chains, such as metal-free tanning. Suppliers from different product and raw material categories were involved in 2018: Gucci brought together ready-to-wear and silk accessories suppliers for three meetings during the year; 63 suppliers of Leather Goods and metal parts for Leather Goods and Shoes took part in a meeting organized by the House, and a further two events brought together 85 leather and textile suppliers. Gucci also conducted one-on-one meetings with some of these suppliers to strengthen dialogue on best practices, chemicals management and the Sustainability Principles. Since 2017, Gucci has also operated the Suppliers Portal, an online platform that enables Italian craftspeople creating leather goods and shoes to collaborate with Gucci. It has received more than 180 applications since its opening.

In 2018, Bottega Veneta, in line with the Group's commitment to the MRSL, was the first House to roll out the list to a group of leather goods and shoe manufacturers. To this end, a half-day of training bringing together seven key suppliers was organized at the Montebello workshop. Suppliers then completed their first self-assessment in December 2018.

Saint Laurent, in line with the Group's supplier management policies, has developed a set of specific Key Performance Indicators (KPIs) for its supplier assessment system in its leather tanneries. Drawing on extensive data collection across all product categories, levels of traceability, percentages of Kering Standards-compliant leather purchases and tannery EP&L performances were calculated and tracked on a monthly basis throughout 2018. These results will now be shared regularly with tanneries and fed into the supplier assessment process.

Lastly, in September 2018, watchmakers Girard-Perregaux and Ulysse Nardin jointly held a supplier event with their strategic partners and Kering stakeholders to share the Group's Sustainability strategy and the Hercules contract and supplier management system. Ulysse Nardin and Girard-Perregaux have also established an internal supplier committee that, among other things, addresses sustainability issues.

In addition to meetings devoted to presentations, exchanges and the joint development of solutions with its suppliers, Kering also supports them in the practical implementation of projects aimed at reducing its environmental footprint, such as the Clean By Design project, described in the section entitled "Measurement and reduction of the carbon footprint of our operations"; actions implemented by LGI to reduce the carbon footprint of its logistics activities; and programs developed specifically in cooperation with stakeholders in the various key raw materials industries, as described in the section entitled "Sustainable use of raw materials".

Sustainable innovation projects

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.

In early 2017, Kering became a founding partner of the Plug and Play – Fashion for Good accelerator, a partnership formed with Fashion for Good, the C&A Foundation and Plug and Play, a Silicon Valley start-ups incubator. The aim is to fast-track sustainable innovation within the luxury and apparel industries. Kering's Houses also have access to the Materials Innovation Lab (MIL), opened in 2013 at the heart of the Group's production operations in Italy, which aims to promote sustainable innovation in textiles and accessories and to help the Houses source responsible raw materials. The Houses are also developing innovative initiatives specific to their activities and priorities.

Their projects are described in greater detail in the section entitled "Sustainable fashion: conveying our values and supporting innovation".

4.2.5 Risk management: product quality control, and consumer health and safety

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.

To enable customers to enjoy the products developed by the Houses 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 the Houses on product testing protocols to ensure that products comply with the local characteristics of each market. It 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 2018, the Product Compliance Advisory Department expanded its workforce to spur progress on the following three pillars:

- strengthen compliance controls: regular audits of product compliance were conducted at the warehouse level together with the Houses to detect potential non-compliance, and the number of laboratories accredited for tests and measurements has been increased to cover the growing number of materials and products tested;

- improve knowledge sharing on product compliance processes: training programs have been strengthened and extended to all key departments (product development, production, quality and purchasing), from raw materials to production (leather, fabric and metal accessories). Due to the increasing complexity of the Houses' products, a joint effort has been made to ensure maximum accuracy in labeling. To this end, the Product Compliance Advisory Department has created guides and specific training modules, and has rolled out a dedicated IT tool;
- support the Houses' product development teams: in collaboration with the Chinese authorities, company-specific product standards have been established for Kering's Houses. These standards make it possible to develop leather goods meeting all requirements in terms of health, safety and compliance, while leaving the Houses' creative teams significant scope to follow their inspiration.

Some Houses also have specific initiatives, such as Girard-Perregaux, whose Quality Department helped create a technical committee on watchmaking in 2014, also involving Ulysse Nardin, Gucci and Boucheron. In 2016, the Committee continued to discuss actions related to regulatory compliance in respect of hazardous substances 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. In the same vein, Girard-Perregaux and Ulysse Nardin continued in 2018 to take an active part in the *Association pour l'Assurance Qualité des Fabricants de Bracelets Cuir* (Swiss association of quality assurance for leather bracelets manufacturers – AQC) on the chemical compliance of leather used in watch straps, the aim being to set up a certification label. Lastly, Kering Eyewear calls on accredited laboratories with specific expertise in eyewear for its compliance checks. They include the leading laboratory for optical companies in Italy and a laboratory performing chemical compliance testing of acetates and sunglass lenses.

4.3 Working conditions in our supply chains

Kering's actions in respect of working conditions in its supply chains are part of the Group's analysis of non-financial risks, the duty of care and the Group's human rights approach, as presented in the section entitled "Ethics, the cornerstone of our business".

4.3.1 Implementation of the social audit system within the Group

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 Houses 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.

To meet these challenges, Kering has established a dedicated organization. 2016 was a major turning point in the approach to supplier management and assessment, with the complete redesign of the organization. The challenge was that different Houses had potentially adopted different practices, and distinct audit and risk evaluation methods, and that a single supplier working for several of the Group's Houses 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, which now represents the entire Group. On that basis, a single central body allowing Kering to control the compliance of Group suppliers was established in late 2015, and began operating in January 2016. The new organization, the Hercules system, is based on six key pillars:

1. sustainability principles established for all the Luxury Houses in 2015 are divided into three areas:

   a) the social aspects related to human rights, labor rights, and health and safety, including the elimination of child labor, forced labor, human trafficking in all its forms and discrimination, compliance with statutory working hours, and respect for the freedom of association and the right to collective bargaining;

   b) environmental aspects, such as compliance with laws as well as restrictive lists of chemicals defined by Kering, environmental management, and waste water treatment;

   c) aspects related to the supply of raw materials and packaging, including respect for animal welfare and the five related freedoms, sourcing and traceability requirements for a number of key materials used by Kering, and the prohibition of certain substances and/or certain sourcing regions (for reasons related to the social conditions of production – child or forced labor, for instance – or environmental issues).

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 passing on these principles to its own subcontractor network, if it has one. The principles are available to the public on the Group's website;

2. Kering provides central management through a team of 18 people (ten auditors specialized in conducting supplier audits and monitoring anomalies, three people dedicated to management, and five planners); depending on needs (locations, workload etc.), this team can be assisted by an external service provider;
3. clear and uniform procedures for all the Houses, corresponding to the different stages of the supplier relationship, including the activation procedure, monitoring procedure, termination of contract procedure;
4. a risk evaluation used, on the basis of collective data (information in the possession of the relevant House(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 Houses 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 labor, forced labor, 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 Houses 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 labor, forced labor, 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 House(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,
   - **d)** observations.

     These 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.

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 jeopardize 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 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.

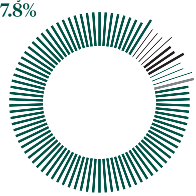
Depending on the results of audits, suppliers are classified as:

- 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);
- progress expected (no zero-tolerance breaches, more than five moderate compliance breaches or at least one serious breach);
- zero tolerance (at least one zero-tolerance breach).

This organization, effective since January 1, 2016, is phasing into both Kering's Houses and their suppliers.

4.3.2 Supply chain mapping

As a Group of leading global Houses, Kering operates in the luxury market, whose supply chains are structured in a very specific way, as evidenced by the location of the suppliers in the centrally managed database in 2018.

Supplier portfolio	Size of suppliers	Geographical location of Kering's suppliers in 2018
Thousands of mostly small suppliers, highly fragmented market, high level of craftsmanship.	Average number of employees by supplier: fewer than 50. Taking all Kering suppliers into account, this represents an estimated workforce of between 140,000 and 150,000, of which 35,000 to 40,000 dedicated to Kering.	More than 95% in Europe, predominantly in Italy:[1]  Western Europe (92.9%): strong government presence, comprehensive and mature labor law, highly developed social dialogue.

(1) Geographical breakdown in 2018 of direct suppliers and contractors, managed within the centralized system introduced by Kering in 2016.

In addition, as part of the EP&L initiative, the Kering group has mapped its supply chains in accordance with the principles of its EP&L methodology. This mapping, as presented in the section entitled "EP&L: Environmental Profit & Loss account", splits Kering's supply chains into five tiers, with Tier 0 for the Group's own operations and stores, Tier 1 for final assembly, Tier 2 for preparation of sub-components, Tier 3 for processing of raw materials, and Tier 4 for production of raw materials.

4.3.3 Findings obtained in 2018 and key indicators

The supplier base managed by Kering's central team for its Houses has the following characteristics:

- it does not yet include all suppliers, although 2018, in line with 2017, did see a sharp rise in the number of suppliers managed, with the inclusion of all production suppliers and strong growth in the number of raw materials suppliers. The Jewelry and Watches Houses are gradually being phased into the system;
- to date, it covers 3,636 suppliers (5.8% more in 2018 than in 2017), with the following breakdown:
  - 26% direct suppliers (a supplier is deemed direct when it has a direct business relationship with the Houses rather than working via a subcontractor),
  - 14% contractors (direct suppliers working for one or more Houses and which subcontract part of their production),
  - 60% subcontractors (working for contractors and having no direct business relationship with the Houses);

  Furthermore, 2.6% of suppliers are located in countries considered to be at risk, namely those identified in the Kering group's risk analysis.

Subcontracting without prior authorization is not permitted.

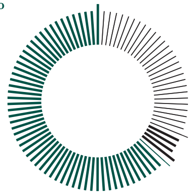
Moreover, among its suppliers, Kering singles out raw materials suppliers, which can be either direct (i.e., with a direct business relationship with the Houses) or indirect (i.e., without a direct business relationship with the Houses). Raw material suppliers identified as key to the Group represent roughly 20% of all raw material suppliers, corresponding to approximately 80% of purchases.

Lastly, for a limited proportion of its activities (fragrances and cosmetics), Kering also works with licensed suppliers, i.e., those that are under license to the Houses.

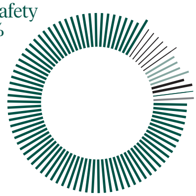
Within this portfolio of suppliers, 2,867 audits were conducted in 2018 (an increase of 18% compared with 2017), breaking down as 1,632 comprehensive audits and 1,235 follow-up audits. This means that 59% of suppliers were audited in 2018. Over the 2015-2018 period, 81% of suppliers were audited. It should be noted that "activation" audits for new suppliers are comprehensive audits, and that they therefore cover the entire scope of a comprehensive audit.

These audits revealed 8,373 anomalies, breaking down as follows:

Breakdown by severity of anomalies recorded as of December 31, 2018 within the Kering group



Breakdown by theme of the top 5 anomalies (excluding observations) recorded as of December 31, 2018 within the Kering group



Following these audits, 54.4% of suppliers were rated compliant, 34.3% partially compliant, 9.4% progress expected and 1.9% zero tolerance. One hundred suppliers saw their business relationship terminated in 2018 due to unsatisfactory audit results.

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 zero-tolerance breaches found during the audits were the subject of immediate attention in accordance with established rules and in coordination with the relevant Houses.

As an example of remediation, the Group Audit teams conducted a supplier audit in 2018 during which a zero-tolerance breach of employment conditions was recorded. This supplier had made accommodation available to its employees without a lease. In accordance with the procedure in place for this type of anomaly, a crisis unit was immediately set up with the relevant House. After analyzing the case, the supplier corrected the situation by providing proof that leases had been established.

Another zero-tolerance breach was discovered through a 2018 audit of a supplier that was using a chemical that is potentially dangerous to workers, without conducting an adequate risk analysis. The crisis unit set up immediately with the relevant House resulted in the supplier purchasing a hermetically sealed machine for this stage of the production process.

4.3.4 Beyond social audits

No matter how robust and efficient, a social auditing system is never sufficient to ensure that there are no risks in the complex supply chains of a global Group, chains whose links – and especially the most distant ones – are shared with other luxury groups, or even other industries, such as the textile industry or even the food industry for leather, a key raw material for the Kering group.

To this end, Kering, as a major player in the luxury goods industry and aware of its social responsibility in respect of a wide range of suppliers, subcontractors and raw material production chains, engages in continuous and collaborative dialogue on human rights with the various players in its supply chains through:

- sector-based initiatives such as membership of the Sustainable Apparel Coalition, Textile Exchange and the BSR-coordinated Business Action for Women initiative designed to drive progress for women in supply chains;
- programs specifically designed by the Kering group for its suppliers and subcontractors, such as the project on equal access to professional opportunities for women in the luxury industry in Italy, coordinated by Bottega Veneta with Gucci, Pomellato and Kering Eyewear and, outside the Group, with the *Camera Nazionale della Moda Italiana* and NGO *Valore D*;
- capacity building programs to support suppliers in human resources and human rights management with their own subcontractors and stakeholders, following the example of Gucci and Bottega Veneta as part of their SA8000 certification;
- and House-led initiatives on challenges specific to their individual supply chains, such as the project developed by Gucci for the integration of refugees in Italy with the Adecco Foundation and the UNHCR.

This dialogue and its social impact on the Group's activities and beyond its operations are described in the section entitled "Protection of human rights at Kering". It is part of Kering's global approach to stakeholder dialogue on sustainability issues, as presented in the section entitled "Stakeholder dialogue".

4.4 Preserving natural capital

4.4.1 EP&L: Environmental Profit & Loss account

Since 2012, Kering has measured and quantified its progress toward becoming a more sustainable Group through its Environmental Profit and Loss account (EP&L). The cornerstone of its environmental approach, it also serves as a management tool by which Kering lays out its roadmap for the coming years in terms of sourcing strategy and choice of materials. Kering has undertaken to reduce its EP&L intensity by 40% by 2025 compared with 2015.

In 2018, Kering was for the first time able to testify to its progress towards the goal of reducing its EP&L under its new profile as a Luxury pure player. Meanwhile, the methodology is shifting towards even greater robustness, with transparency as the highlight through the increasing number of exchanges and collaborations around natural capital accounting.

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 of its environmental impacts on population groups throughout its supply chain. Kering uses the EP&L results, expressed in monetary terms, to:

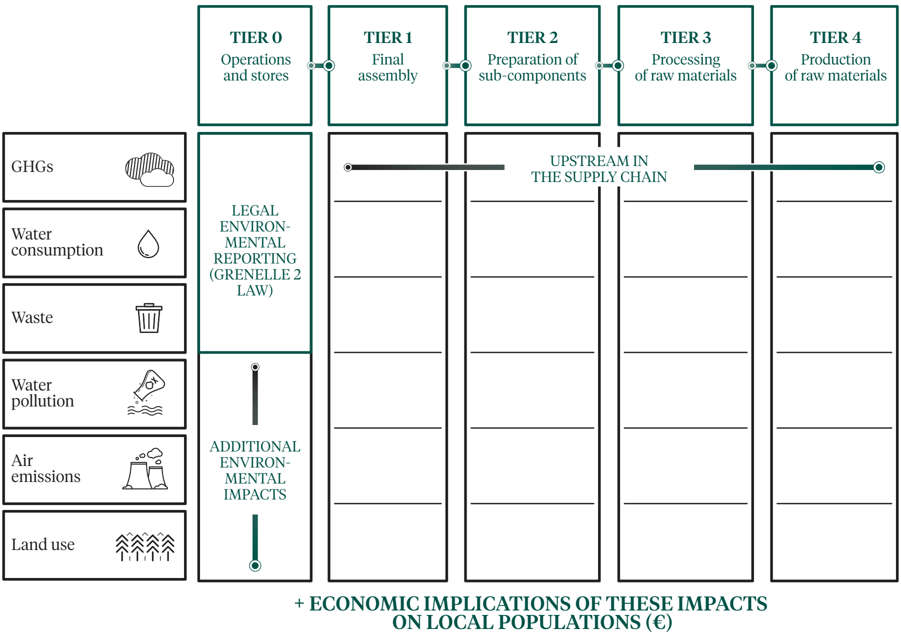
- translate its environmental impacts into business language;
- compare different environmental impacts;
- compare, for any given environmental indicator, the magnitude of an impact for different locations (particularly useful for drinking water availability, an important local issue);
- facilitate comparisons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

For Kering and its Houses, 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.

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

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.

Scope covered by the EP&L approach



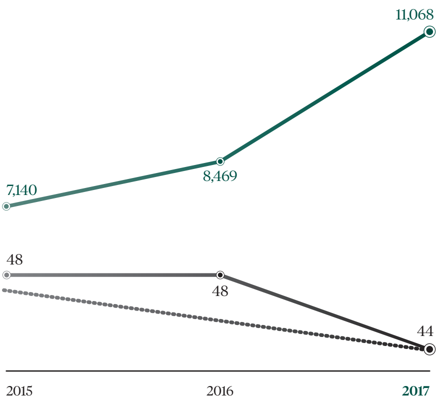
Environmental change resulting from emissions or use of resources is translated into economic terms, taking into account local contexts and impacts on local populations.

	GHGs	Water consumption	Water pollution	Land use	Air emissions	Waste
Emissions and use of resources	CO_2, N_2O, CH_4, CFCs, etc.	m³ of water	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

Results and learnings

Kering published its 2017 EP&L results in 2018. This publication reflects a commitment to report annually on the Group's performance and the achievement of its 2025 Sustainability objectives.

The Group's environmental impact amounted to €482 million in 2017. This increase of nearly 18% on a *pro forma* basis must be seen in the light of the Group's stellar organic growth. Kering's EP&L intensity has been declining steadily since 2015, and is in line with the Group's reduction target, having eased by 10% between 2016 and 2017.



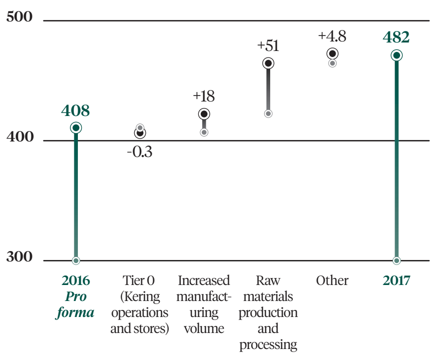
Revenue: €m
EP&L intensity: €EP&L per €1,000 in revenue
(Intensity based on EP&L results using the 2017 methodology)

The big increase in revenue between 2016 and 2017 reflects an increase in activity and as such increased purchases of materials and even the build-up of inventories, which are vital as a means of supporting strong growth in the Group's Houses. Increases were focused essentially on supplies of leather, explaining the increase in the EP&L impact related to the production and processing of raw materials.

On the operations side, energy efficiency efforts carried out over recent years on stores and production sites have resulted in a reduction in the environmental footprint in absolute terms, which is a very positive outcome in this context of strong growth.

Main changes between 2016 and 2017

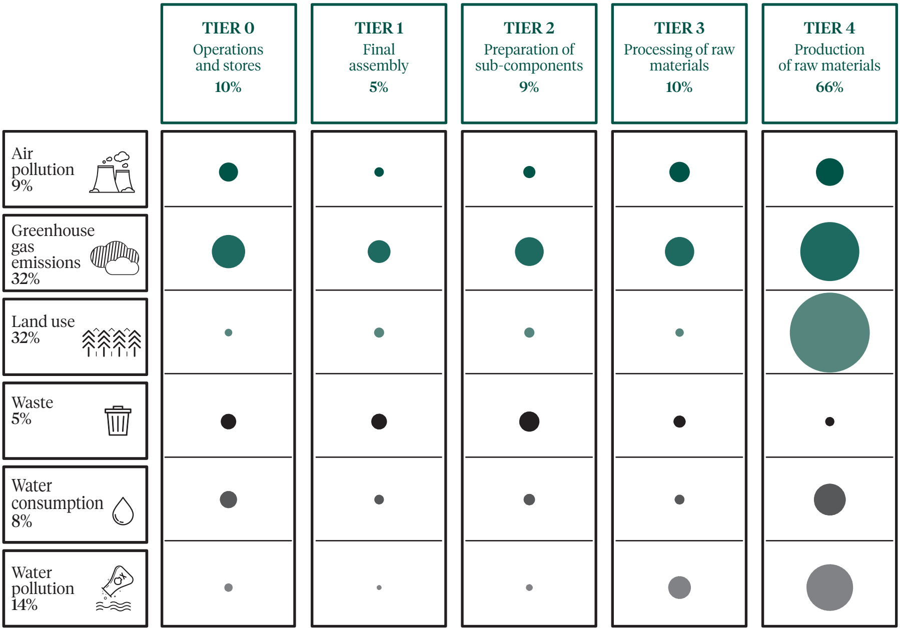
EP&L impact *(in € millions)*



Kering's transformation into a Luxury pure player has slightly modified its environmental profile. The significant proportion represented by supply chains is nevertheless unchanged at 90% of impacts, with 76% attributable to the production of raw materials (Tier 4) and their initial processing (Tier 3).

Land use, greenhouse gas (GHG) emissions and water pollution remain the predominant impact indicators, accounting for 78% of the total impact. This confirms, if need be, the strategic thrusts of Kering's environmental policy.

Mapping of 2017 impacts

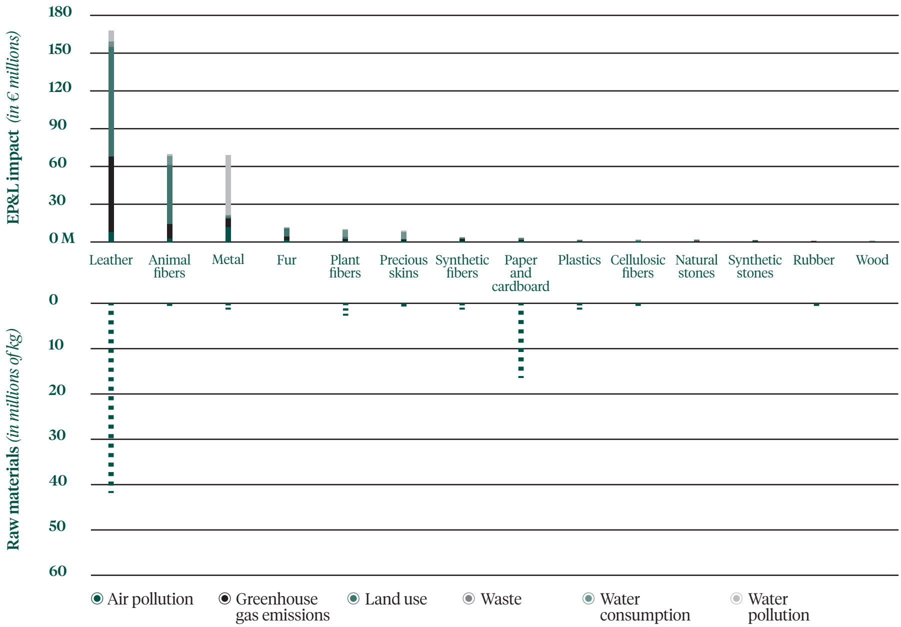


This breakdown of the environmental footprint should be seen in the light of the Group's use of raw materials.

For instance, leather products and textile fibers of animal origin have a strong impact on greenhouse gas emissions and land conversion. 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 prioritize and focus efforts on the raw materials and supply chains that generate the greatest impact, even when the volumes of these materials are low.

With the Group's refocus on Luxury, the environmental impact of plant fibers such as cotton and synthetic fibers such as polyester has decreased. The Sport & Lifestyle activities used large quantities of these materials.

The results and lessons learned from the EP&L were widely discussed within the Group in 2018. At the annual progress report on the Group's Sustainability strategy, for instance, the Management Committees of each House shared with Kering their action plans and the main benefits expected in terms of reducing their EP&L footprint.



Kering's approach to natural capital accounting

The results of the EP&L back up the Group's strategy, which places considerable emphasis on responsible sourcing policies and improving the environmental efficiency of its industrial processes while seeking optimum management of sites and activities. For Kering, this means above all:

- implementation of the Kering Standards: applicable to all of the Group's Houses and their various suppliers, the Standards provide essential information and guidelines geared towards reducing the Group's environmental footprint and achieving the 2025 Sustainability objectives. Published in 2018, the Kering Standards are intended to improve the monitoring and measurement of the Group's progress in terms of traceability, social compliance, environmental protection, animal welfare and the use of chemicals. They have been widely circulated, both within the Group and externally, and will be covered by a specific e-learning module;
- implementation of targeted projects: the Group has prioritized its actions in response to the lessons learned from 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,
  - collaboration between the Houses and their various departments. By regularly pooling the wealth of knowledge and expertise available across the Group, Kering generates synergies and provides a response to such major issues as the improvement of material traceability, the establishment of material purchasing platforms aligned with the Kering Standards and support for positive-impact initiatives in supply chains. This is done without compromising the confidentiality or image of the individual Houses;
- 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.

TIER 4 | TIER 3 | TIER 2 | TIER 1 | TIER 0

Idea Labs
Inter-House working group meetings to consider specific issues (see Chapter 3.2 of this Reference Document).

Smart Sourcing

***Materials Innovation Lab* (MIL)**
Supporting the Houses to integrate more sustainable raw materials into their collections (see Chapter 5.3.2).

Idea Labs
Inter-House working group meetings to consider specific issues (see Chapter 3.2).

Identifying and securing sustainable sourcing
Leather
Precious skins
Fur
Organic cotton
Wool and cashmere
Synthetic fibers
Cellulosic fibers
Gold
Diamonds and precious stones
(see Chapter 4.4.3).

Animal welfare
Developing comprehensive standards concerning the species that the Group sources (see Chapter 4.4.4).

R&D investment
To set up polyester and cellulosic fiber recycling loops (see Chapter 4.4.3).

Smart Suppliers

Clean by Design
Program to work with suppliers to reduce their environmental footprint (see Chapter 4.4.2).

Chemicals management
Product integrity (PRSL), upstream protection of workers and the environment (MRSL), tanning without heavy metals (see Chapters 4.2.5, 4.4.2 and 4.4.3).

Circular economy
Recycling production offcuts, expanding processes to include more recycled materials (see Chapter 4.4.3).

Innovation
Supporting start-ups offering solutions in a range of areas, such as dyeing and production (see Chapter 5.3.2).

Smart Operations

Guidelines and best practices
Guides for stores, offices and sales teams (see Chapter 3.2.2).

Pooled purchasing of electricity from renewable energy sources
A renewable electricity monitoring and purchasing program available to the Houses (see Chapter 3.2.2).

Certification of sites and efficient facilities
Recommendations from certifications (LEED, HQE, BREEAM).
Renovations and maintenance to improve energy efficiency.
Consideration of sustainability issues in new store concepts (see Chapter 3.2.2).

Improved energy efficiency of transportation methods
(see Chapter 3.2.2).

Improvement of the tool and the method

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.

The roll-out in 2017 of an internal modeling tool including a dynamic visualization of results made it possible to meet this objective. Known as Demeter, it includes additional modules designed to create scenarios and estimate the impacts of a project or product on the Houses' EP&Ls. In 2018, Kering continued to roll out Demeter, while further developing it to fully meet the needs of the various Houses and to integrate the latest digital technologies, particularly in terms of data science.

On methodology, Kering continued its efforts to improve the robustness of the approach and the quality of the underlying data. Key examples include:

- **alignment of the conversion factors used for leather with the reference data of the European Commission**
  As part of its Single Market for Green Products Initiative, the European Commission has developed a method for measuring Product Environmental Footprint (PEF). The approach is built on a very broad stakeholder consultation that served to establish specific rules for certain product categories, namely the Product Environmental Footprint Category Rules (PEFCRs), which notably cover leather. The leather PEFCRs establish generic data such as conversion factors for the various types of leather, based on a sample of roughly 30 tanneries in Italy. Kering sought to use this data, which is widely accepted in the sector and which enables the Group to more accurately measure its impacts stemming from the use of leather;

- **consideration of the organic carbon content of soil for the land use indicator**
  To estimate the impact of its activities on land use and conversion, Kering relies on a method that assesses the loss of ecosystem services in a given geographic area. To improve the approach, Kering has integrated recent work by the Intergovernmental Panel on Climate Change (IPCC) by adding organic carbon stored in the soil. This is a key indicator of soil health, and differentiates between agricultural practices that preserve and regenerate the soil and soil-depleting agricultural practices. It is now possible to differentiate the EP&L impact of a textile fiber such as cotton or wool depending on the type of crop or livestock: regenerative, organic or conventional. The Houses are encouraged to use materials from regenerative or organic agricultural practices to reduce their EP&L footprint;
- **update of the financial valuation coefficients used for the main impact indicators**
  The monetization of environmental impacts is an innovative and constantly changing field. It is therefore important to adapt the methodology in line with the latest expert work and to update databases. The air pollution indicator accordingly now uses a broader and more up-to-date meteorological database for air pollutant dispersion models. The waste indicator factors in a recent study on the activity of waste treatment centers and the impact of the "non-recycling" of waste. The statistical model used to define the correlation between water use for agricultural or industrial purposes and the probability of seeing local populations develop diseases related to the consumption of non-potable water in areas with high water stress has been reviewed. Lastly, the water pollution indicator is based on the latest version of the USEtox database developed jointly by the United Nations Environment Programme (UNEP) and the Society of Environmental Toxicology and Chemistry (SETAC).

Spread of good practices and promotion of natural capital accounting

In line with its commitment on wide-scale communication and education on natural capital issues, Kering extended its partnerships considerably in 2018, widely sharing its experience and good practices.

After rolling out the My EP&L App on the Chinese social network WeChat for Shanghai Fashion Week 2017, Kering launched the Japanese version of this smartphone app at an event in Tokyo in October 2018, bringing together influencers in the fields of fashion and sustainability.

A long-standing partner of the Natural Capital Coalition, Kering supported and actively contributed to Natural Capital Week in Paris in November 2018. Dedicated to the consideration and promotion of natural capital in public and private policies or investment strategies, the week-long series of events brought together more than 1,800 representatives of the public, private, research, investment and insurance sectors, together with representatives of major NGOs and international bodies including the UN, the OECD, the World Bank and the World Economic Forum. Kering also presented its EP&L approach as a best practice at the launch of the *Natural Capital Protocol* in China in 2018, providing its EP&L methodology in Mandarin.

Lastly, in the firm belief that the definition of quantified objectives is an effective means of achieving progress in its efforts to reduce its environmental impacts, Kering, in partnership with the Cambridge Institute for Sustainability Leadership (CISL), published the first white paper in the series *Planetary Boundaries for Business*. This debut report explores the different methodological options available to businesses to lay down objectives that take planetary boundaries into account. It also identifies areas requiring more research and scientific consensus before they can be taken up by companies in their target-setting process.

4.4.2 Projects, collaborations and initiatives geared towards reducing our suppliers' environmental impact

Measuring and regulating the carbon footprint outside our operations

- **Main impacts**

As mentioned in the section entitled "Climate strategy", Kering firmly believes that businesses have a decisive role to play in the face of unanimous recognition of the urgency and criticality of climate change. The carbon footprint of human activity, and in particular businesses, has numerous impacts, which are analyzed and described in the Group's EP&L methodology: the increase in atmospheric concentrations of greenhouse gases is liable to result in changes in weather patterns, higher water levels and average temperatures, and an increased likelihood of extreme weather events, thereby generating adverse human health impacts (malnutrition, disease), risks of disruption to economic activities, reduced agricultural yields, desertification and other serious disturbances of ecosystem services.

The Group's EP&L methodology allows it to track and quantify its annual impact on natural capital, particularly with regard to greenhouse gas emissions. The Group's 2017 EP&L results show that 32% of Kering's environmental impacts relate to greenhouse gas emissions, and that they are mostly in Tier 4 (production of raw materials) of its supply chains.

In addition to rolling out the Kering Standards across all of its activities, thus helping to reduce the Group's carbon footprint outside its operations through the adoption of raw material sourcing practices with a reduced carbon footprint, building, for instance, on requirements in respect of animal rearing methods, the Group's climate strategy is described in the section entitled "Climate strategy". The actions undertaken by the Group to specifically target its footprint in its supply chains, outside its own activities, are described below.

- **Commitment and initiatives**

Kering contributes to the practical implementation of projects aimed at reducing the environmental footprint of its suppliers, as shown by the Clean By Design project. Spearheaded in 2013 by the NRDC (Natural Resources Defense Council), the Clean by Design program aims to reduce the environmental footprint of textile manufacturers through the organization of energy-water audits reviewing ten key points of the performance of a production site.

In 2014, at the Group's initiative, Gucci, Alexander McQueen, Saint Laurent, Balenciaga, Bottega Veneta and Brioni brought 24 of their suppliers, mainly weaving, printing and dyeing plants in Italy, into the program. This resulted in the following improvements:

- 150 energy efficiency initiatives resulting in a reduction in greenhouse gases approaching 8,000 metric tons per year, corresponding to an average improvement of 19% in greenhouse gas emissions per site;
- investments of €2.2 million in optimizing the use of resources, resulting in annual savings of €940,000, for a full 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.

In 2017, Kering extended this program to other activities further upstream in its supply chain. This brought three wool-scouring and three silk-yarn plants in China into the program. Initial energy audits were performed in summer 2017, immediately followed by the first actions. The plants are committed to a target reduction of 3,000 metric tons of greenhouse gases per year, three plants having already completed their action plan by the end of 2018, and the others having made 50% of the required efforts. To rationalize 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 incorporating the initial evaluation of chemical substances into the audit process, the Clean By Design program has become a lever for developing the implementation of Kering's Manufacturing Restricted Substance List (MRSL).

In the summer of 2018, Clean By Design was also extended to denim by bringing in two washing sites in Italy in partnership with Stella McCartney, and Kering is currently in talks with four other washing sites in Italy with a view to bringing them into the program.

Kering's international logistics platform, Luxury Goods International (LGI), also runs awareness-raising and discussion meetings with suppliers and logistics partners. Since 2017, these meetings have placed a sharp focus on carbon footprint mapping. Most freight operators now provide the Group with CO_2 reports compliant with the EN 16258 standard.

Chemicals management

- **Main impacts**

As analyzed in 2013 in the Group's EP&L methodology, the use of chemicals results in numerous impacts, particularly in terms of water pollution and waste generation. For instance, waste treatment methods (landfill, incineration, etc.) can result in the discharge of landfill leachate into the soil, while water pollution can disrupt aquatic ecosystems through eutrophication. This can have adverse human health impacts (disease caused by toxic products or poor water quality), and can also result in reduced agricultural or fishing yields and other serious disruptions of ecosystem services.

The Group's EP&L methodology allows it to track and quantify its annual impact on natural capital, particularly with regard to waste and water pollution. The Group's 2017 EP&L results show that 19% of Kering's environmental impacts relate to waste and water pollution, and that they are mostly in Tier 4 (production of raw materials) of its supply chains.

Hundreds of different chemicals are used in the production of the items made by Kering's Houses. Risk mapping conducted in 2014 served to prioritize areas on which to focus efforts to eliminate all hazardous substances from supply chains. This mapping is based on the inherent risks of the processes, the production geography, the sector's maturity and production volumes. The biggest risks have been identified on leather (including tanning and finishing) and textiles (especially dyeing). The Watches and Jewelry industries have been rated as least at risk among the Group's activities. The approach taken by the Group to address these risks is described below.

- **Commitment and initiatives**

As well as complying with fundamental national and international regulations such as REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals, European Union), GB (Guo Bio, China), CPSIA (Consumer Product Safety Improvement Act, United States) and KC Mark (Korea Certification Mark, Korea), Kering has set itself the target of eliminating all hazardous chemicals from all its Houses' 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.

The MRSL is focused on discontinuing the use of dangerous chemicals in the manufacturing process, first to ensure that workers in the supply chains of the Group's Houses 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 including the four Kering tanneries. Following this, Kering developed a set of guidelines, tools and methodologies to enable the MRSL to be rolled out to its entire leather supply chain in 2016. The roll-out covered more than 70 tanneries in 2018, representing 90% of leather supplies for the leather goods and 80% for the shoes produced by the Group's Houses. For the textile portion, the MRSL was piloted with 11 key suppliers to develop the methodology. It was extended in 2018 to 32 direct suppliers representing 70% of the supply of fabrics and linings.

In 2016, Kering officially joined the Zero Discharge of Hazardous Chemicals (ZDHC) Programme as a signatory brand, having been an observer since 2015. The ZDHC Programme is supported by roughly 20 major international brands and upwards of 60 industrial partners committed to encouraging sector-wide take-up of best practices and the use of sustainable chemicals with a view to eradicating the most hazardous substances from textile, leather and footwear industry supply chains. Kering takes an active part in the work of the ZDHC Programme, and in 2018 helped it expand its activity in Italy by promoting contact with key players and suppliers, and by encouraging the leather industry to adopt the MRSL. Kering is also part of the Italian tanneries wastewater assessment project to validate the ZDHC Wastewater Guidelines for tanneries.

To assist players in its supply chains in their MRSL compliance efforts, Kering held three training sessions for the leather and textile industries in 2018. They were focused on the methodology and tools available for the implementation of the MRSL. In addition, a training event jointly organized with the ZDHC Programme and six other international groups brought together 200 participants from leather and textile supply chains in Italy. Here again, the sharing of experience with the ZDHC Programme allows for a synergy of efforts and the pooling of technical expertise.

These measures are complemented by a number of initiatives within each of the Houses. To manage chemical risks, Kering Eyewear uses centralized chemical substance tracking software in the form of Material Safety Data Sheets (MSDS) at its Manufacture Cartier Lunettes (MCL) production site, allowing it to prioritize materials on the basis of their risk level.

Gucci, meanwhile, as Chair of the Sustainability Committee of the *Camera Nazionale Della Moda* (CNMI), was particularly active in the debate on the negative impact of dangerous chemicals in the luxury industry, and contributed to the preparation and circulation of Industry Guidelines on eco-toxicological requirements for apparel, leather goods, footwear and accessories.

Land use and protection of biodiversity

Firmly believing that businesses have a decisive role to play in the face of scientists' observation of biodiversity loss, and that there is a link between the preservation of ecosystems and the sustainability of its economic activity, Kering has made protecting biodiversity a key aspect of its business strategy. As a player in the luxury sector, the nature of its products and the corresponding quality requirements make the Group largely dependent on natural raw materials (wool, cashmere, leather, cotton, silk, etc.) and their ecosystems. Climate change is already starting to disrupt these ecosystems, making it essential to boost their resilience. These biodiversity-rich natural habitats provide essential services to our societies, such as climate regulation, soil regeneration, water filtration and the availability of raw materials for our activities, but also for food, medicine and construction.

Kering endeavors to ensure that its activities minimize negative impacts on biodiversity, and aims to create positive impacts, particularly in terms of soil regeneration and the preservation of endangered animal and plant species. The Group's EP&L methodology allows it to track and quantify its annual impact on natural capital, particularly with regard to biodiversity and land use. The Group's 2017 EP&L results show that 32% of Kering's environmental impacts relate to biodiversity and land use, and that they are mostly in Tier 4 (production of raw materials) of its supply chains.

In addition to rolling out the Kering Standards to all of its activities, thus contributing to nature conservation through the adoption of eco-friendly raw material supply practices by introducing requirements in respect of organic cotton, silk and wool, for example, the conservation approach applied by Kering and its Houses has three main focuses: improved measurement of ecosystem services and biodiversity; support for conservation initiatives; and raising awareness of biodiversity issues in the private sector.

• Commitment to 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. Work in 2018 focused on:

- the finalization of a biodiversity indicator in collaboration with the Cambridge Institute for Sustainability Leadership and the Natural Capital Impact Group (NCIG). This indicator measures the impact of business activities on biodiversity, notably through supply chains. It is the result of ambitious methodological work initiated by Kering and the University of Cambridge in 2016, through rich dialogue with dozens of stakeholders. The first version of the methodology was published in 2017 by the University in a white paper and presented at the World Forum on Natural Capital in Edinburgh. In 2018, a second version including feedback from conservation experts and other stakeholders was presented at an event under the patronage of Prince Charles in London and the Business and Biodiversity Platform in Brussels. The pilot phase of the methodology has now been launched by Kering and other members of the NCIG, which plans to develop a user interface for companies in 2019;

- the continuation of the partnership with Stanford University's Natural Capital Project and NASA to explore opportunities for using remote sensor data to track changes and progress in ecosystem services generated by the implementation of sustainable pastoral practices by nomadic cashmere breeders in the Gobi region of Mongolia. This partnership is part of a five-year program aimed at demonstrating that remote sensor data can be used in real time to support the development of low-impact and biodiversity-friendly farming methods. For Kering, this work is of particular importance, as it enables the Group to contribute directly to scientific progress in natural climate solutions for agriculture;
- the launch of the multi-year initiative led by scientists at the Australian National University to identify and promote new grazing approaches for cattle and sheep that meet biodiversity conservation requirements. This initiative will also enrich the EP&L methodology for wool and leather with scientifically validated data on grazing practices at farm level;
- participation in CDC Biodiversité's Business4Biodiversity group to promote the measurement and mitigation of corporate impacts on biodiversity;
- technical and financial support for the 70th anniversary celebrations of the International Union for the Conservation of Nature. This event was an opportunity for Kering to announce its support to the IUCN Red List of Threatened Species program over the coming three years. This critical initiative continuously tracks the status of global species and provides key information to inform public policy and business decisions.

• Support for conservation initiatives

In 2018, the Group's conservation projects focused primarily on farming practices that support 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 practices and to promote the conservation of biodiversity in farming practices applied for producing raw materials. As a continuation of work begun in 2017, WFEN issued practical recommendations to Kering on ensuring positive cohabitation between endangered local species and sheep farms in South Africa, Australia and New Zealand. In 2018, WFEN extended these recommendations to include Kering's projects in Mongolia (cashmere) and mohair producers in South Africa;
- to extend the development of its sourcing programs relying on farming methods with a positive impact on the environment, Kering joined the Savory Institute's Frontier Founder initiative in 2018. The aim of this program is to encourage regenerative grazing practices around the world. It will further support Kering's sustainable sourcing approach by promoting the identification of farms that produce such key raw materials as wool, shearling and leather. Moreover, the Savory Institute's Ecological Outcome Verification (EOV) program will enable Kering to access data and means of verification to demonstrate the positive impact of its sourcing choices on soil, water management, animal welfare and biodiversity;
- Kering continues to offset its residual Scope 1 and 2 greenhouse gas emissions through reduction projects certified by REDD+. In 2018, 132,957 metric tons of CO_2 were offset in respect of 2017, helping to protect areas that are particularly rich in biodiversity. All projects supported by Kering are certified by the Climate, Community and Biodiversity Alliance (CCBA), which recognizes the positive contribution of REDD+ projects for the conservation of biodiversity and ecosystems, but also for the living conditions of local populations. Kering makes multi-year commitments so that project leaders have sufficient visibility to develop their business models. For instance, the Group has supported the Kasigau Corridor in Kenya since 2012 and the Rimba Raya project in Indonesia for the last three years. The Keo Seima Wildlife Sanctuary in Cambodia, the Choco-Darién Conservation Corridor in Colombia and the Katingan Peatland Restoration and Conservation Project in Indonesia are all in their second year of support. These projects contribute to the protection of more than 605,000 hectares of particularly biodiversity-rich ecosystems, and provide support to more than 187,000 people in local communities.

The Houses are also committed to individual conservation initiatives. Qeelin, for instance, has undertaken to provide funding to the WWF Panda Conservation Project for three years. Its funding will go towards supporting field studies, bamboo replanting, human activity monitoring and panda habitat management, measuring the effectiveness of reforestation actions, training teams, promoting and fostering panda-friendly agroforestry products, and establishing learning platforms to facilitate the transfer of knowledge and the spread of solutions.

In addition to its landmark decision to ban fur from its Spring/Summer 2018 collections, Gucci has undertaken to cease using angora, and has confirmed its partnership with NGO Panthera, dedicated to saving wild cats through the Tigers Forever program, which supports the reintroduction of tigers into the wild.

By sourcing gold through the Kering Responsible Gold Framework, the Group's Jewelry and Watches Houses also act in favor of conservation by supporting gold production methods that do not pollute natural environments with mercury or cyanide.

- **Raising awareness of biodiversity issues in the private sector**

In 2018, Kering continued its efforts to encourage private stakeholders to pay greater attention to biodiversity issues. To this end, the Group participated in a number of conferences:

- the EU Business & Biodiversity Platform in Brussels;
- the two Science Based Targets workshops organized by the Cambridge Conservation Coalition in Washington and New York;
- Biodiversity and Nature Action Agenda Meetings as part of the WEF Sustainability Summit in New York;
- the 14th meeting of the Convention on Biological Diversity of the Business and Biodiversity Forum of the Conference of the Parties (COP) in Egypt.

These conferences offer Kering the opportunity to share its expertise on how the private sector can appropriate and act on biodiversity challenges by adopting responsible and sustainable supply chain management practices, and to communicate on the irrefutable contributions of Kering's EP&L measurement methodology in targeting priorities for action on the various links in the supply chain and especially on matters relating to raw materials.

In addition, in July 2018, Kering joined the Act4Nature movement launched by *Entreprises pour l'Environnement* (EpE). Sixty-five companies have joined forces on the Act4Nature commitment to protect, enhance and restore biodiversity. The initiative was an opportunity for these companies to sign joint commitments and to present their individual commitments aimed at making the protection of biodiversity a central part of their business.

Water management

- **Main impacts**

Water security is a major global challenge in view of unanimous scientific findings underscoring the urgency and criticality of climate change and biodiversity loss. The analysis carried out as part of the Group's EP&L methodology shows that water use and pollution can have a wide range of impacts, and can give rise to significant risks in respect of the availability and quality of water in various parts of the world. For instance, water pollution can disrupt aquatic ecosystems through eutrophication, and mismanagement of water use can create life-threatening competition for local communities (competition between the production of raw materials and food, for example). This can have adverse human health impacts, and can also result in reduced agricultural yields and other serious disruptions of ecosystem services.

The Group's EP&L methodology allows it to track and quantify its annual impact on natural capital, particularly with regard to water use and pollution. The Group's 2017 EP&L results show that 22% of Kering's environmental impacts relate to water use and pollution, and that they are mostly in Tier 4 (production of raw materials) of its supply chains.

As such, and given that the direct environmental impact of the Group's water consumption is not significant, Kering's water management strategy is geared chiefly towards water supply chains outside its own operations. Initiatives are prioritized using the EP&L approach, which identifies the channels generating the greatest impacts.

This strategy is made public and described in the Group's responses to the 2018 CDP Water Security Questionnaire, available at www.cdp.net. It sets out the Group's governance with respect to its water management, risk management, objectives and performance.

- **Commitment and initiatives**

As shown by the results of the Group's 2017 EP&L, the main impacts from water use and pollution are generated above all in Tier 4 for the production of leather, metals, plant fibers and precious skins.

As Kering does not have direct control over Tier 4, the main levers used by the Group to act on these impacts are the circulation of requirements throughout its supply chains through the Kering Standards, the MSRL and the PRSLs, and the development of specific cross-cutting programs with producers and industry players, such as Clean By Design, and the various raw materials industries.

These programs are described for each material in the sections entitled "Leather", "Metals, stones and other precious materials", "Plant textile fibers" and "Precious skins and furs". Of particular note are the metal-free tanning program for leather goods, the Scrap-Less project initiated by Gucci, the establishment of the Kering Responsible Gold Framework, a responsible gold sourcing platform that favors extraction methods built on sound chemicals management techniques, and certification requirements for organic cotton such as GOTS and OCS in the Kering Standards for plant fibers.

4.4.3 Sustainable use of raw materials

The Group's EP&L clearly shows that most environmental impacts (76%) are caused upstream of its supply chains by the production of raw materials and their initial transformation (Tiers 3 and 4). For Kering, critical impacts are generated by the raw materials used in large quantities and whose production can have a significant impact on the environment, such as leather, or by raw materials used in small quantities but whose extraction or production can have a heavy impact. This is the case for animal fibers 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 program, launched in 2013, provides recommendations and guidance for the Houses, allowing them to use raw materials produced sustainably and responsibly. This project draws on the Kering Standards and involves the Materials Innovation Lab (MIL) and supply chain management, R&D and Sustainability teams working closely with the Group and its Houses to come up with responsible sourcing solutions tailored to the specific needs of each House.

At the same time, some of the Group's Houses apply even more stringent measures. Gucci, for instance, has banned the use of fur since 2018.

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 favor renewable energy for production and processing, to optimize the efficiency of such processes so as to reduce their 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 2018, Kering continued its involvement in the following three initiatives, which it joined in 2017:

- the Fashion Positive initiative: Kering is an active PLUS member of this 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 mobilizing suppliers. Nine Houses, together with numerous suppliers and circular economy and chemicals experts, have joined forces to roll out this certification through pilots initially covering seven materials and processes;
- the Global Fashion Agenda: in 2018, Kering remained a strategic partner of this organization dedicated to promoting sustainability in the world of fashion. 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. The initiative publishes an annual Pulse of the Fashion Industry report;
- the Ellen MacArthur Foundation: in 2018, Kering continued to support the Ellen MacArthur Foundation's Circular Fibres Initiative. The Initiative's maiden report of this initiative, *A New Textiles Economy: Redesigning Fashion's Future*, to which Kering contributed its expertise, was 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.

In addition to these international collaborations, Kering and its Houses are actively developing numerous circular economy initiatives, particularly in terms of recycling, upcycling and the reuse of materials.

Since 2015, the Ready-to-Wear Division based in Novara, Italy, has made agreed donations to fashion schools and academies. In 2018, 17,500 meters of fabric were shared among nine different European schools. The Ready-to-Wear Division also contributes to social programs by donating fabrics and accessories to Italian social cooperatives that transform fabric offcuts into clothing, thereby giving work to vulnerable people, particularly women. A total of 12,000 meters of fabric and 17,000 accessories was contributed in 2018. Brioni regularly donates unused fabrics to international fashion schools (including the London College of Fashion and Central Saint Martins) to recycle offcuts from previous collections.

At Group level, Kering has partnered with *La Réserve des Arts*, a social inclusion NGO that collects scrap materials and offcuts from companies in the Paris region for recycling and sale to design professionals. In 2018, *La Réserve des Arts* collected and recycled decorative items used during the European Heritage Days at Laennec, Kering's Paris headquarters. *La Réserve des Arts* has a threefold purpose: reduce waste sustainably, support the cultural sector and promote reuse.

With support from the MIL, Gucci has established an ambitious collection and recycling program for ECONYL® offcuts. Known as the "ECONYL®-Gucci pre-consumer fabric take back program", it aims to maximize the benefits of this innovative material in Gucci's ready-to-wear collections. ECONYL® is itself a recycled fiber made from plastic waste, much of it recovered from the oceans, and produced in a fully traceable supply chain in Italy. The program relies on the cooperation of Gucci's suppliers to collect ECONYL® production offcuts and re-inject them into the Aquafil manufacturing process in order to re-create a high-quality yarn, in turn reused in the production of Gucci ready-to-wear collections.

Gucci-Up is a circular economy initiative aimed at promoting the upcycling of leather and textile scraps generated during the production process, developed in collaboration with social NGOs and cooperatives. The project started in 2018 with the delivery of the first batch of leather offcuts.

Since 2015, Gucci has had a program to recycle textile waste in partnership with Green Line, a Recanati-based company specializing in the collection and recycling of fabric scraps, the marketing of textile raw materials, and the storage of fabrics and yarn for industry. Since 2015, 274 metric tons of fabric offcuts have been recycled under the project.

In 2013, Bottega Veneta installed a leather offcut management system on its sites (Montebello workshop, Altavilla warehouse and Manifattura Veneta Pelletterie industrial site), the aim being to reuse them as fertilizer while ensuring the processing of chrome residues. The project is being carried out in cooperation with ILSA and Waste Recycling, two companies specializing in the collection and treatment of production offcuts. In 2018, 144 metric tons of leather offcuts were collected and processed.

In 2018, Saint Laurent continued its numerous partnerships with social impact companies, such as Relais Emmaus for all used fabrics and uniforms, and Atelier du Bocage for used electronic equipment and ink cartridges. Capitalizing on these recycling programs which have been in place for several years, Saint Laurent's new headquarters on rue Bellechasse in Paris are equipped with insulation panels made from fabrics from past collections. In the same circular economy approach, the restrooms were clad in part with marble recovered from stores and fashion shows, giving a second life to this material.

Saint Laurent has also set up a collection system for non-reusable leather offcuts with its suppliers, mainly in its activities in Tuscany. The offcuts are recycled by an exclusive partner using technology that guarantees full traceability. Since 2017, more than 150 metric tons of leather have been collected and recycled.

At Saint Laurent, the circular economy is also a lever for innovation in the House's collections and operations. For the Spring 2019 collection, Saint Laurent launched a new version of its *Shopping Bag* made from recycled leather, giving a second life to the most recyclable leather offcuts. In 2018, a dedicated R&D program gave rise to pilot projects for the reuse of leather offcuts as reinforcement material inside bags, and as a flooring concept for stores.

In 2018, Balenciaga sought to allow fashion and design schools, as well as social enterprise Progetto Quid, to benefit from unused fabric from past collections of its ready-to-wear division. A total of 5,000 meters of fabric was donated in 2018. Other fabrics from old collections were recycled by workshops employing women who are returning to work to make cushions that were sold within the Group – nearly 1,000 meters of fabric were recycled – and for chairs made by artist Anna Sophie Berger for some of the House's boutiques. Balenciaga also worked with artist Gayetano Ferrer to make carpets for its headquarters and some stores from unused casino carpet offcuts. The House also donated clothing to associations dedicated to combating violence against women.

In addition, Balenciaga introduced recycled synthetic fibers into its latest collections, such as recycled nylon made partly from ECONYL®.

Alexander McQueen also uses circular economy principles in its approach, by systematically sorting waste fabrics in its creative studios. It has also brought its stores onboard: 60% of them sort recyclable materials.

In the eyewear business, Kering Eyewear is developing a series of up-cycling projects using scrap acetate, one of the main waste products in its production process. These projects include the production, from this scrap, of small accessories that are then donated to a foundation combating violence against women, the *Centro Veneto Progetti Donna*, as well as keyrings that are given to participants in Kering Eyewear internal training modules.

Lastly, at Brioni, a process has been implemented to recreate yarn from waste from its knitting activities at the Montebello site.

Leather

Leather is one of the key raw materials used by Kering's Houses. 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 (35% of the total impact – 2017 EP&L Report). A dedicated Idea Lab on leather, involving most of Kering's Houses, has met regularly over the last five years, including in 2018.

The concept of responsible leather, as defined in the Kering Standards, combines traceability, i.e., leather that can be traced back to all stages from slaughterhouse and farm, sourcing from farms that minimize their environmental impact and respect animal welfare, and tanning using chrome-free processes.

In terms of traceability, 2018 saw Kering continue its work on the investigation and traceability of skins, most of which come from Europe. Purchases in 2017 showed that 83% of skins are traceable back to the slaughterhouse (88% for cattle skins, and 81% for sheep skins), and several Houses have already begun to go further back in their supply chains. Kering's aim is for all skins to be traceable back to the farm by 2025.

To boost its sourcing from farms with a low environmental impact, Kering also continued its collaboration with a consulting firm specialized in responsible sourcing for the study of livestock farming practices in the sourcing countries of the Group's Houses. Work in 2018 focused on directing purchases to farms with regenerative practices (which generate less pollution and do not deplete soils) and employing the best practices in terms of animal welfare.

Regarding animal welfare, Kering has finalized internal standards for cattle and sheep, and has carried out the first pilot audits in farms and slaughterhouses (see "Animal welfare: the Kering species-specific animal welfare standards"). Kering has also conducted mapping of meat labels that meet its standards in terms of animal welfare and environmental protection, in order to better link them to its supply chains in the future.

As well as working on its own supply chains, Kering aims to encourage and promote the emergence of more responsible practices in the industry, particularly through the development of certification for leather. Since 2017, Kering has participated in the work of Textile Exchange on a new Sustainable Leather certification.

Metal-free tanning techniques are also a major focus of Kering's work on leather. For two years, the Group has worked closely with its tanneries, as well as its Houses and their suppliers, to promote the use of leather tanned without metals. In 2018, Kering advanced on four pillars:

1. the development of chrome- and metal-free tanning in all of the Group's tanneries: this work entailed R&D activities in tanneries, with the aim of testing articles made from leather tanned without metals and then putting them into production;
2. lifecycle analysis (LCA): Kering has completed seven LCAs for 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. These findings were the subject of a critical review in 2018 by the Italian National Agency for New Technologies, Energy and Sustainable Economic Development, and were presented at various events bringing together leather stakeholders in Europe;
3. sector commitment: in 2018, Kering also established a Metal-free Technical Roundtable to speed up the transition to chrome-free tanning. Two one-day meetings took place in Florence (Italy) in June and November, bringing together the Houses' production managers, the 19 biggest tanneries for the Group, and key players in the sector including Italy's *Unione Nazionale Industria Conciaria* (UNIC). They served to discuss technical challenges in concrete terms, and to work together to find a transition strategy. The first meeting in June was an opportunity for Kering to share its experience with metal-free tanning methods. The second roundtable in November aimed to assess progress in metal-free tanning methods and identify solutions to the main problems delaying the large-scale roll-out of metal-free tanning within leather goods ranges;
4. increase in the proportion of metal-free tanning in the collections of the Group's Houses: in 2018, 18% of the Group's leather goods purchases were metal- or chrome-free.

These efforts paid off for the Group's Houses in 2018:

Gucci, for instance, traces each batch of leather back to the slaughterhouse and/or farm, and ensures that the country of supply complies with the requirements laid down in the Kering Standards. In 2018, supplier data show that 97% of leather was traced back to the slaughterhouse and 84% to the farm. To reinforce its approach, Gucci also began carrying out traceability audits with tanneries in 2018.

Bottega Veneta has also adopted a robust approach to traceability. In 2014, since the Cruise 2014/2015 collection, the House has been committed to tracing the leather of some of its *Cabat Full Nappa* styles, in line with ICEC (Institute of Quality Certification for the Leather Sector) regulation TS-PM414 as part of the certification process for finished leather products. This certification has been renewed annually since September 2014, with coverage progressively increasing from two styles of the iconic *Cabat* (*Cabat Nappa New Sauge* and *Cabat Stripes* in the Cruise 2014/2015 collection) to all *Cabat Nappa* styles. The renewal of the certification in 2017 covers the new *Cabat Nappa Expresso* and *Nero* styles from the Spring/Summer 2018 collection. In collaboration with ICEC, Bottega Veneta encourages certification procedures with its key tanneries, and in 2018 was able to source more than 681,000 sq.m. of leather from ten certified tanneries. Bottega Veneta also accompanied Kering's luxury tannery in its TS412 certification process for tanning lambskin from Spain, obtained in September 2018.

Saint Laurent has developed a set of specific Key Performance Indicators (KPIs) for its supplier evaluation system in its leather tanneries. It accordingly collects traceability data every month from all of its leather goods tanneries, and measures the EP&L impact of its leather supplies for leather goods throughout the year. It now plans to share its findings regularly with the tanneries and to feed them into the supplier evaluation process.

The search for efficiency is central to the Houses' 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. The outcome is a greatly reduced environmental impact, achieved by reducing the surface needing to be tanned (50% reduction in scrap leather), which in turn means reduced use of water (-18%), chemicals (-16%) and energy, and a lower impact from transportation. Since the project started, more than 5 million liters of water and 36 metric tons of scrap leather have been saved. In 2018, the Scrap-Less initiative allowed Gucci to cover 14% of its total production. In the same quest for efficiency, Gucci continues its Gucci-Up initiative, an up-cycling approach to scrap leather and fabrics resulting from production.

Lastly, to provide its suppliers with the best support possible in their transition to sustainable leather management practices, Gucci began developing a best practice guide in 2018. Known as the Suppliers' Good Practices Guide for Sustainable Leather, it describes large-scale processes that can be adopted in tanneries to remove dangerous heavy metals from the tanning process, to reduce or reuse production and tanning scraps and by-products, to cut water consumption and pollution, and to reduce energy consumption and emissions.

In turn, Saint Laurent is continuing work to internalize 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, which are 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 centers in Italy. Over the year, more than 150 metric tons 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 House, and was used to make two *Shopping Bag* models, one for men and one for women, for the Spring 2018 collection. A new version has been launched for the Spring 2019 collection.

Gucci and Bottega Veneta reflect the progress made in metal-free tanning in their activities, dating back to 2013. In 2018, 16% of Gucci's production was metal-free, and Bottega Veneta saw its share of metal-free leather grow: the House purchased 162,000 sq.m. of chrome-free leather in 2018.

Moreover, in an efficiency-based approach similar to Gucci's, Bottega Veneta established a leather offcut management system on its sites in 2013, as described in "Circular economy".

Lastly, the Group's strategy on the management of leather sourcing in relation to deforestation is made public and described in Kering's responses to the 2018 CDP Forest Questionnaire, available at www.cdp.net. It sets out the Group's governance with respect to leather, risk management and the Group's objectives and performance.

Plant textile fibers

Kering set up the Materials Innovation Lab (MIL) to assist the Houses in 2013. In addition to their close collaboration with Kering's Sustainability Department, the MIL's team of experts work with individual Houses and their respective suppliers in order to integrate these new more sustainable textiles into the House's supply chain.

Cotton is the focus of close attention. More specifically, organic cotton has the major advantage of not being cultivated using pesticides and fertilizers, meaning a greatly reduced environmental footprint (up to 80% reduction compared with conventional cotton). Kering therefore encourages its Houses 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.

Kering takes a multi-level approach to responsible cotton:

1. Define and maintain high standards of supply

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 prohibit the use of chemicals and pesticides. To ensure that these standards are met, Kering encourages the use of organic cotton, with a preference for Global Organic Textile Standard (GOTS) or Organic Content Standard (OCS) certification. Kering is committed to ensuring that 100% of the key materials used by the Group are consistent with the Kering Standards by 2025, which means that all cotton used will be of organic origin by this date.

2. Help the Houses increase the share of organic cotton in their purchases

To support work on reaching this ambitious target, Kering launched its Organic Cotton Platform (OCP) in 2016, offering the Houses technical and financial support to help them overcome the initial difficulties in switching sourcing to organic cotton. The OCP has contributed to a significant increase in the proportion of organic cotton used in the collections of the Group's Houses, which more than tripled between 2016 and 2017. In 2018, it was nevertheless decided not to renew the initiative, as the Houses have now reached a sufficient level of maturity and autonomy in purchasing organic cotton.

3. Collaborate with other players in the sector to promote organic cotton and attract investors

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 2018. 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 2018, the OCA continued to work on four pilot agricultural programs using a digital platform that permits the reporting of field-based data and fosters a better understanding of the farmers' needs. The OCA also increased its support for R&D facilities devoted to organic cottonseeds, which are critical to the sector's development.

In 2018, Kering continued to participate in the working group for organic cotton within the Coalition for Private Investment in Conservation (CPIC), which has drafted an organic market development plan taking into account constraints in respect of return on investment, risk and ecosystem restoration. Kering presented the plan to investors and nature conservation organizations at the CPIC's annual meeting in New York in January 2018. The plan was well received by attendees.

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. The two publications also provide a set of tools, tips and best practices for companies wishing to incorporate organic cotton into their supply chain. In 2018, Kering worked to circulate these reports within the industry, organizing two presentation and exchange webinars in May and October 2018 in collaboration with Textile Exchange and the International Social and Environmental Accreditation and Labelling (ISEAL) Alliance.

4. Support projects in the field

In 2018, 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 program also includes a social module involving community education in the fight against child labor, the empowerment of women, the right to education, and health and safety issues. Initiated in 2017 and renewed in 2018, a Farmer Business School (FBS) has been established to help farmers manage their farms by training them in basic accounting and raising their awareness about risk factors (especially weather).

5. Innovate for greater traceability of cotton

Kering's MIL worked in 2018 to obtain the first fully traceable organic cotton fabric using forensic science methods. The project was carried out with two long-standing Kering partners, Italian weaver Albini and Supima, a US-based organization advocating high-quality cotton, as well as with traceability expert Oritain. The technology used fingerprints organic cotton, thereby allowing it to be tracked at all stages of production. It draws on scientific and statistical studies that have analyzed the natural chemical properties of cotton fiber to create a unique chemical marker identifying the field where the cotton was grown. An exact match with the marker guarantees the authenticity of the organic cotton, and ensures that neither the raw material nor the fabric or finished product has been substituted, mixed or modified at any stage. The procedure is a guarantee of traceability throughout the supply chain. Tracked cotton was put into production in 2018 in the ready-to-wear collections of several of Kering's Houses.

These initiatives enabled the Group's Houses to continue increasing the proportion of organic cotton in 2018. For example, Alexander McQueen used more than 40 metric tons of organic cotton for its Fall/Winter 2018 and Spring/Summer 2019 collections, an increase of 35% compared with 2017. At Balenciaga, 50% of all cotton purchased in 2018 was certified organic by GOTS. At Bottega Veneta, which has been very committed to the subject for several years, organic cotton accounts for 65% of all cotton used for its ready-to-wear collections and for the flannel bags protecting leather goods, jewelry and shoes. Saint Laurent has opted to focus on its permanent collections for introducing the use of organic cotton. In 2017, GOTS-certified cotton appeared in very large proportions in several items in the House's jersey category (T-shirts, sweatshirts, polo shirts, etc.). In 2018, other categories such as footwear joined the approach, with organic cotton featuring in the emblematic *Classic SL06* sneaker. In 2019, Saint Laurent plans to use GOTS-certified cotton for all packaging flannels. After testing the use of organic cotton in various product lines (shirts, jeans, T-shirts, etc.), Gucci significantly increased the quantities used in its collections in 2018, with a three-fold rise in the use of GOTS-certified organic cotton on 2017, up to 300 metric tons. Lastly, Brioni opted to develop a capsule collection, Brioni Sustainable, which includes shirts in organic cotton.

In addition to cotton, Kering's sustainable sourcing strategy for plant fibers also covers cellulosic materials. In 2018, the Kering Standards saw the addition of standards dedicated to viscose and cellulosic fibers derived from wood pulp. These standards have been peer reviewed, and are very closely aligned with the approach and requirements advocated by Canopy, an environmental NGO dedicated to protecting forests, species and the climate, introduced to the Group by Stella McCartney. In addition, in November 2018, CanopyStyle launched Forest Mapper, a Kering-funded initiative to create the first interactive map tracking ancient and endangered forests, thereby providing businesses with tangible decision-making support for their purchases of paper, packaging, wood and cellulosic textiles. Alexander McQueen has continued to increase the share of sustainable cellulosic textiles in its collections: 16,000 meters of certified viscose and 21,000 meters of sustainable modal were used in 2018. Brioni introduced eco-friendly linen T-shirts in its Spring/Summer 2019 collection.

Lastly, for one brand, Kering Eyewear produces a range using bio-acetate M49, an innovative phthalate-free material derived from cottonseed fibers and wood pulp, whose supply is certified by the Forest Stewardship Council (FSC), the Programme for the Endorsement of Forest Certification (PEFC) and the Sustainable Forestry Initiative (SFI).

Animal textile fibers

Animal fibers such as wool are the material with the second-greatest impact in Kering's EP&L and are central to many initiatives taken by the Group and its Houses. Kering and the MIL accordingly continued to identify new sources of high-quality fibers that meet the Group's sustainability standards, especially as regards farming practices and animal welfare.

By way of example, extending work done in New Zealand and Australia in 2017, Kering inspected six organic wool farms in Patagonia and Argentina to conduct pilots of its animal welfare standards (see "Animal welfare: the Kering species-specific animal welfare standards") and help farms adopt sustainable environmental management, biodiversity and animal welfare practices. Kering also provides expertise for various wool sector initiatives aimed at developing certifications and sustainable wool production methods, such as Organica and the Responsible Wool Standard.

Kering continues to work 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 the Wildlife Conservation Society, an international NGO, launched the Gobi Desert Cashmere program 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 Ömnögovi province. In addition to developing the capacity of farmers to produce better quality wool, the program focuses on pastoral techniques such as rotating herds in order to improve the impact on biodiversity and animal welfare. In 2018, the program saw two major developments: first, fundamental work to allow breeders to obtain Wildlife Friendly cashmere certification in 2019, and second, the launch by the United Nations Development Programme (UNDP) of a scientific program supported by Kering to promote the production of sustainable cashmere in Mongolia through the restoration of grazing areas and ecosystem services, in partnership with Stanford University and NASA.

Kering's sustainable cashmere program is now a prime source of supply of high-quality cashmere for the Group's Houses, 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 13 metric tons of responsible cashmere have thus been integrated into the supply chains of Gucci, Bottega Veneta and Alexander McQueen since 2015.

In a complementary effort to increase efficiency that reduces pressure on the already degraded areas of the Gobi region, certain Houses including Gucci, Alexander McQueen and Balenciaga use cashmere fibers from production offcuts thanks to an innovative process to recover scraps, which are sorted by quality and color and then transformed into regenerated cashmere fiber. Depending on the collection and the level of quality required, a certain percentage of virgin fibers 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 fiber in its Ready-to-Wear collections in 2016, and, along with Alexander McQueen and Balenciaga, continued to use it in 2018.

Kering supports certified organic silk production that provides better traceability and a reduced environmental impact. In 2018, the Group added its silk requirements to the second version of its Kering Standards, which is scheduled for release in early 2019. To ensure their adoption, the MIL has established a purchasing platform with the main suppliers of certified silk to guarantee access for the Group's Houses to this high-quality fiber. This approach resulted in a threefold increase in certified silk between 2016 and 2017. Gucci, for instance, saw its volume of organic silk grow from 1 to 15 metric tons in 2018.

Lastly, in 2018, Kering contributed to the development of standards for sustainable mohair production in South Africa and animal-welfare friendly alpaca production in Peru.

In 2018, Balenciaga continued to introduce organic wool (GOTS-certified) and ZQ-certified wool (guaranteeing regenerative agricultural practices and the consideration of animal welfare), regenerated cashmere and organic silk (GOTS-certified) into its collections. Similarly, Alexander McQueen and Saint Laurent are increasing the proportion of organic wool, ZQ-certified wool and organic silk in their collections.

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 also meets the strictest standards of animal welfare. Over the past six years, Kering and its Houses have supported a range of initiatives on sustainable supply chains for crocodiles and pythons. These initiatives combine the Houses' Sustainability Departments and the Group's operations division (which manages its own tanneries and incoming supplies) and various outside experts.

The Group and its Houses comply with national and international legislation and regulations on the trade of precious skins: all skins of species catalogued as endangered or vulnerable by Convention on International Trade in Endangered Species (CITES) 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. Examples include Girard-Perregaux and Ulysse Nardin for the supply of their alligator watch straps, both Houses working in part with members of the *Association pour l'Assurance Qualité des Fabricants de Bracelets Cuir* (Swiss association of quality assurance for leather bracelets manufacturers – AQC), which is active on traceability issues.

In 2018, Kering continued to roll out its plan to inspect alligator (US) and crocodile (South Africa) farms to test the compliance of best practices in place on the ground with the Kering Standards for animal welfare. Kering also played an active role in developing industry-level standards for crocodilians (alligator, crocodile and caiman) through its work with the ICFA.

The International Crocodilian Farmers Association (ICFA), established in 2017, developed a comprehensive set of standards, requirements and guidance for animal welfare and sustainability on farms in 2018. Its work was based on the scientific and industrial state of the art in the field of crocodilian well-being. Kering is a founding member of the ICFA, and as such has provided technical expertise through its participation in the Standards Committees and the Board of Directors. These standards will be rolled out in 2019, and Kering will ensure consistency with its own animal welfare standards.

In 2018, Kering finalized the Madagascar Crocodile Conservation and Sustainable Use Programme (MCCSUP), a partnership established in 2014 with the IUCN Crocodile Specialist Group. Promoting best practices in the trade of Nile crocodile skins from Madagascar, it also includes research programs in partnership with the University of Antananarivo. The final phase of work involved the development of communication materials aimed at raising community awareness about life alongside crocodiles, whether by ensuring their protection in their natural habitat or their sustainable exploitation. These materials will be released in 2019 and made available so that the countries and regions concerned by this issue can translate them into their languages.

In 2018, Kering continued to provide financial and technical support to the Southeast Asian Reptile Conservation Alliance (SARCA), which specializes in ethical and sustainable trade in reptiles in Southeast Asia. SARCA is a multi-stakeholder platform that brings together key players in the reptile trade, including luxury brands, tanneries, CITES, scientists and conservationists. SARCA has launched a study and research program in Indonesia, China, Malaysia and Thailand to gain a better understanding of the various sustainability challenges generated by the trade in reptile skins, particularly with regard to natural habitat and animal welfare. The program has produced a comprehensive risk analysis of various species, with a view to establishing priorities for projects planned for 2019. To support the involvement and teamwork of the program's stakeholders, SARCA organized a field study in which Kering participated.

In 2018, Kering provided technical expertise to the South African Ostrich Business Chamber, which has launched a scientific initiative to develop animal welfare standards for the ostrich trade in South Africa. These standards are based on existing codes of conduct and the state of the art, and aim to provide a detailed and verifiable best practice audit program.

The Group's Houses make limited use of fur, and must meet the standards in terms of traceability, breeding practices and animal welfare made public in the Kering Standard for fur.

Kering and its Houses are working closely with Business for Social Responsibility (BSR) to develop a program to guarantee traceability and the implementation of best practices in animal welfare across supply chains. In September 2018, Kering and its Houses participated in a round table organized by BSR, where this program was discussed with the International Fur Federation (IFF), with a view to its implementation by that body. In 2018, together with animal welfare experts and House representatives, Kering also continued to inspect farms used to breed animals for their fur, in order to assess their practices in the light of Kering's animal welfare standards. France, Norway and Spain were covered by these audits in 2018.

In 2018, Kering's Houses continued to develop the specific audit protocol for rabbit breeding. This protocol was finalized in 2016 thanks in large part to a review by animal welfare experts, NGOs and other Luxury Houses. In 2018, additional training was set up for auditors, in order to increase the number of farm inspections carried out. The protocol will now be shared with all stakeholders in the industry in 2019, in the open source approach advocated by Kering.

In addition, some of the Group's Houses have adopted even more restrictive positions. They include Gucci, which has announced its participation in the Fur Free Retailer program promoted by NGO Fur Free Alliance, and has banned the use of furs across its entire range since its Spring/Summer 2018 collections. Gucci is also committed to no longer using angora.

Metals, stones and other precious materials

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 limiting its purchases to metals and precious stones obtained through activities that minimize harmful impacts on the environment and 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 Houses 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 Kering Responsible Gold Framework. 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 Houses pay a premium used to endow the fund. Each year, a committee composed of representatives of Kering and its Houses selects projects to be supported through the Kering Responsible Gold Fund in favor of mining communities offering social and environmental benefits. Proof of the platform's success is that responsible gold purchases totaled 1.5 metric tons in 2018, bringing the volume of responsible gold purchased since the launch of the platform to 3 metric tons and the percentage of responsible gold used by the Group to 55%. In 2018, Gucci and Bottega Veneta used responsible gold for all of their Jewelry, as did Girard-Perregaux and Ulysse Nardin for their Watches. For Boucheron, Pomellato and DoDo, the proportion exceeded 80%, and Qeelin began integrating responsible gold into its Jewelry in mid-2018. Following this successful experience with gold, Kering is considering going ahead with similar programs for silver.

Kering Eyewear sources its Maison Cartier Lunettes (MCL) production from a gold supplier that is a certified member of the Responsible Jewellery Council's "Gold and/or Platinum Group Metals Trader and/or Refiner and/or Hedger" forum. Lastly, nearly 25% of the palladium used for plating metal accessories used by Gucci is recycled.

Kering is working with its suppliers to ensure that all diamonds used in its products comply with the Kimberley process, which aims to ensure the legality of trade on the international market, so that it does not serve to finance rebel-armed conflict. Kering has also worked with its Houses to roll out guidelines and good practices on traceability and sustainable sourcing of diamonds. The Group's main Jewelry Houses have taken a step further by joining the Responsible Jewellery Council (RJC), an organization that promotes responsible and transparent social and environmental practices throughout the jewelry sector, from the mine to the point of sale. The following Houses are RJC-certified: Boucheron and Gucci since 2011, Girard-Perregaux since 2012, and Pomellato and DoDo since 2017.

Also noteworthy is that the emeralds and rubies used by Pomellato are sourced from a responsible gemstone producer, and that Boucheron is involved in mother-of-pearl supply projects with suppliers certified by the Marine Stewardship Council.

Plastics

Consistent with their objective of eliminating PVC from their collections, the Group's Houses have worked on finding alternatives to this material. Having met the target in the proportion of more than 99%, they are now focusing their work on the last few items concerned. They are also working to get the commitment across to their suppliers, notably through contracts, with a view to eliminating PVC from their collections. Some Houses 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 the Houses to incorporate more responsible plastic into their collections.

Consistent with this approach, Gucci, Alexander McQueen and Balenciaga collections are using a growing proportion of ECONYL®. In 2018, Alexander McQueen consumed approximately 1,150 meters of ECONYL® for the production of its umbrellas, with Gucci using more than 65,000 meters. Since 2015, Gucci has been gradually replacing the plastic used on the heels of its shoes with recycled ABS plastic. In 2018, it made 40,000 pairs of shoes with TPU soles containing 50% bio-plastic. Kering Eyewear favors the use of mineral glass lenses for sunglasses, a more robust and recyclable material than plastic.

Packaging remains the main use of plastic for the Group. In 2017, Kering mapped out plastic consumption in ready-to-wear and logistics packaging in order to determine its level of compliance with the Kering Standards. In 2018, it then implemented several substitution projects for recycled plastics.

In addition to eliminating some plastic materials in favor 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 continued its three-year commitment to work with the European Outdoor Association consortium on microplastic pollution in 2018. The consortium's work is geared towards more accurately measuring the impact from microplastic pollution and developing technical solutions to limit the impact. Kering has also launched a project with NGO Fauna and Flora International to draft recommendations for best practices in plastic pellet management and to avoid micro-plastic pollution in supply chains.

4.4.4 Animal welfare: the Kering species-specific animal welfare standards

Kering believes that the products developed by its Houses must meet the highest standards of quality in all aspects of production, including those related to the welfare of animals supplying many of the materials used by the Houses.

To this end, Kering is committed to implementing the highest standards of respect for animal welfare for all the segments of its supply chains 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 three years, Kering has developed a set of criteria to be followed by 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. In the latter area, the Houses apply their specific sourcing requirements. Girard-Perregaux and Ulysse Nardin, for instance, call on CITES to trace the alligator skins used for leather watch straps, as well as the AQC in some cases.

To clarify the Kering Standards, Kering has developed a very detailed additional system of standard practices to be implemented for animal welfare, with the assistance of external expertise. For example, it commissioned a review by several specialized associations, including the Royal Society for the Prevention of Cruelty to Animals (RSPCA) in 2017 and Compassion in World Farming (CIWF) in 2018.

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 Houses and their suppliers, and corresponds to the best application of the European directives;
- the Silver and Gold levels have additional and more restrictive criteria reflecting the highest existing standards in terms of animal welfare. The Gold level includes further 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 Houses can measure their suppliers' compliance with each of the standards. The protocols naturally cover livestock rearing, transportation and slaughter conditions, but also include broader criteria such as farms' environmental performance and 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 Houses 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. In 2018, 32 farms and nine slaughterhouses were inspected to verify compliance with the Kering Standards for animal welfare.

Kering has pledged that 100% of the 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.

To this end, in addition to actions in respect of its own activities, Kering is working with the sector to improve respect for animal welfare and the alignment of sector standards. In 2018, Kering was particularly active in the Southeast Asian Reptile Conservation Alliance (SARCA), the International Crocodile Farmers Association (ICFA), the South African Ostrich Business Chamber, the Namibian Swakara Board, the International Fur Federation and Textile Exchange.

Lastly, as part of its three-year partnership initiated in 2017 with the *Fondation pour la Nature et l'Homme* (FNH) on the issue of animal welfare, Kering received an additional opinion from the FNH and was able to meet various stakeholders from the institutional world, French livestock representatives and NGOs to advance the cause within the sector and civil society.

5. THE GROUP, ITS STAKEHOLDERS, AND CIVIL SOCIETY

5.1 Community impact and preservation of know-how

Kering and its Houses 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: Kering's Luxury Houses draw expertise and know-how both from their directly operated workshops and from a network of thousands of suppliers, nearly 90% of which are based in Italy. Work by the Group's Houses 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.

One of the highlights of 2018 was the opening of the Gucci ArtLab, which brings together the brand's leather goods and shoes activities at an ultramodern site spanning 37,000 sq.m. The purposes of this new center of excellence are to preserve the unique know-how developed by Gucci and to instill technological innovation enabling it to optimize production, a key factor underpinning the House's strong growth.

The ArtLab also now houses Gucci's *École de l'Amour* education program, which includes a Craftsmanship School (*Scuola dei Mestieri*), offering a six-month program to train students to professional standards; a Factory School (*Scuola di Fabbrica*), training technical production operators; and a Technical Academy to create experts in advanced technologies, with a focus on digital techniques in the creation process.

Another important instance of vertical integration is the new Saint Laurent women's shoes workshop opened in 2017 in Vigonza, Italy, which internalizes all development and production stages (sketching, materials research, prototyping, testing, finishing, etc.). The 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 Houses relies on the key know-how specific to the luxury business that must be preserved through specialized training or local partnerships. To this end, they support various craft guilds and have established a number of professional organizations 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:

- Bottega Veneta backs the *Instituto Professionale Montagna* in Vicenza, which is putting together a new Made In Italy teaching program to develop Italian-bred excellence in the leather goods and textile industries. The first course started in September 2018 with support from craftspeople and technicians from Bottega Veneta's *Manifattura Veneta Pelletterie*. The House also organizes 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 House. Created in 2016 and located in the *Montebello Vicentino* workshop, the school serves as a permanent training center for Bottega Veneta employees and apprentices alike, allowing them to immerse themselves in the craftsmanship and values of the brand. In 2018, 62 people attended courses at the school 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 *Cooperativa Montane Femminili* project, launched in early 2011 in Alto Astico and in Posina, in an Italian valley with high unemployment among women. Trained in the 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;
- Brioni continued its program for training exceptional tailors at its *Scuola di Alta Sartoria* school. On completing the three-year course, participants are offered employment in the Brioni workshops. Sixteen young people enrolled in 2013. More than a hundred tailors have graduated from the school and are now working for Brioni, either in its workshops or boutiques. In September 2016, Brioni extended the program with the Ready, Steady! scheme, which enables young tailors to acquire new skills through a one-year apprenticeship both in the House's production departments and stores. In the final stage of the *Let's Go!* program, from March 2018 to September 2019, the young tailors will be able to switch stores every three months over a one-year period to familiarize themselves with different cultures and customer profiles across the world;
- Brioni has also stepped up its support for tapestry art workshop *Arazzeria Pennese*, undertaking to buy equipment and set up its own tapestry production unit;
- from 2013 to 2017, Boucheron supported a course for future jewelers though a partnership with the *École Privée de Bijouterie Joaillerie de Paris* (BJOP). In 2018, the Jeweler began a partnership with the *Haute École de Joaillerie*, which will run until 2022. As part of this initiative, Boucheron will be organizing a competition for second-year students to create an iconic piece of jewelry;

- in 2017, Pomellato teamed up with the Galdus Goldsmith Academy to launch a new program named *Virtuosi*, offering a full curriculum over three to seven years to train highly qualified professionals attuned to intensifying needs in the competitive world of jewelry. Pomellato's support takes the form of program sponsorship, involvement of Pomellato experts in the program's classes and seminars, apprenticeships, student grants, and a joint workshop with the Galdus Goldsmith Academy;
- 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 training programs and offering evening courses for Ulysse Nardin employees to build on or hone their skills. At its subsidiary, Donzé Cadrans, Ulysse Nardin also runs a training course on enameling, a specialty not covered at watchmaking schools;
- Girard-Perregaux trains apprentice watchmakers at its Academy School, and has set up a mentoring program for its Watchmaking, Finishes and Decoration departments, to offer employees in-house training by specialist instructors;
- Alexander McQueen supports Shetland hand-knitting craftsmanship through the ShetlandPeerieMakkers program.

While loyal to their heritage and tradition, the Houses are eminently forward-looking. Gucci, for example, is eager to catalyze the spirit of innovation and creativity of younger generations to instill a more modern vision of Luxury. In 2017, the House began a new three-year strategic partnership with Bocconi University to set up the Bocconi 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 House.

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 is another key feature of this course, which began in September 2017 and targets students from both fashion schools along with Saint Laurent employees, who can take part in some of the modules as part of their career development plans. The first course, which came to an end in March 2018, was attended by students from IFM and ECSCP along with Saint Laurent employees. It closed with the *Caban 2022* project, celebrating the House's signature piece. A panel of Saint Laurent Directors and representatives from the two schools selected the piece that was the most innovative and characteristic of the Saint Laurent spirit. The second course started in September 2018.

Furthermore, community impact is 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, cultivation or animal rearing). This means that the Group seeks to go beyond simply reducing any negative impacts to having a truly positive impact that directly benefits producers, especially as regards human rights, as outlined in the section entitled "Protection of human rights at Kering". Some examples of responsible sourcing include:

- Kering's responsible gold purchasing platform (RJC Chain of Custody certified gold, Fairtrade- and Fairmined-certified artisanal gold, and gold from verified traceable sources) supports the implementation of best mining practices and contributes to developing standards of living among local communities;
- the Cotton Connect project in India enjoys close ties with a training program 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 program works directly with nomadic shepherds to train and support them with a view to developing farmer cooperatives and the means to improve wool quality while having a direct positive impact on their standard of living.

5.2 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. This involves developing a policy of dialogue and analysis of stakeholder expectations at Group level, and encouraging each House to develop its own platform for dialogue at a more operational scale.

5.2.1 Approach at Group level

Materiality

In 2014, Kering called on the expertise of Business for Social Responsibility (BSR), a consultancy firm specializing 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 Houses. 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 Group. The materiality matrix resulting from this consultation is set out in the introduction to this chapter, "Sustainability".

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. SAC is rolling out the HIGG Index, for measuring environmental and social impacts of the Textile, Footwear and Accessories industry, with a particular focus on supply chain;
- 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. In 2018, Kering took part in WBCSD work on defining future accounting standards. Along with other private-sector players, Kering presented its EP&L approach as a concrete example of how natural capital can be accounted for in a company's balance sheet. 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;
- Natural Capital Coalition: Kering sits on the Advisory Panel of this group of organizations, which in 2016 developed the 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 2018, Kering presented its EP&L approach at the launch of the Natural Capital Protocol in China, providing a Mandarin version of its EP&L methodology. Kering also organized an event with more than 200 participants from NGOs and both the public and private sector during Natural Capital Week, held in Paris in November. The We Value Nature initiative launched in 2018 takes the form of a three-year campaign coordinated by the Natural Capital Coalition with European Commission backing to step up the adoption of natural capital accounting by private- and public-sector players and investors;
- ZDHC: Kering has been a signatory member of the Zero Discharge of Hazardous Chemicals (ZDHC) group since 2016. ZDHC comprises some 20 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 is actively involved in promoting this international industry standard in Italy, as a major contributor to dialogue with the luxury leather industry, encouraging key value-chain players such as industry associations and chemicals suppliers to join the initiative;
- 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. Kering joined the organization in 2014 to speed up work on 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. Kering is actively involved in a number of Textile Exchange

sub-groups: Sustainable Fiber Alliance (for drawing up standards for responsible cashmere), Responsible Leather Roundtable, Responsible Wool Standard and Responsible Down Standard;

- IUCN: The International Union for Conservation of Nature develops and supports 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 Southeast Asia. In 2018, Kering partnered the seventieth anniversary of the IUCN and exchanges regularly with experts on questions such as the species used in making precious skins. 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 (ReLI), which promotes transparency and cooperation among luxury goods companies, particularly with regard to supply chains. In 2018, Kering was involved in writing and disseminating the report entitled *Disrupting Luxury: Creating Resilient Businesses in Times of Rapid Change*, and in setting up a working group for animal welfare. Alongside other member of the initiative, Kering organized an event in Hong Kong to launch the report, which outlines opportunities and recommendations for the luxury goods industry in the light of the major challenges of climate change and biodiversity loss, new technologies and automation, and rising economic inequality,
  - 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,
  - the Global Business Coalition Against Human Trafficking (GBCAT), formed by major private groups and NGOs to combat modern slavery, primarily by detecting and eradicating it from companies' complex supply chains;

Kering sits on the Board of BSR:

- 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;
- EU Business @ Biodiversity Platform: Kering sits on the Advisory Board of this platform, set up at the initiative of the European Commission to help European businesses integrate natural capital and biodiversity considerations into their business practices.

5.2.2 Approach at House level

In the same way as Kering, the Houses are active members of bodies representing their specific sectors. The Houses specializing 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 organization 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 Houses participate in various professional associations in Italy. Gucci, for example, has since 2015 chaired the Sustainability Committee of the *Camera Nazionale Della Moda Italiana*, which addresses issues such as the use of dangerous chemicals in the luxury industry. The House also takes part, alongside UniCredit, in the Funding Sustainability program, which aims to help small and mid-sized businesses obtain funding for their sustainability projects.

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* (ASRH), to which Girard-Perregaux and Ulysse Nardin belong. Since 2016, this organization has been running research projects on questions such as lead-free alternatives to brass.

In Jewelry, Boucheron is involved in a UFBJOP (*Union Française de la Bijouterie, Joaillerie, Orfèvrerie, des Pierres & des Perles*) think tank for the detection of synthetic diamonds, and takes part in Coloured Gemstones Working Group (CGWG) work on the traceability and transparency for colored gemstones.

Also at the European level, the Group takes part in talks held by the European Cultural and Creative Industries Alliance (ECCIA), which brings together Europe's five primary luxury goods and creative industry federations, including *Comité Colbert* for France, *Fondazione Altagamma* for Italy and Walpole for the United Kingdom.

In addition, Gucci takes part in the Fur Free Retailer program run by the NGO Fur Free Alliance following the brand's announcement of a commitment to ban the use of furs in all products starting from its Spring/Summer 2018 collections. Gucci also remains actively involved in Social Accountability International (SAI). This is the organization 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 (Transparency International, etc.). Since 2016, Gucci has chaired the Ethics Committee of Assogemme, the Italian Association of Gem and Precious Stone Companies.

5.3 Crafting tomorrow's Luxury

5.3.1 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 chains 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 (extraction, cultivation or animal rearing), rather than with the Group's own operations and sites;
- designing more environmentally friendly products is challenging without sustainable materials and processes. In terms of sustainability, the most important advances are likely to be achieved in sourcing and by focusing on processing technologies.

The Houses are therefore focusing their efforts on upgrading sourcing and improving their processes:

- in addition to EP&L calculation and impact assessment tools, a new product simulation module enables product design and development teams to gauge the environmental impact of alternative design options (choice of materials, sourcing countries, production processes, etc.). It indicates the most environmentally virtuous options to guide design choices toward optimization on an EP&L footprint criterion;
- the release of the Kering Standards marked a major step forward, providing the Houses 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 in its Houses. Initiatives such as the Plug and Play – Fashion for Good partnership keep the Houses in touch with the start-up community, with a view to the development of innovative and responsible products;
- the Group's Houses also have permanent access to the Materials Innovation Lab (MIL). Five years after it was first launched, the lab offers the brands a library of more than 3,800 ecological fabrics and fibers to use in their collections.

True to the principle of materiality that guides their actions, Kering and its Houses 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 90 metric tons of GOTS (Global Organic Textile Standard) certified organic cotton in 2018. This corresponds to more than 65% of the cotton used in its ready-to-wear collections and in the flannel bags protecting leather goods, jewelry and shoes. Balenciaga continued the phase-in of GOTS-certified organic cotton for its collections and packaging, with organic cotton accounting for 50% of all the cotton purchased by the House in 2018. Alexander McQueen used more than 40 metric tons of organic cotton for its Fall/Winter 2018 and Spring/Summer 2019 collections. Saint Laurent has opted to focus on its permanent collections for introducing the use of organic cotton. GOTS-certified cotton appeared in several items in the brand's jersey category (T-shirts, sweatshirts, polo shirts, etc.) in 2017, followed in 2018 by other categories such as footwear, with organic cotton featuring in the emblematic *Classic SL06* sneaker. After testing the use of organic cotton in various product lines (shirts, jeans, T-shirts, etc.), Gucci significantly increased the quantities used in its ready-to-wear collections in 2018, with a three-fold rise in the use of GOTS-certified organic cotton on 2017, up to 300 metric tons. Lastly, Brioni opted to develop a capsule collection, Brioni Sustainable, which includes shirts in organic cotton.

Precious fiber sourcing, particularly cashmere, has also progressed within the Group. This is due to an innovative process to recover scrap production, which is sorted by quality and color to be converted into a regenerated cashmere fiber. Depending on the collection and the level of quality required, a certain percentage of virgin fibers 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 fiber in its ready-to-wear collections in 2016, and, along with Alexander McQueen and Balenciaga, continued to use it in 2018.

Moreover, cellulosic fibers 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. In 2018, a new standard on viscose and cellulosic fiber from wood pulp was included in the Kering Standards. The Kering Standards are peer-reviewed and to a very large extent follow the logic and requirements of Canopy, an environment-focused NGO that works to protect the world's forests, species and climate. Alexander McQueen continues to increase the proportion of sustainable cellulosic textiles used in its collections, using some 16,000 meters of certified viscose and 21,000 meters of sustainable modal in 2018.

In leather goods, the Houses continued the move to chrome- and metal-free tanning. In 2018, 18% of the leather purchased by the Group's Houses was produced using metal- and chrome-free tanning. Gucci pushed ahead with the switch to metal-free tanning for its iconic handbags, customizable small leather items and shoes, while Bottega Veneta purchased more than 162,000 sq.m. of leather tanned without the use of chrome or metal in 2018. 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 industry.

A good example of the circular economy approach under way at the Group's Houses is the increasing use of ECONYL® textile in collections from Alexander McQueen and Gucci. ECONYL® yarn is made from plastic waste, much of it recovered from oceans. In 2018, Gucci used more than 65,000 meters of this recycled nylon yarn, and Alexander McQueen more than 1,000 meters.

In Jewelry, the Kering Responsible Gold Framework 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 Houses, up to more than one and a half metric tons in 2018. This brings the total up to three metric tons since the launch of the platform. In 2018, Gucci and Bottega Veneta used 100% responsibly sourced gold in their Jewelry, as did Girard-Perregaux and Ulysse Nardin in their Watches. Boucheron, Pomellato and DoDo used more than 80% in their products, while Qeelin began using responsibly sourced gold in its Jewelry.

In response to the rising consumption of palladium for plating the metal parts in its leather goods and shoes, Gucci developed an innovative partnership in 2018, 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 22% of Gucci's needs and the House plans to increase this proportion to shrink its environmental footprint further.

The Houses also make use of other lower-impact processes: Saint Laurent has been using physical vapor disposition (PVD) coating on stainless steel for several years now, for certain metal parts on its leather goods and, more recently, on its shoes. Brass is being phased out in favor of steel, which has a lower environmental impact. And the steel is stabilized using PVD, a vacuum metallization process that deposits thin films of material in vapor form, and has a much lower environmental impact than classic electrolytic plating processes.

In 2018, Kering Eyewear developed its strategic partnership with Bio-On, an Italian company specializing in the development of natural and fully biodegradable plastics. In 2017, the two companies launched a joint pilot program to investigate possible applications of a new biodegradable eco-plastic (technical feasibility, colors, quality, strength, etc.).

Responsibly sourced materials also occupy a preponderant position in the collections of Alexander McQueen; in the Fall/Winter 2018 and Spring/Summer 2019 collections, responsibly sourced materials are used in 24% of the ready-to-wear pieces and in 35% of the accessories.

5.3.2 Sustainable fashion: conveying our values and supporting innovation

Transmitting our values

Kering continues its policy of international partnerships with prestigious business and design schools worldwide, with a view to raising awareness among designers and future fashion industry leaders on the major social and environmental challenges in store.

- **Partnership with the London College of Fashion**

In 2018, Kering began the fifth year of its strategic partnership, begun in 2014, with the Centre for Sustainable Fashion (CSF) at the London College of Fashion, 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 program 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. In 2018, Kering and the London College of Fashion extended the existing annual program with the world's first Massive Open Online Course (MOOC) on sustainability and luxury fashion. The first two MOOC sessions drew over 17,500 students in 144 countries. Co-developed by LCF academics and Kering sustainability experts, the course is built on six key modules including: "Why Sustainability in Fashion?", "Contextualising Sustainability for a Changing World", "Material Dimensions: Sourcing for luxury fashion", and "Informed Decision Making". Over a six-week period, spanning a total of 18 teaching hours, learners will have the possibility to complete the course at their leisure via the mobile, tablet and desktop-friendly platform. A third session was scheduled for early 2019.

Kering and CSF also organize 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 of Kering's Houses. The competition provides a unique opportunity to recognize and reward the most remarkable student projects in the field of sustainable innovation. In 2018, it was hosted by Alexander McQueen and Pomellato. Four winners were selected out of 100 projects entered for the Kering Award for Sustainable Fashion in 2018. The winning students each received a €10,000 grant to support their project and/or the offer of an internship at the two Houses.

Every year, visionaries and business leaders from the fashion industry have their say on the latest developments in sustainable fashion and share their vision of the sector and its most innovative advances. Following the inaugural Kering Talk in 2014, by François-Henri Pinault, Chairman and CEO of Kering, and subsequent talks by Kelly Slater, world surfing champion and founder of Outerknown (in 2015), and Stella McCartney (in 2016), the 2017 talk featured Marco Bizzarri, President and CEO of Gucci alongside Livia Firth, Founder and Creative Director of Eco-Age, discussing the culture of purpose, respect and responsibility at the heart of the House's transformation. As the partnership enters its final year, the next Kering Talk, in 2019, will mark the conclusion of the partnership.

- **Partnership with the Parsons School of Design**

As part of their partnership set up in 2012, Kering and Parsons School of Design organize the annual Empowering Imagination competition. Open to final-year students in Parsons' Bachelor of Fine Arts program, the competition offers students the opportunity to win an internship at one of Kering's Houses. Gucci has made a four-year commitment to take on students from this program as part-time Personal Assistants to Connectors (PAC). This opportunity for full professional immersion in the world of Gucci spans purchasing, merchandising, marketing, product knowledge, customer service and branding.

- **Partnership with HEC (Luxury Certificate)**

In 2018, Kering strengthened the partnership created in 2010 with HEC Paris School of Management's Luxury Chair. The Luxury Certificate is a unique program 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 Houses. Students also have the opportunity to visit stores and workshops, and participate in a team consulting project on a topic set by Kering, culminating in a presentation before a panel consisting of the Chair'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 Houses. In 2018, 40 students of 20 different nationalities took part in the program.

- **Other academic partnerships**

The Group also provides opportunities for young talent through other partnerships, outlined in the section entitled "Community impact and preservation of know-how", and in partnership with organizations such as *Vogue Italia*. By the same token, Gucci partners the MAFED (Master in Fashion, Experience & Design Management) course at the Bocconi University in Milan, offering five international students each year an opportunity to develop a project on sustainability in collaboration with Gucci. The House also backs the New Sustainable Fashion program run by the Milano Fashion Institute, offering a yearly internship in its Sustainability Department to one of the students on the course.

The Group and its Houses provide support to many institutions, building on the close relationships developed by Kering's entire HR community worldwide, including the *Institut Français de la Mode* (IFM), *Istituto Marangoni*, *Politecnico di Milano*, Bocconi University, *Instituto Polimoda*, *Istituto Europeo di Design*, *Accademia Costume & Moda* in Rome, Tsinghua University and Hong Kong Polytechnic University.

- **ChangeNOW Summit**

Kering supported the second edition of ChangeNOW, the international summit for positive change, which took place in September 2018 at Station F in Paris. Over two days, 4,000 attendees learned from more than 500 start-ups and speakers from all over the world about innovative solutions for ocean clean-up, renewable energies and many other topics relating to the critical social and environmental challenges of our times. A side event on sustainable fashion showcased 20 top-level projects for making the fashion industry more sustainable and responsible. Leading a panel on sustainable fashion from the event's main stage, Kering's Chief Sustainability Officer and Head of International Institutional Affairs shared her views on Luxury and innovation.

- **We Love Green**

The environment is at the heart of Parisian electro-pop music festival We Love Green. Kering joined the festival's select Patron's Club, formed in 2017, and renewed its support for the event in 2018. We Love Green has quickly earned a reputation for its quality line-up, and has gradually extended its reach to include conferences, debates, workshops, etc., with the purpose of raising public awareness of sustainability issues. For the 2018 edition, Kering contributed to the Start-Up program, which promotes disruptive ideas on ethical fashion, green technologies and the achievement of a socially inclusive economy.

- **Talking about sustainability**

Throughout 2018, Kering's Corporate Sustainability Department, led by the Chief Sustainability Officer and Head of International Institutional Affairs, shared the Group's vision, 2025 strategy and initiatives with a wide variety of audiences ranging from business executives at the FT Business of Luxury Summit in Venice, students at HEC and IFM in France, and at *Polimoda* in Italy, experts and representatives of international groups at the annual BSR conference in New York, fashion companies and journalists at the Milano Fashion Global Summit, magazine readers at the Elle UK Weekender event, Chinese business leaders at the launch of the Kering Sustainable Innovation Award in Beijing, and luxury industry insiders and sustainability experts at a panel discussion held in Hong Kong for the launch of *Disrupting Luxury: Creating Resilient Businesses in Times of Rapid Change*, the report compiled by members of BSR's Responsible Luxury Initiative (ReLI), to fashion journalists taking part in a workshop on the MyEP&L app.

- **Initiatives and commitments from the Group's Houses**

Kering's spirit of sharing and drive to sway the fashion world towards more sustainable practices permeates all the Group's Houses, which are committed to conveying their values through initiatives that address both their clients and the public at large.

On World Environment Day, June 5, 2018, Gucci launched Gucci Equilibrium, a radical and disruptive sustainability program shared via an online portal, http://equilibrium.gucci.com/. A global audience can access content showcasing the House's history along with its environmental and social ambitions, which span its own operations and its supply chains. Gucci Equilibrium is a key feature in Gucci's ten-year Culture of Purpose plan, unveiled in October 2017, which marks a milestone in the House's sustainability communications. The online platform is to be updated on an ongoing basis to share news of the program's progress.

Another example of Gucci's innovative approach to promoting sustainability came at the 2018 Green Carpet Fashion Awards, an event celebrating both sustainability and Made in Italy. For this occasion, Gucci created a look made entirely from sustainably sourced materials featuring recycled PET sequins, leather produced through metal-free tanning, sustainable silk, FSC-certified cellulose, sustainably sourced gold jewelry and more.

In September 2018, Saint Laurent and Bottega Veneta took part in Go For Good, an innovative initiative created by Galeries Lafayette to raise public awareness of sustainable consumer goods. Saint Laurent and Bottega Veneta products meeting the Go For Good selection criteria were included in the program, including Bottega Veneta's emblematic *Cabat* bags, made from traceably sourced leather produced through metal-free tanning and Saint Laurent's *Shopping Bag*, made by upcycling leather off-cuts.

Kering Eyewear, Girard-Perregaux and Pomellato all communicate on sustainability and Group and House strategy via dedicated pages on their websites.

Supporting innovation within the Group

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 drivers of the Group's sustainability approach.

- **Partnership with Plug and Play**

In early 2017, Kering became a founding partner of the Plug and Play – Fashion for Good accelerator, a partnership formed with Fashion for Good, the C&A Foundation, and Plug and Play, a Silicon Valley start-ups incubator. The aim is to fast-track sustainable innovation within the luxury and apparel industries. Six other fashion players have since joined Plug and Play – Fashion for Good, including the Galeries Lafayette group and Adidas. This accelerator program 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.

The program has helped Kering develop dialogue with start-ups on a range of innovations, such as eco-friendly dyes and leather alternatives. Pilot operations have begun both with individual Houses, through the Materials Innovation Lab (MIL), and at the Group level, as with the 2018 initiative to ensure the traceability of cotton from the farm to the consumer by charting the whole product lifecycle using blockchain technologies and physical markers used in forensic science.

The partnership is also a powerful force in building commitment across Group and House teams and start-ups at the accelerator. In June 2018, part of a Kering Leadership Program module was held in Amsterdam, addressing start-ups about innovation in business models. Sustainable Innovation Exchange sessions in May and November 2018 provided start-ups in lots 3 and 4 with an opportunity to exchange with Group and House teams at the Kering headquarters in Paris.

In December 2018, Kering extended its partnership with Plug and Play in China with the launch of the Kering Sustainable Innovation Award, reaching out to Chinese start-ups that have the potential to bring a positive social or environmental impact in the fashion industry. By developing a community around the award, the aim is to fast-track sustainable innovation in Chinese fashion. The award launch event on December 7 in Beijing was attended by some one hundred people from the fashion industry, and from Chinese and international associations.

- **Materials Innovation Lab (MIL)**

Kering's Houses have access to the Materials Innovation Lab (MIL), opened in 2013 at the heart of the Group's production operations in Italy. The five-strong MIL team has three main missions:

- help the Group's Ready-to-Wear Houses source responsible raw materials. MIL works closely with suppliers both on improving alignment with the Kering Standards for existing fabrics, and developing new, more sustainable, fabrics. MIL offers the Group's Houses a library of more than 3,800 certified ecological fabrics and fibers. These undergo in-depth scrutiny, and are assessed in light of both external standards and certification and a tool exclusive to the MIL, developed in line with the EP&L methodology;
- conduct change management targeting more responsible fashion through close and regular contact with in-house teams (design, production, merchandising), internal and supplier training on the Kering Standards, and participation in sector-specific conferences and working groups;
- support sustainable innovation in textiles and accessories by meeting innovative start-ups, assessing their techniques for application by the Group's Houses, and working on pilot operations. MIL also takes part in mentoring sessions run with the Plug and Play – Fashion for Good accelerator.

The main MIL advances in 2018 were:

- development of a collaborative approach with stakeholders in the supply chains, 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 the Houses to easily access the 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;
- development of innovative pilot projects in textiles, following tests on solutions developed by start-ups in Italy. For example, the pilot project with Oritain and cotton suppliers opened the way to experimentation on forensic traceability methods;
- ongoing work on integrating circular economy principles in the Houses' production cycles, through participation in initiatives such as Circular Fibres at the Ellen MacArthur Foundation, the Fashion Positive program at the Cradle to Cradle Institute, and the collaboration with Aquafil, which makes ECONYL®, an innovative sustainable nylon fiber made from fishing nets or other nylon waste;
- operational support for the Houses in checking the integrity of supply chains.

Innovation-oriented initiatives from Kering's Houses

In addition to Group-level initiatives, the Houses also run their own innovation-oriented initiatives, addressing their own activities and priorities, in line with the objectives of the Group's 2025 strategy.

At Balenciaga, innovation is central to creativity, and greater sustainability. The Design and Development teams work with a number of start-ups through the Plug and Play accelerator, and with others identified directly by the House for their work on innovative sustainability solutions (alternative materials, innovative processes and tools, etc.).

In addition to Plug and Play – Fashion For Good, Gucci works with incubator investment funds and acceleration programs such as H-Farm and Singularity University to stimulate disruptive innovation in sustainable materials and processes.

Saint Laurent's Sustainability Department works with the materials research and product development teams for it various ranges to increase the proportion of sustainable materials in the House's collections.

In 2018, a Bottega Veneta innovation day initiated by the General Manager for Industrial Operations put its materials research experts in direct contact with six start-ups presenting innovative sustainability solutions, Most of which were for new sustainable textiles or new materials for use as a replacement for or in addition to leather in the House's products.

In Jewelry, Boucheron initiates highly supportive working relationships across its supplier network forging partnerships with new suppliers with innovative know-how in Jewelry or other fields and providing historic suppliers with effective support for developing innovative new capabilities. The House's R&D specialists regularly take part in professional conferences on innovation, such as EPHJ (*Environnement Professionnel Horlogerie Joaillerie*) in Geneva and M2I (*Matériaux Innovants et Intelligents*).

Lastly, Kering Eyewear is seeking innovation in multiple ways. The company is involved in a blockchain pilot project to develop a more transparent, secure, traceable and efficient business solution across all supply chain processes through a cooperative approach with partners. Kering Eyewear's partnership with Bio-On, currently at the pilot phase, seeks to identify the bio-polymer mix best suited to eyewear manufacture. Bio-On develops durable and fully biodegradable materials from plants that do not compete with food-chain crops. The aim is to come up with new materials that outperform the plastics currently used in eyewear.

5.4 Initiatives carried out by the Kering Foundation and sponsorship programs

5.4.1 The Kering Foundation: ten years combating violence against women

The Kering Foundation, formed in 2008, combats violence against women. It commits Kering to a key issue that ties in with its Houses' activities and customers, and an area where the Group has a vital role to play alongside governments and NGOs.

In the last five years, the Kering Foundation focused on three regions in order to boost its international impact: the Americas, Western Europe and Asia. For each region, it takes up a specific cause (sexual violence, harmful traditional practices, and domestic violence, respectively), paying special attention to the situation of migrant and refugee women, and works with a small number of local partner organizations. It also supports social entrepreneurs, expanding its efforts to raise awareness and prevent violence against women. The Kering Foundation involves the Group's 34,795 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 with local NGOs

The Foundation has purposefully opted to work with a small number of partners, with which it co-develops various programs. To maximize its impact, the Foundation works hand in hand with organizations helping women who are victims of violence to improve the services provided.

In Europe, the Foundation focuses on combating harmful traditional practices such as female genital mutilation (FGM) and forced marriage. In France, for example, it offers ongoing support to La Maison des Femmes, alongside other company foundations such as Fondation Elle, Raja and Sanofi Espoir. After observing that 14% of patients at its maternity clinic have suffered genital mutilation, the team at the Delafontaine Hospital in Saint-Denis, just outside Paris, decided to centralize the full range of services addressing the various problems faced by women who are vulnerable or victims of violence in a single location. At La Maison des Femmes, which opened in 2016, a team of gynecologists, midwives, nurses, psychologists, sexologists, osteopaths, police officers and lawyers offer comprehensive attention, care, support and guidance addressing medical, psychological, emotional and material needs.

In 2018, the Foundation has since 2018 been a supporter of the organization *Accompagnement hospitalier des victimes de violences conjugales et intrafamiliales*, which seeks to improve medical and social care for adult and child victims of domestic and intrafamily violence at the Centre Hospitalier de Saint-Malo in Brittany. The aims here are to identify victims arriving at the hospital emergency room, to address the needs of adult victims of violence, and provide rapid medical, psychological and social care for children, through the child psychiatry unit. Multidisciplinary coverage (emergency service, doctors, social workers and psychologists) ensures a rapid and appropriate response to the needs of the people concerned.

In the United Kingdom, the Foundation has renewed its support for Birmingham and Solihull Women's Aid (BSWA) until 2020. This organization works to improve psychological support for 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. In 2016, the Foundation's Board of Directors decided to partner the HER Fund, an organization that backs small grassroots organizations run by marginalized women who are victims of domestic violence, providing funding and additional resources to three associations in particular, one addressing the LGBTI community, another working with migrant women, and a third running support groups and art therapy sessions for teenagers.

The Foundation's partnership with the Maple Women's Psychological Counseling Center in Beijing, which provides a hotline service, psychological support, medical care, legal assistance and emergency accommodation for victims of domestic violence, came to a close in 2018. The Foundation is looking at other organizations with a view to beginning a new partnership in 2019.

In the Americas, after supporting End Rape on Campus and WeEndViolence, the Kering Foundation began two new partnerships. In New York, the Foundation works with The New York City Alliance Against Sexual Assault, and in particular its Project Dream-Own-Tell (DOT), an innovative program helping young people from underprivileged communities defend themselves against sexual violence. Project DOT offers these young people, who are often overlooked by traditional campaigns for the prevention of sexual violence, a platform for creating and sharing positive messages with their communities.

In 2018, the Foundation also started working with Brazilian NGO Promundo and its program Manhood 2.0, which analyzes harmful gender norms and the negative impact they can have on both young women and men. This initiative seeks a shift in outlook among young men and boys, encouraging them to take a closer look at the unequal value system in which they have been raised, at what it really means "to be a man", and at the impact this system has on health, relationships, violence, mental well-being, drug consumption and other issues.

Concerned over the situation of refugees, and women refugees in particular (70% of whom have suffered some form of violence), the Foundation continues to support *Gynécologie sans Frontières* and *Planning Familial* in refugee camps in the north of France, the aim being to provide medical, psychological and social support to refugee women, and to train NGO personnel in a gender-sensitive approach to their work. The Foundation's partnership begun in 2015 with Lebanese NGO Restart Center, and its project on socioeconomic integration for 200 Syrian women refugees, came to a close in 2018.

Partnering with social entrepreneurs acting for the benefit of women

In line with the Group's entrepreneurial values, the biennial Kering Foundation Awards were set up in 2008 to reward and recognize social entrepreneurs and their innovative ideas to put an end to violence against women.

In 2018, the Foundation rewarded seven social entrepreneurs from three continents, up from three winners in previous editions. For the first time, in addition to a financial grant of €5,000 to €10,000 and two years of mentorship under the guidance of Kering personnel, each award winner will benefit from a six-month incubation program with a social innovation expert. This program was set up to respond more effectively to the needs of social entrepreneurs, enabling them to develop a more professional approach and step up development, all with a view to maximizing the impact of their work on the lives of the women and men they support.

The Kering Foundation continued to mentor and provide financial support for the Starfish Project, whose founder, Jenny McGee, a Kering Foundation Award winner in 2015, was a member of the 2018 jury in China. By providing psychological support, medical care and vocational training, the Starfish Project, which was created in 2006, has proven to be a life-changing force for more than 100 women suffering exploitation in Beijing.

Raising awareness among staff and the general public

Through internal and external campaigns, the Kering Foundation seeks a lasting shift in behavior patterns and greater awareness of violence against women, which even today remains something of a taboo subject.

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 Houses to provide better help for potential victims. This was achieved first in France and then in Italy, in 2013, in partnership with *Donne in Rete contro la violenza* (D.i.Re).

After teaming up with the British NGO Women's Aid in January 2015, the Kering Foundation extended its initiative in the United States alongside the National Alliance to End Sexual Violence (NAESV) and the National Network to End Domestic Violence (NNEDV) in June 2016. Since 2011, a total of 1,125 employees, including Group Executive Committee members, have been trained to ensure Kering provides a supportive work environment for women who are victims of domestic violence. In 2018, Saint Laurent became the first of the Group's Houses to train all members of its Executive Committee.

This year, for the Cannes Film Festival and the Kering for Women program, the Foundation organized a talk with Salma Hayek Pinault, actor, director, producer and member of the Kering Foundation Board of Directors, on forthcoming Foundation initiatives. These include continuing to provide flexible, long-term financing to local organizations and extending its activities to prevention programs, with a special focus on projects working with young men and boys.

Each year on November 25, International Day for the Elimination of Violence against Women, the Kering Foundation raises awareness about the cause through its White Ribbon For Women campaign.

For the seventh edition in 2018, the Kering Foundation focused on the growing phenomenon of cyber-bullying. The campaign, which ran from November 16 to 30, was designed to encourage Generation Z – the first generation with no experience of the pre-internet world – to defend their peers from online harassment. Through #IDontSpeakHater and IDontSpeakHater.org, the Kering Foundation is calling on young men and women to support victims of online abuse and transform the hate into something empowering by reformulating insults with a new meaning using wit or humor.

The campaign also addressed clients at Alexander McQueen, McQ, Bottega Veneta, Boucheron, Brioni, DoDo, Gucci, Pomellato and Qeelin stores, along with the majority of the Group's employees and countless partners, journalists and opinion leaders.

In all, the campaign reached more than 489 million people, with a strong take-up among Generation Z.

The Kering Foundation continues to collaborate with other players such as Make.org and its coalition *Stop aux Violences Faites aux Femmes* (StopVFF), a vehicle implementing innovative and concrete solutions to eradicate violence against women. Kering is a founding partner of the coalition. This year, the Kering Foundation, alongside French organization *Fondation FACE*, launched Europe's first network for businesses invested in countering violence against women. In November 2018, the chairs of 11 companies met in Paris to sign a Charter committing to take concrete measures within their companies to counter violence against women and improve support to victims.

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 2018, the Group gave 32 days' paid leave for volunteer work in support of women and for pre-departure training. This year, four employees opted to volunteer with US partner Nest on an operation in Peru and two more contributed know-how to the Awamaki organization, which seeks to provide women with a reliable source of revenue, through production of clothing and bags, and thereby improve quality of life and well-being for themselves and their families.

5.4.2 Philanthropic actions by Kering's Houses

Alongside the initiatives undertaken by the Kering Foundation in the Group's name, each House supports causes of its own choice, by donating products (bags, shoes, jewelry, etc.), running special sales, taking part in charity dinners, seconding personnel, or forming long-term partnerships with non-profit organizations. Several such initiatives (in education, training, healthcare, culture, etc.) address women in particular, consistent with Kering group priorities.

Support for women and children

In 2018, financial aid by Kering's Houses for programs and organizations offering support for women and children topped €1,200,000. In Italy, Brioni devoted additional resources to its Penne-based psychological support and hotline service. Run by the women's rights organization, *Unione Donne Italiane*, the service is open to all employees (with special attention to women) in Penne, Civitella and Montebello with the aim of promoting workforce well-being and providing assistance in managing and resolving conflicts. Again in Italy, Pomellato continued its partnership with CADMI, a member of *DiRe*, a nationwide network of organizations offering medical, psychological, emotional and legal assistance to women victims of violence.

Product donations are another form of support offered by Kering's Houses. Balenciaga, for example, donates to the Italian organizations *DiRe* and *Progetto Quid*, a cooperative that employs and trains vulnerable, marginalized or refugee women in making clothing and accessory collections. Qeelin and Alexander McQueen have run special sales for the organizations they support, including the Women's Foundation in Hong Kong and Save the Children in the United Kingdom. Employees from Bottega Veneta, Pomellato, Kering Eyewear, Brioni and Kering Italy took part in Solidarity Day in Italy on October 17, 2018, and offered a day's volunteer work to organizations such as *La Rotonda*, *Associazione CAF Onlus*, and *La Strada*, which have a 30-year background in work on developing self-reliance among women from vulnerable social groups.

In the United States, Gucci provided support to Equality Now, a legal services network for women victims of sexual violence, trafficking and harmful traditional practices such as female genital mutilation. In Italy, Gucci offers ongoing support for a number of initiatives for women, children and refugees including *Fondazione Adecco*, promoting inclusion for people benefiting from international protection; *Telefono Azzurro*, combating cyber-bullying; and the *DiRe Germogli di libertà* project, providing women and children victims of violence and economic exclusion with resources to improve their standard of living.

Diversified resources for education and training

Kering's Houses allocated more than €715,000 to education and training initiatives in 2018. Brioni donated more than €200,000 to various projects and programs, such as *Fondazione For Moda*, which promotes fashion culture. The House's Let's Go! program welcomed a new group of young tailors for year-long training in Brioni stores worldwide. Alexander McQueen dedicated more than €34,000 to education and training initiatives. For example, since 2014, the House has offered a yearly grant for study at London's prestigious Central Saint Martins fashion school. Balenciaga supported Unicef on work to give more than 16,000 children in France and Togo access to education. Boucheron and Qeelin also made product donations to support organizations such as *La Haute École de la Joaillerie* in France and Love Foundation in China.

Gucci donated €45,800 to I was a Sari, a social enterprise that brings underprivileged Indian women a regular salary and thereby the prospect of self-reliance.

Ongoing support for culture and heritage

Kering's Houses contributed more than €1,300,000 to cultural projects in 2018. Bottega Veneta renewed its support for the San Francisco Museum of Modern Art, with a financial contribution of more than €80,000. Under its Chime For Change campaign, running since 2013, Gucci partnered with Artolution, an organization seeking to ignite positive social change through self-expression and gender equality through collaborative art making. On World Refugee Day, June 20, 2018, Gucci dedicated its #ArtWalls to Artolution, giving refugees and vulnerable communities the world over a forum for artistic expression. Saint Laurent contributed more than €71,000 to two cultural projects, *Institut du Costume* and the Vogue Paris Foundation.

Combating poverty

In 2018, the Group's Houses contributed €650,000 to combat poverty. Alexander McQueen donated to St. Anthony's Foundation in San Francisco and Ulysse Nardin to the Swiss organization *Les Cartons du Cœur*. Brioni extended support to Artists for Peace and Justice, working to help Haitian communities in difficulty through education and healthcare programs primarily addressing children. For its Fall/Winter 2018 collection, Balenciaga teamed up with the UN World Food Programme (WFP) to create a series of products bearing the WFP logo and the slogan "Saving Lives, Changing Lives", to help raise awareness of the resurgence of hunger worldwide. As well as donating USD 250,000, Balenciaga will be contributing 10% of the retail price of each WFP article sold in all Balenciaga stores and online, plus 10% of the recommended retail price of products sold via partner outlets carrying the program.

Saint Laurent continued its three-year partnership, begun in December 2017, with the NGO charity: water which works around the world to provide drinking water to local communities, this being an essential factor in improving health and education, especially for women and children. The organization'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. Throughout 2018, Saint Laurent continued to raise awareness and engage its employees worldwide. The resulting employee involvement funded ten projects related to access to drinking water.

Healthcare and disease prevention

Healthcare and disease prevention are further priorities for the Houses. Donations topping €660,000 were made in this sector, with cancer and AIDS being primary focuses.

Pomellato donated €117,500 to organizations such as amfAR and Cancer Research UK working to overcome AIDS and cancer. Saint Laurent continued its support for *Sidaction*, through product donations. Gucci contributed €374,000 for a total of 68 projects, including *Associazione Tumori Toscana*, *LILT* and *Corri La Vita*, working to combat cancer in Italy. Bottega Veneta donated more than €40,000 to organizations working on healthcare and medical research, including JDRF (formerly the Juvenile Diabetes Research Foundation). Brioni made product donations in support of Susan G. Komen, the largest non-profit source of funding in the United States for the fight against breast cancer. Lastly, Boucheron contributed €31,800 to a fundraiser for the French Red Cross and amfAR in France.

6. CROSS-REFERENCE TABLE

Pursuant to Articles L. 225-102-1 and R. 225-105 of the French Commercial Code (*Code de commerce*)/Global Compact/Global Reporting Initiative (GRI)

This chapter, entitled "Sustainability", constitutes the Kering group's Non-Financial Information Statement (NFIS) for 2018, and as such sets out information on the Group's principal non-financial risks and the related policies, outcomes and performance indicators.

Kering is disclosing the information required by Article L. 225-102-1, as well as that provided for in Article R. 225-105 of the French Commercial Code, where relevant taking into account the principal non-financial risks identified. In accordance with Article R. 225-105, Kering also presents additional information in the "Sustainability" chapter, where that information offers further insight into Group operations.

	GRI	Section of this Reference Document
The Group's vision and business model	102-1 to 102-8, 102-10	Chapter 3, section 1.3 Chapter 1
Information on the value chain	102-9	Chapter 3, section 1.3 Chapter 3, section 4.3
Materiality and main priorities, principal non-financial risks linked to NFIS categories	102-11, 102-15 102-46, 102-47, 103-1, 103-2	Chapter 3, section 1.4 Chapter 6
Sustainability strategy	103-1, 103-2	Chapter 3, section 1.4
Governance and organization of Sustainability within the Group	102-18	Chapter 3, section 1.4
Methodology for reporting non-financial information, Assurance Report	102-45 to 56	Chapter 3, sections 3.1, 3.2 and 4.4 Chapter 3, sections 6 and 7

Non-financial information

	GRI	Global Compact	Section of this Reference Document
Social and societal consequences, human rights, combating corruption and tax evasion			
Employment:		*#3 to 6*	
Total number of employees and breakdown of employees by gender, age and region	102-8		Chapter 3, section 3.1
Hires and redundancies	401-1		Chapter 3, section 3.1
Remuneration and changes in remuneration			Chapter 3, section 3.1
Work organization:		*#3 to 6*	
Organization of working time			Chapter 3, section 3.1
Absenteeism	403-10		Chapter 3, section 3.1
Health and safety:		*#1 to 6*	
Occupational health and safety	403-1 to 403-8		Chapter 3, sections 3.1 and 4.3
Work-related accidents, in particular frequency and severity, and work-related illnesses	403-9		Chapter 3, section 3.1
Labor relations:		*#3 to 6*	
Organization of social dialogue, procedures for informing, consulting and negotiating with employees	402-1		Chapter 3, section 3.1
Collective bargaining agreements in place within the Group and their impacts on economic performance and working conditions of employees, including in terms of occupational health and safety	102-41		Chapter 3, section 3.1
Training:		*#3 to 6*	***Chapter 3, section 3.1***
Training policies, especially in terms of environmental protection	404-2		Chapter 3, section 3.1 Chapter 3, section 3.2
Total number of training hours	404-1		Chapter 3, section 3.1
Fair treatment:		*#1 to 6*	
Measures taken to promote gender equality	405-1		Chapter 3, section 3.1 Chapter 3, section 2 Chapter 3, section 5.4
Measures taken to promote the employment and integration of people with disabilities	405-1		Chapter 3, section 3.1
Anti-discrimination policy	405-1		Chapter 3, section 3.1 Chapter 3, section 2 Chapter 3, section 5.4
Societal commitments to sustainability:		*#1 to 6*	
Impact of the Group's operations with respect to employment and local development	203-1, 203-2		Chapter 3, sections 3.1 and 5.1
Impact of the Group's operations on neighboring or local populations	203-1, 203-2		Chapter 3, section 5.1
Relationships and dialogue with Group stakeholders			Chapter 3, section 5.2
Partnership and sponsorship initiatives			Chapter 3, section 5.4
Subcontracting and suppliers:		*#1 to 10*	
Incorporating social and environmental issues into the purchasing policy	413-1 to 414-2		Chapter 3, sections 2.5, 4.1, 4.3 and 4.4
Steps taken to raise awareness among suppliers and subcontractors with respect to corporate social responsibility	413-1 to 414-2		Chapter 3, sections 2.5, 4.1 and 4.3
Fair practices: measures taken to promote consumer health and safety	***416-1 and 2***		***Chapter 3, section 4.2***
Information on the fight against corruption: anti-corruption measures	***102-16, 205-1 to 205-3***	*#10*	***Chapter 3, section 2***

	GRI	Global Compact	Section of this Reference Document
Information on steps taken for the protection of human rights	***406-1 to 412-3***	***#1 to 6***	***Chapter 3, sections 2, 3.1, 4.2, 4.3, 5.2 and 5.4***
Promotion and compliance with the provisions of the International Labour Organization conventions relating to:			
Compliance with freedom of association and the right to collective bargaining		#3	
Elimination of discrimination in respect of employment and occupation		#4	
Elimination of forced and compulsory labor		#6	
Effective abolition of child labor		#5	
Steps taken for the protection of human rights		# 1 to 6	
Respect for animal welfare:			***Chapter 3, section 4.4***
Environmental consequences			
General environmental policy:		***#7 to 9***	
Organization of steps taken to address environmental issues and any environmental assessment or certification procedures			Chapter 3, sections 1, 3.2, 4.1 and 4.4
Resources allocated to the prevention of environmental risks and pollution			Chapter 3, sections 3.2 and 4.4
Amount of provisions and guarantees for environmental risk (provided that this information is not likely to cause serious damage to the Group in an ongoing dispute)			Data not consolidated at Group level
Pollution:		***#7 to 9***	
Measures taken to prevent, reduce and rectify emissions into air, water and soil that have a significant impact on the environment	303-2, 303-4		Chapter 3, sections 3.2 and 4.4
Steps taken to address noise, light and any other form of pollution relating to a specific activity			Chapter 3, sections 3.2 and 4.4
Circular economy:	***301-3***		***Chapter 3, sections 3.2 and 4.4***
Waste prevention and management:			Chapter 3, sections 3.2 and 4.4
Measures taken to prevent, recycle and reuse waste, and other means of waste recovery and elimination	306-2		Chapter 3, sections 3.2 and 4.4
Steps taken to prevent food waste			Not applicable
Sustainable use of resources:			Chapter 3, sections 3.2 and 4.4
Water consumption and supply of water in accordance with local regulations	303-1, 303-3, 303-5		Chapter 3, sections 3.2 and 4.4
Raw materials consumption and measures taken to promote more efficient use	301-1, 301-2		Chapter 3, sections 3.2 and 4.4
Energy consumption and measures taken to improve energy efficiency and use of renewable energy	302-1 to 5		Chapter 3, sections 3.2 and 4.4
Land use			Chapter 3, sections 3.2 and 4.4
Climate change:	***201-2, 305-1 to 305-5***	***#7 to 9***	***Chapter 3, sections 1, 3.2 and 4.4***
Key issues regarding greenhouse gas emissions arising from the Group's activities and from use of the goods and services it produces	305-1 to 305-5		
Measures taken to adapt to the consequences of climate change			
Medium- and long-term targets set voluntarily to reduce greenhouse gas emissions and the measures put in place to achieve this			
Protection of biodiversity: measures taken to protect and restore biodiversity	***304-1 to 4***	***#7 to 9***	***Chapter 3, sections 3.2 and 4.4***

7. REPORT OF ONE OF THE STATUTORY AUDITORS,
appointed as independent third party, on the consolidated non-financial information statement published in the Group Management Report For the year ended December 31, 2018

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 Auditor of Kering, appointed as independent third party and accredited by COFRAC under number 3-1048 (scope of accreditation available at www.cofrac.fr), we hereby report to you on the consolidated non-financial information statement for the year ended December 31, 2018 (hereinafter the "Statement"), presented in the Group Management Report pursuant to the legal and regulatory provisions of Articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code (*Code de commerce*).

Company's responsibility

The Board of Directors is responsible for preparing a Statement pursuant to legal and regulatory provisions, including a presentation of the business model, a description of the main non-financial risks, a presentation of the policies implemented with respect to these risks as well as the results of these policies, including key performance indicators. The Statement was prepared by applying the Company's procedures (hereinafter the "Guidelines"), of which the significant elements are presented in the Statement and available on the Company's website.

Independence and quality control

Our independence is defined by Article L. 822-11-3 of the French Commercial Code and the French Code of Ethics for Statutory Auditors (*Code de déontologie*). 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.

Responsibility of the Statutory Auditor appointed as independent third party

Based on our work, our responsibility is to express a limited assurance conclusion on:

- the compliance of the Statement with Article R. 225-105 of the French Commercial Code;
- the fairness of the information provided pursuant to part 3 of sections I and II of Article R. 225-105 of the French Commercial Code, i.e. the outcomes of policies, including key performance indicators, and measures relating to the main risks, hereinafter the "Information."

However, it is not our responsibility to provide any conclusion on:

- the Company's compliance with other applicable legal and regulatory provisions, particularly with regard to the duty of care, anti-corruption and taxation;
- the compliance of products and services with the applicable regulations.

Nature and scope of procedures

We performed our work in accordance with Articles A. 225-1 *et seq.* of the French Commercial Code defining the conditions under which the independent third party performs its engagement and the professional guidance issued by the French Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) relating to this engagement and with ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

We conducted procedures in order to assess the Statement's compliance with regulatory provisions, and the fairness of the Information:

- we familiarized ourselves with the Group's business activity, the report on the main social and environmental risks relating to this activity and the impacts thereof with regard to the respect for human rights and the fight against corruption and tax evasion, together with the subsequent policies and their results;
- we assessed the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and clarity, taking into account, where appropriate, best practices within the sector;
- we verified that the Statement covers each category of information stipulated in section III of Article L. 225-102-1 governing social and environmental affairs, the respect for human rights and the fight against corruption and tax evasion;
- we verified that the Statement includes an explanation justifying the absence of information required by paragraph 2 of section III of Article L. 225-102-1;
- we verified that the Statement presents the business model and the main risks relating to the activity of all of the entities included in the consolidation scope, including, where relevant and proportionate, the risks generated by their business relations, products or services as well as policies, measures and outcomes, including key performance indicators;
- we verified that, when relevant to the main risks or policies presented, the Statement presents the information stipulated in section II of Article R. 225-105;
- we assessed the process of selecting and validating the main risks;
- we inquired as to the existence of internal control and risk management procedures set up by the company;
- we assessed the consistency of the results and key performance indicators used with regard to the main risks and policies presented;
- we verified that the Statement covers the consolidated scope, i.e. all companies within the consolidation scope in accordance with Article L. 233-16, with the limits specified in the Statement;
- we assessed the data collection process set up by the entity to ensure the completeness and fairness of the Information;
- for the key performance indicators and other quantitative results(1) that in our judgment were of most significance, we carried out:
  - analytical procedures that consisted in verifying the correct consolidation of collected data as well as the consistency of changes thereto,
  - tests of details, on a sampling basis, that consisted in verifying the proper application of definitions and procedures and reconciling data with supporting documents. These procedures were conducted for a selection of contributing entities(2) and covered between 49% and 86% of the consolidated data for the key performance indicators and outcomes selected for these tests;
- we consulted documentary sources and conducted interviews to corroborate the qualitative information (measures and outcomes) that in our judgment were of most significance;(3)
- we assessed the overall consistency of the Statement in relation to our knowledge of the Company.

We believe that the procedures we have performed, based on our professional judgment, are sufficient to provide a basis for a limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures.

(1) See list in appendix.
(2) Houses selected for the social and environmental indicators: Gucci, Alexander McQueen, Bottega Veneta.
Entities selected for the social indicators: Gucci Italy – Gucci Fashion, Gucci Japan, Bottega Veneta Italy, Bottega Veneta Japan, Alexander McQueen United Kingdom.
Entities selected for the environmental indicators: Gucci MPC, Alexander McQueen London, Bottega Veneta Italy, Kering group Operations (Luxury Tannery and Tannery of Perriers for industrial water, LGI for the consumption of energy of the warehouses and CO2 emissions associated with B to B transport).
(3) Highlights of 2018.

Means and resources

Our work engaged the skills of seven people between December 2018 and February 2019.

To assist us in conducting our work, we referred to the corporate social responsibility and sustainable development experts. We conducted around fifteen interviews with the people responsible for preparing the Statement.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the non-financial information statement does not comply with the applicable regulatory provisions and that the Information, taken as a whole, is not fairly presented in accordance with the Guidelines.

Comments

Without qualifying the conclusion expressed above and in accordance with Article A. 225-3 of the French Commercial Code, we make the following comments:

- the Statement covers the activities continued by the Group such as those defined by accounting standards; those that are not continued are not significant and were deliberately not included in the scope of non-financial reporting;
- the monitoring of the number of "managers" was subject to a change in methodology in 2018, which affects the comparison with historical data;
- the Environmental Profit & Loss (EP+L) account presented within the Statement is a voluntary evaluation of the impacts of the Group and of its supply chains of which the quantitative results concern 2017 data and were not subject to our work.

Paris La Défense, February 12, 2019

One of the Statutory Auditors,

Deloitte & Associés

Stéphane Rimbeuf Partner	Julien Rivals Partner, Sustainability Services

Appendix:

Indicators and quantitative results selected:

- social: Workforce and breakdown, Permanent/fixed-term contract hirings, Permanent departures, Training hours (excluding safety training), Employees that participated in at least one training session (excluding safety training), Disabled employees, Frequency rate and severity rate of work-related accidents, Overall rate of absenteeism, Number of collective bargaining agreements signed, Number of social audits and breakdown by severity of anomalies, Percentage of suppliers classified as "compliant", "partially compliant", with "expected progress", and "zero tolerance";
- environmental: Energy consumption and associated CO_2 emissions, Renewable proportion electricity at Group level, Emissions associated with B2B transportation, Packaging consumption, Industrial water consumption.

CHAPTER 4
Report on corporate governance

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 organizing 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 11, 2019 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 boards, as amended in June 2018 (the "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 within 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 organization, *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 controlling shareholder and his close involvement 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 optimized, 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 decided to reappoint him as a Director for four years, while the Board of Directors' meeting held after each of these Combined General Meetings decided to reappoint him as Group Managing Director for the same period, acting on a recommendation of the Chairman and Chief Executive Officer.

Alongside the Chairman and Chief Executive Officer, the Group Managing Director is directly responsible for operations at several of Kering's Houses and participates actively in defining the Group's overall strategy.

1.4 Balance of power on the Board of Directors

With a view to achieving and maintaining an appropriate balance of power on its Board, the Group strives to ensure that 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 France's 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 specialized 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 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 renewal process for membership of the Board of Directors, the Combined General Meeting on May 7, 2009 chose to introduce a staggered procedure for reappointing 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 authorizations that must be granted by the Board (related-party agreements, endorsements, suretyships and guarantees, divestments of shareholdings or sale of real estate, 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 the 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 Group real estate.

The internal rules of the Board provide that Directors 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.

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 non-audit services that may be provided by Statutory Auditors or their networks.

All Directors are entitled to attend, without voting rights, particular meetings of Committees of which they are not members, if they so wish.

In accordance with the recommendations of the 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 organizes a discussion on its work. This annual assessment by the Board concerns its membership, organization and operation. It takes place in two stages:

- a questionnaire is issued to each Director;
- each Director meets with the Chairman of the Board or a person designated by the Chairman, 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 organization and ensure that all important issues have been suitably prepared and addressed.

To ensure the balance of power among the Company's governance bodies, meetings are organized without the presence of the executive corporate officers at least once a year, in line with the recommendations of the AFEP-MEDEF Code.

In addition, at the initiative of its Board of Directors and in order to establish and maintain dialogue on environmental, social and governance (ESG) issues, the Company is increasingly seeking opportunities to meet with its shareholders.

This and recent changes to the Board's membership led to the designation of a lead independent Director on February 11, 2019.

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 may also call on any advisors or consultants to obtain an independent expert opinion on any topics presented to it by the Company.

The Board can meet with Group senior executives at certain meetings of the Board of Directors or its Committees. For example, at a meeting of the Board in October 2018, the Directors were able to visit Balenciaga's workshops and its headquarters.

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

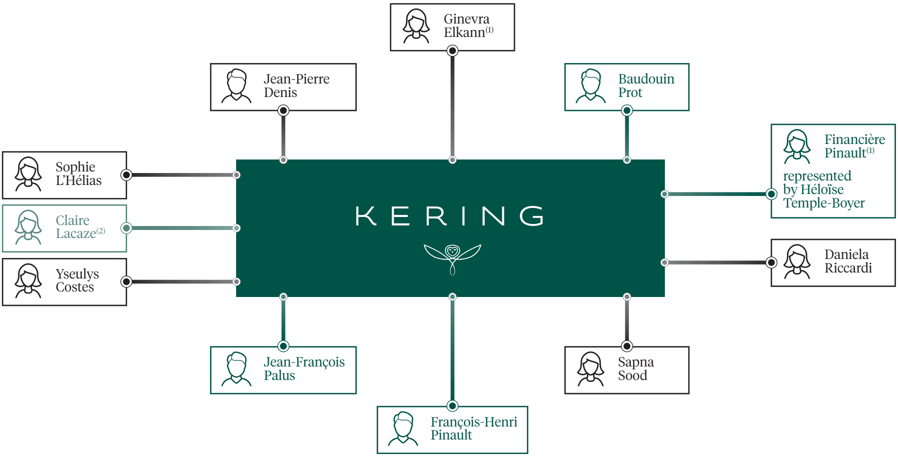
2.1 Membership of the Board of Directors as of February 11, 2019

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 introducing a staggered procedure for reappointing Directors.

After reviewing the Board of Directors' report and the favorable 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 procedure for appointing Directors representing employees in accordance with the French law dated June 14, 2013 in relation to job security.

As of February 11, 2019, 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 2.2.5 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

(1) The Board of Directors appointed Ginevra Elkann and Financière Pinault, represented by Héloïse Temple-Boyer, at its meetings held in October and December 2018. Kering's shareholders will be invited to ratify these appointments at the next Annual General Meeting on April 24, 2019.

(2) Appointed in July 2018.

François-Henri Pinault

Chairman of the Board of Directors and Chief Executive Officer

- Member of the Sustainability Committee

Yseulys Costes

Director

- Member of the Remuneration Committee
- Member of the Appointments Committee
- Member of the Audit Committee

Jean-Pierre Denis

Director

- Chairman of the Audit Committee
- Member of the Remuneration Committee

Ginevra Elkann

Director

- Member of the Appointments Committee
- Member of the Remuneration Committee

Financière Pinault,

represented by Héloïse Temple-Boyer

Director

- Chair of the Appointments Committee
- Member of the Audit Committee
- Member of the Remuneration Committee

Sophie L'Hélias

Lead independent Director (as of February 11, 2019)

- Chair of the Remuneration Committee
- Member of the Audit Committee

Claire Lacaze

Director representing employees

- Member of the Remuneration 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: Audit	Remuneration	Appointments	Sustainability	Start of 1st term of office	End of current term of office	Nationality
François-Henri Pinault	Chairman and Chief Executive Officer	56					√	1993 (2)	2021	French
Jean-François Palus	Group Managing Director	57					√	2009	2021	French
Yseulys Costes	Director	46	√	√	√	√		2010	2022	French
Jean-Pierre Denis	Director	58	√	√	√			2008	2020	French
Ginevra Elkann (3)	Director	39	√		√	√		2018	2020	Italian
Financière Pinault, represented by Héloïse Temple Boyer (3)	Director	41		√	√	√		2018	2021	French
Sophie L'Hélias	Director	55	√	√	√			2016	2020	French
Claire Lacaze	Director representing employees	47			√			2018	2022	French
Baudouin Prot	Director	67				√		1998 (4)	2021	French
Daniela Riccardi	Director	58	√				√	2014	2022	Italian
Sapna Sood	Director	45	√			√	√	2016	2020	British

	Average age	DI*	DI*	DI*	DI*	DI*	Average seniority
	52 years	60%	75%	80%	60%	50%	8 years

* ***DI:** Degree of independence (in accordance with the provisions of the 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 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) Ginevra Elkann and Financière Pinault, represented by Héloïse Temple-Boyer, were appointed by the Board of Directors at its meetings in October and December 2018. Kering's shareholders will be invited to ratify these two appointments at the next Annual General Meeting on April 24, 2019.

(4) Member of the Supervisory Board until 2005.

Three 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 changed in 2018. Laurence Boone and Board Vice-Chair Patricia Barbizet resigned from their positions as Directors at the Board meetings of July 26, 2018 and December 14, 2018, respectively. The Board of Directors decided to appoint Ginevra Elkann at its meeting of October 22 and 23, 2018 and Financière Pinault, represented by Héloïse Temple-Boyer, at its meeting of December 14, 2018.

Kering's shareholders will be invited to ratify these two appointments at the next Annual General Meeting on April 24, 2019.

In addition, the term of office of Sophie Bouchillou expired in July 2018, and Claire Lacaze was elected by the Works Council to replace her as the Director representing employees.

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 2018;
- directorships and positions held in the last five years.

Among Kering's Directors and corporate officers holding directorships or positions in 2018, 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/Digital
- 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 (56 years old)
French citizen

Kering
40 rue de Sèvres
75007 Paris
France

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 specialized in wood importation and distribution, in 1988 he set up that 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 a 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 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 eight Board meetings in 2018 and the two Sustainability Committee meetings, representing an attendance rate of 100%.

François-Henri Pinault is manager and managing partner of Financière Pinault, which indirectly held 51,649,783 Kering shares as of December 31, 2018.

Directorships and positions held as of December 31, 2018:

Position	Company	Country	Start of 1st term of office
at the level of the majority shareholder group:			
Manager	Financière Pinault SCA	France	October 2000
Chairman	Artémis SAS	France	July 2018
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
Chairman	Artémis 28 (SAS)	France	January 2018
Chairman	RRW France (SAS)	France	May 2018
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
Manager	Volcom LLC	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

Directorships and positions held in the last five years:

Position	Company	Country	Dates
Director	Sapardis SE	France	May 2008 to 2018
Vice-Chairman of the Supervisory Board	PUMA SE (1)	Germany	July 2011 to April 2017
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).

Jean-François Palus

Director and Group Managing Director
Number of shares held: 69,426

CSR

Born on October 28, 1961 (57 years old)
French citizen

Kering International
6 Carlos Place
London, W1K 3AP
United Kingdom

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. 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. Following the Combined General Meeting held on April 27, 2017, the Board of Directors decided to re-appoint him as Group Managing Director for a term of four years.

Jean-François Palus also headed Kering's Sport & Lifestyle activities until the payment of the exceptional stock dividend in the form of PUMA shares in May 2018. He continues to serve as Chairman of the Supervisory Board of PUMA SE.

Jean-François Palus is a member of the Sustainability Committee. He attended all eight Board meetings in 2018 and the two Sustainability Committee meetings, representing an attendance rate of 100%.

Directorships and positions held as of December 31, 2018:

Position	Company	Country	Start of 1st term of office
at the level of the majority shareholder group:			
Group Managing Director	Artémis SAS	France	December 2017
Member of the Supervisory Board	Financière Pinault	France	January 2018
Group Managing Director	Artémis 28	France	January 2018
Non-executive Director	Christie's International	United Kingdom	February 2018
within the Kering group:			
Director	Pomellato SpA	Italy	July 2013
Director	Sowind Group SA	Switzerland	December 2013
Chairman	Volcom LLC	United States	July 2011
Director	Kering Americas Inc.	United States	June 2011
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	United States	July 2017
Director	Tomas Maier Distribution LLC	United States	July 2017
Director	Tomas Maier Holding LLC	United States	July 2017
Director	Stella McCartney Ltd	United Kingdom	September 2016
Director	Altuzarra LLC	United States	September 2016
outside the Kering group:			
Chairman of the Supervisory Board	PUMA SE (1)	Germany	December 2012

(1) Listed companies (as of the date the position was held).

Directorships and positions held in the last five years:

Position	Company	Country	Dates
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 (46 years old)
French citizen

1000mercis
28 rue de Châteaudun
75009 Paris
France

First appointed in 2010

Term of office last renewed on April 26, 2018

Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2021

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 optimize their advertising and marketing campaigns on interactive media (internet, cellphones, etc.).

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 General Meeting on April 26, 2018 and will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2021.

Yseulys Costes is a member of the Appointments and Remuneration Committees. At its meeting of December 14, 2018, the Board of Directors decided to appoint Yseulys Costes to the Audit Committee. She attended all eight Board meetings in 2018 and all meetings of the Committees on which she sits (one Remuneration Committee meeting and one Appointments Committee meeting), representing an attendance rate of 100%.

Directorships and positions held as of December 31, 2018:

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

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 (58 years old)
French citizen

Arkéa group
29808 Brest Cedex 09
France

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 a member of the Remuneration Committee. He attended all eight Board meetings in 2018 and all meetings of the Committees on which he sits (four Audit Committee meetings and one Remuneration Committee meeting), representing an attendance rate of 100%.

Directorships and positions held as of December 31, 2018:

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 du Cap Sizun	France	May 2008
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	-
Non-voting Director	Tikehau Capital (1)	France	May 2018
Non-voting Director	Altrad Investment Authority	France	July 2018

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	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
Director	Altrad Investment Authority	France	until 2018
Member of the Supervisory Board	Tikehau Capital (1)	France	until 2018

(1) Listed companies (as of the date the position was held).

Ginevra Elkann

Independent Director

Born on September 24, 1979 (39 years old)
Italian citizen

Asmara Films
Via Giuseppe Sacconi 4/B
00196 – Rome
Italy

First appointed in 2018 (appointment subject to ratification by the Annual General Meeting of April 24, 2019)

Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019

Ginevra Elkann is President of film production company Asmara Films. She is also President of the Pinacoteca Giovanni & Marella Agnelli in Turin, a Director of Exor, a member of the European Advisory Board at Christie's and a trustee of the American Academy in Rome.

Ginevra Elkann has lived in the United Kingdom, France and Brazil. She is a graduate of the American University of Paris and the London Film School.

The Board of Directors appointed Ginevra Elkann as a Director at its meeting in October 2018. Kering's shareholders will be invited to ratify her appointment as a new independent Director at the next Annual General Meeting on April 24, 2019. At its meeting of December 14, 2018, the Board of Directors decided to appoint Ginevra Elkann as a member of the Appointments and Remuneration Committees.

Following her appointment, she attended one Board meeting in 2018, on December 14, representing an attendance rate of 100%.

Directorships and positions held as of December 31, 2018:

Position	Company	Country	Start of 1st term of office
Director	Exor (1)	Netherlands	December 2016
Member of the European Advisory Board	Christie's	France	June 2006
Trustee	American Academy	Italy	January 2014
President	Asmara Films	Italy	2010
President	Pinacoteca Giovanni & Marella Agnelli	Italy	April 2011

(1) Listed companies (as of the date the position was held).

Directorships and positions held in the last five years:

Ginevra Elkann has not held any other corporate office in the past five years.

Financière Pinault represented by Héloïse Temple-Boyer

Director
Permanent representative of Financière Pinault

Number of shares held by Financière Pinault: 500

Born on March 22, 1978 (41 years old)
French citizen

Financière Pinault
12 rue François 1er
75008 Paris
France

First appointed in 2018 (appointment subject to ratification by the Annual General Meeting of April 24, 2019)

Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020

Financière Pinault is the Pinault family holding company. In addition to Luxury group Kering, Financière Pinault owns auction house Christie's, a number of prestigious vineyards including Château Latour, polar cruise specialist Compagnie du Ponant, the Stade Rennais Football Club, weekly magazine *Le Point*, an investment fund to support French tech companies in the United States, a vast collection of contemporary art, and numerous other assets in a variety of areas.

Héloïse Temple-Boyer has been Deputy Chief Executive Officer of Artémis since February 2018.

She joined Artémis in 2013 as an Investment Director. Prior to that, she held the positions of Executive Assistant to the CEO and then Director of International Purchasing at Groupe Casino. She began her career in finance, where she spent more than five years, first as an associate with Rothschild & Cie's M&A team and later as an associate with private equity firm Advent International.

Héloïse Temple-Boyer is a graduate of Institut d'Etudes Politiques de Paris and ESSEC, and holds an MBA from Harvard Business School.

The Board of Directors appointed Financière Pinault as a Director at its meeting of December 14, 2018. Kering's shareholders will be invited to ratify this appointment at the next Annual General Meeting on April 24, 2019. At the same meeting, the Board of Directors also decided to appoint Financière Pinault, represented by Héloïse Temple-Boyer, as Chair of the Appointments Committee and a member of the Audit and Remuneration Committees.

Directorships and positions held by Financière Pinault as of December 31, 2018:

Position	Company	Country	Start of 1st term of office
Director	Garuda	France	October 1998

Directorships and positions held by Financière Pinault in the last five years:

Financière Pinault has not held any other corporate office in the past five years.

Directorships and positions held by Héloïse Temple-Boyer as of December 31, 2018:

Position	Company	Country	Start of 1st term of office
Deputy Chief Executive Officer	Artémis SAS	France	February 2018
Chair and Chief Executive Officer	Arok International SA	France	February 2018
Chair and Chief Executive Officer	TER Obligations	France	May 2015
Deputy Chief Executive Officer	Artémis 28	France	January 2018
Member of the Executive Board	Compagnie du Ponant	France	December 2015
Director	Giambattista Valli	France	June 2017
Director	Sebdo *Le Point*	France	May 2018
Director	Christie's International	United Kingdom	March 2014
Director	Palazzo Grassi	Italy	March 2018
Member of the Supervisory Board	Royalement vôtre Editions	France	July 2018

Directorships and positions held by Héloïse Temple-Boyer in the last five years:

Position	Company	Country	Dates
Director	Fnac Darty	France	until March 2017
Director	Artémis	France	until July 2018
Member of the Executive Board	Compagnie du Ponant Holding	France	until November 2015
Director	Groupe Courrèges	France	until April 2017

Sophie L'Hélias

Lead independent Director
(as of February 11, 2019)
Number of shares held: 881

CSR

Born on December 15, 1963 (55 years old)
French citizen

56 Avenue Paul Doumer
75116 Paris
France

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 is the Founder and President of LeaderXXchange™, an organization that advises and promotes diversity and sustainability in governance, leadership, and investment. She is a member of the Global Advisory Board of the Lazaridis Institute for the Management of Technology Enterprises, based in Waterloo, Canada, which was set up to help local entrepreneurs with their international development. She is also a Senior Fellow with The Conference Board Governance Center in New York and a member of the Editorial Board of the Hawkamah Institute for Corporate Governance in Dubai.

Sophie is a frequent speaker on governance, sustainability, climate finance and diversity issues at international economic, financial and academic conferences.

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.

In 2018, Sophie L'Hélias became an independent member of the Board of Directors of Africa50, the African Development Bank's investment platform for infrastructure development. She is also an independent Director of the Positive Impact Fund managed by La Financière de l'Echiquier, which invests in companies that make a positive contribution to achieving the UN Sustainable Development Goals.

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.

On February 11, 2019, the Board of Directors designated Sophie L'Hélias as lead independent Director. Alongside the typical duties associated with this position, she will notably act as the Board's spokesperson vis-à-vis investors on environmental, social and governance (ESG) issues, in liaison with the Chairman.

She is Chair of the Remunerations Committee and a member of the Audit Committee. She attended all eight Board meetings in 2018 and all meetings of the Committees on which she sits (four Audit Committee meetings and one Remuneration Committee meeting), representing an attendance rate of 100%.

Directorships and positions held as of December 31, 2018:

Position	Company	Country	Start of 1st term of office
Director	Africa50	Morocco	2018
Director	Echiquier Positive Impact	France	2018

Directorships and positions held in the last five years:

Sophie L'Hélias has not held any other corporate office in the past five years.

Claire Lacaze

Director representing employees

CSR

Born on September 18, 1971 (47 years old)
French citizen

Kering
40 rue de Sèvres
75007 Paris
France

First appointed in 2018

Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2022

Claire Lacaze is Event Production Manager within the Human Resources department at Kering SA. She joined the Group in 2000 as an Assistant to Financial Communications for Printemps Pinault Redoute, before holding several positions at Kering.

Claire Lacaze was elected as a Director representing employees by the Kering Works Council on July 12, 2018.

She is a member of the Remuneration Committee. She attended two Board meetings in 2018 since the date of her appointment, representing an attendance rate of 100%.

Claire Lacaze did not hold any other directorships or positions at December 31, 2018, and has not held any other corporate office over the past five years.

Baudouin Prot

Director
Number of shares held: 600

Born on May 24, 1951 (67 years old)
French citizen

BNP Paribas
33 rue du Quatre Septembre
75002 Paris
France

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 Honor.

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 five of the eight Board meetings in 2018 and the one meeting of the Committee on which he sits, representing an attendance rate of 67%.

Directorships and positions held as of December 31, 2018:

Position	Company	Country	Start of 1st term of office
Chairman of the Supervisory Board	Foncia (1)	France	March 2017
Director	Finastra	France	November 2017
Director	Veolia Environnement SA (1)	France	April 2003
Director	BGL BNP Paribas (1)	Luxembourg	April 2015
Director	Alstom (1)	France	July 2018

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

CSR

Born on April 4, 1960 (58 years old)
Italian citizen

Baccarat
11 place des États-Unis
75116 Paris
France

First appointed in 2014

Term of office last renewed on April 26, 2018

Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2021

Daniela Riccardi is the Chief Executive Officer of Baccarat. She has recognized 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 was renewed by the General Meeting on April 26, 2018 and will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2021.

Daniela Riccardi is a member of the Sustainability Committee. She attended all eight Board meetings in 2018 and the two meetings of the Committee on which she sits, representing an attendance rate of 100%.

Directorships and positions held as of December 31, 2018:

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).

Directorships and positions held in the last five years:

Daniela Riccardi has not held any other corporate office in the past five years.

Sapna Sood

Independent Director
Number of shares held: 500

CSR

Born on June 4, 1973 (45 years old)
Australian and British citizen

Compass Group PLC
Compass House, Guildford Street
Chertsey, Surrey KT16 9BQ
United Kingdom

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.

In 2018, Sapna Sood joined the Compass Group, where she is currently Executive Director, International Clients & Market Development and member of the Executive Board. She previously held the position of Chief Operating Officer at LafargeHolcim Philippines.

Sapna began her career as an Applications Engineer with Fisher-Rosemount. In 1997, she joined the Linde group (formerly known as the BOC group), taking on various senior roles in Australia, the US, Singapore, Germany and China. She joined the Lafarge group in 2013 as Senior Vice President of Health and Safety in Paris. She was also co-chair of the Health and Safety Taskforce for the WBCSD's Cement Sustainability Initiative.

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 a member of the Appointments Committee. She attended seven of the eight Board meetings in 2018 and the three meetings of the Committees on which she sits, representing an attendance rate of 91%.

She did not hold any other corporate office as of December 31, 2018.

Directorships and positions held in the last five years:

Position	Company	Country	Dates
Non-executive Director	Lafarge Malaysia Berhad	Malaysia	November 2014 to 2016

Changes in the membership of the Board of Directors and the Committees in 2018

	Departure	Appointment	Reappointment
Board of Directors	**as of December 14, 2018** Patricia Barbizet **as of July 26, 2018** Laurence Boone Sophie Bouchillou	**as of December 14, 2018** Financière Pinault, represented by Héloïse Temple-Boyer **as of October 22, 2018** Ginevra Elkann **as of July 12, 2018** Claire Lacaze	**as of April 26, 2018** Yseulys Costes Daniela Riccardi
Audit Committee	**as of December 14, 2018** Patricia Barbizet **as of July 26, 2018** Laurence Boone	**as of December 14, 2018** Financière Pinault, represented by Héloïse Temple-Boyer Yseulys Costes	
Remuneration Committee	**as of December 14, 2018** Patricia Barbizet **as of July 26, 2018** Sophie Bouchillou	**as of December 14, 2018** Financière Pinault, represented by Héloïse Temple-Boyer **as of July 12, 2018** Claire Lacaze **as of October 22, 2018** Ginevra Elkann	**as of April 26, 2018** Yseulys Costes
Appointments Committee	**as of December 14, 2018** Patricia Barbizet **as of July 26, 2018** Laurence Boone	**as of December 14, 2018** Financière Pinault, represented by Héloïse Temple-Boyer **as of October 22, 2018** Ginevra Elkann	**as of April 26, 2018** Yseulys Costes

2.2 Conditions of preparation and organization of the work of the Board of Directors

2.2.1 Duties of the Board of Directors

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 organization 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 specialized 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 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 he or she has knowledge of inside information. 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 organization and operating methods of the Board as well as the role of its four specialized 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 Principles relating to membership of the Board of Directors

The Board of Directors regularly reflects upon the desirable balance of its membership and that of the Board Committees, particularly in terms of diversity (gender representation, nationalities, age, qualifications, professional experience, etc.).

Pursuant to Article L. 225-37-4 of the French Commercial Code, the table below describes the diversity policy applied to members of the Board of Directors. It indicates the criteria taken into consideration, the objectives set by the Board, the measures implemented and the results achieved during 2018.

Diversity policy applied to the Board of Directors

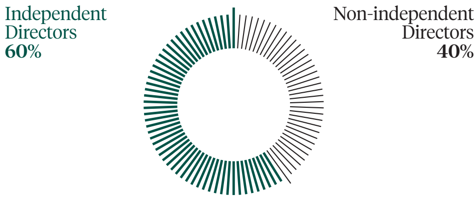
Criteria	Objectives	Measures implemented and results achieved in 2018
Board membership	Balanced representation of women and men on the Board	**Proportion of women** 2007 11% 2012 33% 2017 64% 2018 64%
	Review of the avenues to be explored in order to ensure the best possible balance, via profiles that are complementary and diverse in terms of nationality, expertise and experience	**Experience:** Finance/Executive Management: Jean-Pierre Denis, Financière Pinault, represented by Héloïse Temple-Boyer, and Baudouin Prot Industry knowledge: Daniela Riccardi and Ginevra Elkann Digital and Innovation: Yseulys Costes Corporate governance: Sophie L'Hélias Corporate Social Responsibility: Sapna Sood
	Appointment of one or two Director(s) representing employees	The Board has included a Director representing employees since 2014

Criteria	Objectives	Measures implemented and results achieved in 2018

Independence of Directors

Objectives: One-third independent members, in line with the AFEP-MEDEF Code's recommendations for controlled companies

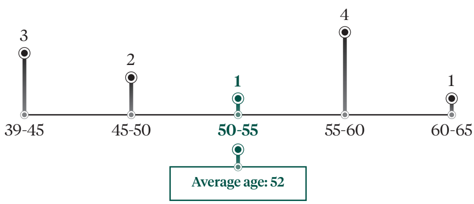
Degree of independence (1) of the Board of Directors

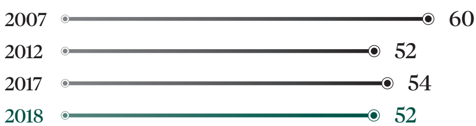


(1) In accordance with the recommendations of the AFEP-MEDEF Code, these percentages do not include the Director representing employees.

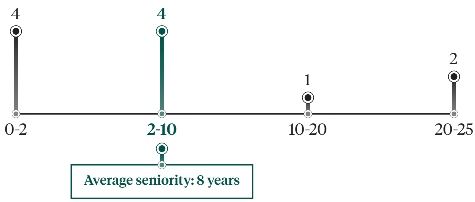
Age profile of the Board of Directors

Objectives: No more than one-third of members over 70





Average seniority on the Board of Directors



This diversity policy, which includes the balanced representation of women and men, is applied throughout the Company. As a result, women account for 33% of Kering's Executive Committee members and hold half of the positions in the top 10% of the Group's senior management.

2.2.3 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 organization 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 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 a Director by the Combined General Meeting on May 7, 2009 for a four-year term, renewed on April 27, 2017 for another four years.

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 specialized Committees.

The Presidents and Chief Executive Officers of the main brands (Gucci and Yves Saint Laurent) and the Chief Executive Officer of the Luxury – Watches and Jewelry Division are members of the Executive Committee and attend Board of Directors' meetings as non-voting Directors. They 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.

2.2.4 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 authorizations that must be granted by the Board (related-party agreements, endorsements, suretyships and guarantees, divestments of shareholdings or sale of real estate, 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 (€500 million in 2018):

- 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 estate.

These transactions are regularly submitted to the Board of Directors, which examines them carefully.

2.2.5 Independence of Directors

In order to assess the independence of a Director and to avoid possible risks of conflicts of interest, the Board applied the criteria defined in the 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 the Company's parent company 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, further to a review by the Appointments Committee, the Board of Directors meticulously analyzed – 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 in 2018. 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.

As of the date of this report on corporate governance, six of the ten [(1)] Directors serving on the Board are therefore classified as independent Directors (Yseulys Costes, Daniela Riccardi, Sophie L'Hélias, Sapna Sood, Ginevra Elkann and Jean-Pierre Denis). The Group thus satisfies the recommendations of the 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.

2.2.6 Director induction and training

Upon joining the Board, new Directors may receive training adapted to their specific needs within the Board, should they deem it necessary. Meetings are organized 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.

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, Claire Lacaze has attended a training course organized 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.

(1) The AFEP-MEDEF Code does not include Directors representing employees when calculating the percentage of independent Directors on the Board. This is why the proportion of independent Directors on the Board is calculated based on ten Directors instead of eleven.

2.3 Activity of the Board of Directors and its specialized Committees

2.3.1 Activity of the Board of Directors in 2018 and up to February 11, 2019

Activity of the Board of Directors in 2018

During 2018, the Board met eight times with an average attendance rate of 95%; the Chairman of the Board chaired all Board meetings.

Agenda and attendance rate of Board of Directors' meetings

Date	Main items on the agenda	Attendance rate
January 11, 2018	Planned payment of an exceptional stock dividend in the form of PUMA shares.	100%
February 12, 2018	Report on the work of the Remuneration and Appointments Committees Allocation of Directors' fees Management Report and the report on corporate governance Proposed resolutions to be submitted to the next Annual General Meeting Approval of the planned payment of an exceptional stock dividend in the form of PUMA shares Review and approval of the 2017 financial statements Report on the work of the Audit Committee Statutory Auditors' report Proposed appropriation of net income/dividend amount/payment date Related-party agreements Renewal of the EMTN program	91%
March 15, 2018	Notice of the Annual General Meeting 2018 budget	100%
April 26, 2018 (prior to the Annual General Meeting)	Update from the financial communications team Preparation for the Annual General Meeting and discussion of the written questions received Review of business operations	91%
April 26, 2018 (after the Annual General Meeting)	Membership of the Committees Endorsements, suretyships and guarantees in favor of third parties and authorizations to carry out certain transactions Implementation of the stock repurchase program	91%
July 26, 2018	Resignation of Laurence Boone – Changes in the membership of the Board of Directors Approval of the 2018 interim financial statements Report on the work of the Audit Committee Report on the work of the Statutory Auditors	100%
October 22 and 23, 2018	Meeting dedicated to Group strategy: presentation of Balenciaga's strategy by the brand's CEO; progress report on the main projects under way across the Group Launch of the governance roadshow Appointment of Ginevra Elkann Launch of the assessment of the Board's work Risk review Three-year financial trends Business operations	90%
December 14, 2018	First part of the meeting: • resignation of Patricia Barbizet and appointment of Financière Pinault; • interim dividend; • report on the governance roadshow. Second part of the meeting, without the presence of the executive corporate officers: Reminder about the role and responsibilities of Directors	100%

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 Chief Financial Officer, 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 specialized 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, certain matters undergo preliminary examination by the relevant Committees, which can therefore issue their opinions for submission to the Board of Directors. The Chair reports on these preliminary Committee meetings at each Board meeting.

In 2018, the work of the Board of Directors mainly involved reviewing the annual and interim financial statements, the Group's business activity, strategic issues, and changes in the membership of the Board of Directors.

In addition, in order to establish and maintain ongoing dialogue, the Company increased the number of meetings organized with its shareholders and other members of the financial community in 2018.

At the initiative of its Board of Directors, the Company began thinking about strengthening dialogue with investors, particularly on environmental, social and governance (ESG) issues. With this in mind, and with the support of the Remuneration Committee Chair, the legal and financial teams prepared a governance roadshow for November 2018 to meet with various institutional investors, which together represent more than 22% of the free float. Feedback from the roadshow was reported to the Board at its meeting of December 14, 2018 and at the Remuneration Committee meeting of January 14, 2019.

Activity of the Board of Directors up to February 11, 2019

Since the beginning of 2019, the Board of Directors has met once, on February 11, 2019, to approve the 2018 annual financial statements and reports to be submitted to the Annual General Meeting as well as this report. It also heard a report on the Group's financial position. The Board then granted and allocated the Directors' fees for 2018 in accordance with the criteria adopted in March 2014, which remained unchanged.

During this meeting, the Board of Directors designated Sophie L'Hélias as lead independent Director. Alongside the typical duties associated with this position, she will notably act as the Board's spokesperson vis-à-vis investors on environmental, social and governance (ESG) issues, in liaison with the Chairman.

2.3.2 Assessment of the Board of Directors

Since 2004, in accordance with its internal rules, the Board of Directors has dedicated one item on its agenda, at least once a year, to a discussion of its work. Every three years, this self-assessment is replaced by a formal assessment of the Board, carried out by an independent member or a third-party expert.

A formal assessment by a third-party expert with extensive experience in the corporate governance of listed companies was carried out between December 2018 and January 2019 and was presented and discussed at the Board's meeting of February 11, 2019.

The assessment showed a generally very positive and improved view of how the Board operates, with the prevailing freedom of expression and positive momentum particularly appreciated by its members. The balance of power within the Board and the commitment and contribution of the Directors were identified as key strengths. Its members also appreciate the trust-based relationship established with the Company's management team.

The assessment also showed a positive view of how the Committees operate and the work carried out by the Committee Chairs. All of the avenues for improvement that emerged during the 2017 self-assessment have been taken into consideration. New areas of improvement were identified during the formal assessment, relating primarily to the Board's diversity in terms of skills and expertise, the organization of the Board's strategy meeting, and the content of Board packs.

2.3.3 Specialized Committees

Audit Committee

Duties

Set up in December 2002, the main role 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 issues identified by the Kering group's Internal Audit Department.

The Audit Committee reports to the Board on a regular basis and provides it with 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

As of December 31, 2018, the Kering Audit Committee was made up of four Directors:

- Jean-Pierre Denis, Chairman, independent Director;
- Sophie L'Hélias, independent Director;
- Yseulys Costes, independent Director;
- Financière Pinault, represented by Héloïse Temple-Boyer.

The four members of the Audit Committee all have recognized 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 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 2018 and up to February 11, 2019

The Committee met four times in 2018, with an average attendance rate of 100%.

During 2018, 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 15, 2018, 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 2018 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 program for audit work.

On February 8, 2018, the Committee met prior to the Board meeting held to adopt the 2017 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 2017, and approved the report on corporate governance. The Committee also discussed the Tax Department's organization and responsibilities, the performance of the Kering share, and the Group's financing and cash management.

At its meeting on June 6, 2018, 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 program 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 program. The Committee was also given a progress report on the initiatives being undertaken to comply with the General Data Protection Regulation (GDPR).

With a view to the meeting of the Board on July 26, 2018 to approve the interim financial statements, the Committee met on July 24, 2018 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 received a presentation of the new Internal Audit Charter.

Since the beginning of 2019, 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 14, 2019 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 program for audit work.

On February 7, 2019, the Committee met before the meeting of the Board to approve the 2018 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 2018, and heard a report on the performance of the Kering share.

On February 11, 2019, 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

As of December 31, 2018, the Remuneration Committee was made up of six Directors:

- Sophie L'Hélias, Chair, independent Director;
- Financière Pinault, represented by Héloïse Temple-Boyer;
- Yseulys Costes, independent Director;
- Ginevra Elkann, independent Director;
- Jean-Pierre Denis, independent Director;
- Claire Lacaze, Director representing employees.

Accordingly, with regard to the criteria of the AFEP-MEDEF Code, independent Directors represented the majority of the Remuneration Committee's members.

Activities of the Remuneration Committee in 2018 and up to February 11, 2019

The Committee met once in 2018, with an attendance rate of 100%.

On February 6, 2018, all the members of the Committee met to review and determine the variable remuneration for 2017 of the executive corporate officers and the Executive Committee members, after noting the achievement rate of the performance targets based on the Group's 2017 results.

Also during this meeting, the Committee discussed the principles of remuneration of executive corporate officers and Executive Committee members for 2018. A proposal was made for the current remuneration structure (as approved by the Annual General Meeting of April 27, 2017 and presented in section 4.1 of this chapter) to remain unchanged.

In 2019, the Committee met on January 14 and February 7.

At the meeting in January, a report on the governance roadshow and the response from institutional investors were presented to the Board. On this occasion, the Board also reiterated its desire to initiate a thorough review of the remuneration of the executive corporate officers.

The February meeting was dedicated to the review and determination of the variable components of compensation for 2018 and the principles of remuneration for 2019 of the executive corporate officers. The Committee's review was carried out based on the Group's 2018 results.

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

As of December 31, 2018, the Appointments Committee was made up of five Directors:

- Financière Pinault, represented by Héloïse Temple-Boyer, Chair;
- Yseulys Costes, independent Director;
- Sapna Sood, independent Director;
- Ginevra Elkann, independent Director;
- Baudouin Prot.

Accordingly, with regard to the criteria of the AFEP-MEDEF Code, independent Directors represented the majority of the Appointments Committee's members.

Activities of the Appointments Committee in 2018 and up to February 11, 2019

The Appointments Committee met once in 2018 and all of its members were present.

At its meeting of February 1, 2018, the Committee reviewed the succession plan for the Group's senior executives. It also discussed Director independence and the membership of the Board and its Committees.

On February 5, 2019, the Committee reviewed this report on corporate governance, included in the 2018 Reference Document. It also reviewed the Director independence criteria and discussed the membership of the Board and its Committees. Lastly, it reviewed the succession plan for the Group's senior executives. The Committee also decided to adopt a new name: "Appointments and Governance Committee".

The Committee 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, independent Director;
- François-Henri Pinault;
- Jean-François Palus;
- Daniela Riccardi, independent Director.

Activities of the Sustainability Committee in 2018 and up to February 11, 2019

The Committee met twice in 2018, with an average attendance rate of 100%.

The Committee met on March 15, 2018 to discuss Group activities with regard to sustainability, consistent with the targets set for 2018. Specific issues covered included the Group sustainability priorities of the EP&L, innovative projects and sustainable sourcing.

A second meeting was held on November 13, 2018, during which the Committee was given an update on the implementation of the "Advance" program.

The Chief Sustainability Officer attended both meetings of the Sustainability Committee.

The Remuneration Committee Chair also attended these meetings, without being entitled to vote, to discuss the link with the sustainability targets set in relation to the remuneration of executive corporate officers.

The Committee did not meet in early 2019.

2.4 Other information on the Company's Board of Directors

Honorary Chairman of the Board of Directors

In accordance with the option provided for under the Company's Articles of Association, at its meeting on April 26, 2018 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 attend the meetings of the Board of Directors on a consultative basis.

He did not attend any of these meetings in 2018.

Non-voting Directors

- Marco Bizzarri, President and Chief Executive Officer of Gucci (reappointed by the Board of Directors at its meeting on April 27, 2017);
- Albert Bensoussan, Chief Executive Officer of Kering's Watches and Jewelry Division (reappointed by the Board of Directors at its meeting on July 26, 2018);
- Francesca Bellettini, President and 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, as required, Board of Directors' meetings, to provide the necessary information, expertise and knowledge of the Group's various businesses. Appointed by the Board of Directors, the non-voting Directors serve on a consultative basis.

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.

The Executive Committee meets regularly with the Chief Executive Officers of the Group's major brands and Kering's main operating officers. With 12 members, the 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 the Group's activities and major brands the opportunity to be more closely involved in key strategic decision-making processes, alongside Kering's main operating officers.

Members of the Executive Committee as of December 31, 2018:

- François-Henri Pinault, Chairman and Chief Executive Officer;
- Jean-François Palus, Group Managing Director;
- Francesca Bellettini, President and Chief Executive Officer, Saint Laurent;
- Albert Bensoussan, Chief Executive Officer of the Watches and Jewelry Division;
- Marco Bizzarri, President and Chief Executive Officer, Gucci;
- 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;
- Claus-Dietrich Lahrs, President and Chief Executive Officer, Bottega Veneta;
- Béatrice Lazat, Chief People Officer;
- Roberto Vedovotto, Chief Executive Officer, Kering Eyewear.

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, based on operational and financial metrics.

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 the AFEP-MEDEF recommendations of October 6, 2008 on the remuneration of corporate officers of listed companies as a reference corporate governance framework, and had 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, November 2016 and June 2018 (the "AFEP-MEDEF Code") and its December 2016 implementing guidelines, and has done so, in particular, for the preparation of this report. The AFEP-MEDEF Code is available in English on the AFEP website at http://www.afep.com.

In accordance with Article 225-37-4,8° of the French Commercial Code, Kering refers to the AFEP-MEDEF Code, except as regards the following:

AFEP-MEDEF recommendations	Kering practice and explanations
Succession planning for company officers (Section 16.2.2 of the Code) – The nominations committee (or an *ad hoc* committee) should design a plan for replacement of company officers.	The succession of executive corporate officers is reviewed and discussed each year by the Appointments Committee, so that it can recommend solutions to the Board in the event of an unexpected vacancy. For the purposes of transparency and as part of its commitment to continuous improvement in governance matters, the Company has decided that, next year, it will publish the decision-making process used to ensure the continuity of its management bodies through the preparation of a succession plan for executive corporate officers.

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 40.90% of the capital and 57.61% of the theoretical voting rights of Kering as of December 31, 2018), (ii) the double voting right provided for under the Articles of Association, (iii) the Company's stock repurchase program, and (iv) the authorizations 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.

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.

Pursuant to the provisions of Article L. 225-37-3 of the French Commercial Code, the Company reports the amounts received by the corporate officers of controlling companies during the year. Accordingly, François-Henri Pinault, Patricia Barbizet and Héloïse Temple-Boyer were paid a net amount of €1.2 million, €3.8 million and €444,940 respectively for 2018, in respect of positions held at Financière Pinault SCA and Artémis SAS.

The amounts stated above are unrelated to the corporate office held within Kering and 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 2018 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 summarized below:

	Type of transaction	Transaction date	Average price
Artémis SAS, majority shareholder	Purchase of 32,016 shares	August 27, 2018	€460.81
Sophie L'Hélias, Company Director	Purchase of 26 shares	March 13, 2018	€387.70
Laurence Boone, Company Director	Purchase of 200 shares	March 22, 2018	€383.87
Sophie L'Hélias, Company Director	Purchase of 185 shares	May 22, 2018	€486.90

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 EXECUTIVE 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 June 2018, 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. The Committee can call on external experts to advise on executive remuneration and is also attentive to the views of institutional shareholders.

4.1 Information on remuneration paid or awarded to executive corporate officers for 2018

The remuneration of executive corporate officers includes a fixed portion and a variable portion. The Board of Directors establishes the rules for setting the remuneration each year based on the recommendations of the Remuneration Committee.

In the two tables below, the amounts shown as payable correspond to all remuneration granted to the relevant executive corporate officer during each of the fiscal years shown, regardless of the actual payment date.

The amounts shown as paid correspond to all remuneration received by the executive corporate officer during each of the fiscal years shown.

Gross amounts *(in euros)* François-Henri Pinault Chairman and Chief Executive Officer	2018		2017	
	Amounts payable for the year (1)	Amounts paid during the year	Amounts payable for the year (1)	Amounts paid during the year
Fixed remuneration	1,200,000	1,200,000	1,200,000	1,200,000
Annual variable remuneration	1,944,000	1,944,000 (2)	1,944,000	1,407,318 (3)
Multi-annual variable remuneration:	N/A	18,631,905	N/A	-
2014 Plan (I): 11,372 KMUs awarded at €144 per unit (corresponding to a value of €1,637,568 at the date of the award) Performance condition not met		0		
2014 Plan (II): 9,900 KMUs awarded at €166 per unit (corresponding to a value of €1,643,400 at the date of the award) Exercised at €885		8,761,500		
2015 Plan: 11,153 KMUs awarded at €167 per unit (corresponding to a value of €1,862,551 at the date of the award) Exercised at €885		9,870,405		
Exceptional remuneration	-	-	-	-
Directors' fees *(Kering)*	66,704	67,121 (2)	67,121	64,679 (3)
Directors' fees *(subsidiaries)*	-	14,527 (2)	74,527	74,527 (3)
Benefits in kind (4)	16,421	16,421	6,476	6,476
Total	**3,227,125**	**21,873,974**	**3,292,124**	**2,753,000**

(1) *The amounts payable for the year correspond to components of remuneration for services rendered during the year. Multi-annual variable remuneration components are due at the end of a vesting period (of three years, in general), subject to the achievement of certain performance conditions. They are therefore not included in this section.*

The 9,526 KMUs relating to the 2016 Plan will be payable from April 2019 (first window) and may be cashed in until October 2020 (second window), as the performance condition has been met. Based on a value of €753 per KMU at December 31, 2018 (versus €166 at the award date, corresponding to a total value of €1,581,316), the value of this award is €7,173,078.

Exceptional remuneration awarded to executive corporate officers following the major transformation of the Group: 10,000 KMUs were awarded to the Chairman and Chief Executive Officer, with no performance conditions attached. Based on a value of €753 per KMU at December 31, 2018 (versus €581 on December 31, 2017, corresponding to a total value of €5,810,000 on the award date), the value of this award is €7,530,000.
The first tranche of KMUs may be cashed in as from April 2019 and the second tranche as from April 2020.

(2) *For 2017.*
(3) *For 2016.*
(4) *François-Henri Pinault is entitled to a company car.*

Gross amounts *(in euros)* Jean-François Palus Group Managing Director	2018 Amounts payable for the year [1]	2018 Amounts paid during the year	2017 Restated data [2] Amounts payable for the year [1]	2017 Restated data [2] Amounts paid during the year
Fixed remuneration [3]	1,216,443	1,216,443	1,176,460	1,176,460
Annual variable remuneration [4]	1,634,010	1,559,476 [5]	1,559,476	1,039,614 [6]
Multi-annual variable remuneration:	N/A	8,635,830	N/A	-
2014 Plan: 9,426 KMUs awarded at € 144 per unit (corresponding to a value of € 1,357,344 at the date of the award) Performance condition not met		0		
2015 Plan: 9,758 KMUs awarded at € 167 per unit (corresponding to a value of € 1,629,586 at the date of the award) Exercised at €885		8,635,830		
Exceptional remuneration	-	-	-	-
Directors' fees *(Kering)*	66,704	60,412 [5]	60,412	60,355 [6]
Directors' fees *(subsidiaries)*	125,000	128,333 [5]	125,000	125,000 [6]
Benefits in kind [3] [7]	1,081,582	1,081,582	1,078,961	1,078,961
Total	**4,123,739**	**12,682,076**	**4,000,309**	**3,480,390**

(1) The amounts payable for the year correspond to components of remuneration for services rendered during the year. Multi-annual variable remuneration components are due at the end of a vesting period (of three years, in general), subject to the achievement of certain performance conditions. They are therefore not included in this section.

The 8,448 KMUs relating to the 2016 Plan will be payable from April 2019 (first window) and may be cashed in until October 2020 (second window), as the performance condition has been met. Based on a value of €753 per KMU at December 31, 2018 (versus €166 at the award date, corresponding to a total value of €1,402,368), the value of this award is €6,361,344.

Exceptional remuneration awarded to executive corporate officers following the major transformation of the Group: 6,000 KMUs were awarded to the Group Managing Director, with no performance conditions attached. Based on a value of €753 per KMU at December 31, 2018 (versus €581 on December 31, 2017, corresponding to a total value of €3,486,000 on the award date), the value of this award is €4,518,000. The first tranche of KMUs may be cashed in as from April 2019 and the second tranche as from April 2020.

(2) Data restated to reflect the 2018 exchange rate in order to provide information at comparable exchange rates.

(3) Translated into euros at the average 2018 exchange rate (0.88471). The Group Managing Director's fixed remuneration (€1,200,000) is paid half in euros (€) and half in pounds sterling (GBP). The exchange rate used for translation is that applied to the budget approved in March each year. At the end of the year, the amount in pounds is restated in euros using the average exchange rate for the year (i.e., 0.88471 for 2018). This explains why the reported amount may differ from the €1,200,000 set as the Group Managing Director's fixed remuneration.

(4) Translated into euros at the December 31, 2018 closing exchange rate (0.89453).

(5) For 2017.

(6) For 2016.

(7) 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 2017 Reference Document, this data was presented as follows:[1]

Gross amounts *(in euros)* Jean-François Palus Group Managing Director	2017 Amounts payable for the year	2017 Amounts paid during the year
Fixed remuneration	1,181,747	1,181,747
Annual variable remuneration	1,586,011	1,043,781 [2]
Multi-annual variable remuneration	-	-
Exceptional remuneration	-	-
Directors' fees *(Kering)*	60,412	60,355 [2]
Directors' fees *(subsidiaries)*	125,000	125,000
Benefits in kind	1,088,672	1,088,672
Total	**4,041,842**	**3,499,555**

(1) Table provided by reference to restated data in the table above.

(2) For 2016.

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 shareholders' meetings of listed companies:

- the principles and criteria for determining, allocating and awarding the fixed, variable and exceptional components making up total remuneration and benefits in 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 in 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 has been applicable since the 2018 Annual General Meeting.

In other words, shareholders will have a dual vote at the 2019 Annual General Meeting:

- a first binding *ex ante* vote on remuneration due to executive corporate officers. If 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 in kind paid or awarded to the executive corporate officers 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 2017 were paid in April 2018 and those payable for 2018 were paid in February 2019.

For 2018, 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 the recommendation of the Remuneration Committee, the Board of Directors decided on February 12, 2018 to maintain the fixed remuneration of the two executive corporate officers at €1,200,000.

Previously, the fixed remuneration of the Chief Executive Officer had remained unchanged since 2011 and that of the Group Managing Director since 2012. It was then increased in 2017 from €1,100,000 to €1,200,000 for the Chairman and Chief Executive Officer and from €1,000,000 to €1,200,000 for the Group Managing Director. The fixed remuneration of executive corporate officers therefore remains stable and has not increased since 2017.

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, Capgemini, Danone, EssilorLuxottica, Lafarge, Legrand, L'Oréal, LVMH, Pernod Ricard, Publicis Groupe, Safran, Solvay, Valeo, Vivendi;
- international market (12 companies): Burberry, Coach, Estée Lauder, Hermès, Hugo Boss, L'Oréal, 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 AFEP-MEDEF Code, the fixed remuneration amount may only be reviewed at relatively long intervals.

Circumstances of the Group Managing Director:

Following the relocation of the Group Managing Director's activities to London, as noted by the Board of Directors at its meeting of June 18, 2013, based on a recommendation of the Remuneration Committee made in 2013, 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.

For simplicity's sake and on the recommendation of the Remuneration Committee, 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 546,000 for 2018, 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.

The Employment Agreement does not provide for the payment of any termination benefits.

Annual variable remuneration

The variable remuneration of the Chairman and Chief Executive Officer (120%) and the Group Managing Director (100%) 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 relating to financial targets 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.

Historical – Based exclusively on financial targets

In 2015, there were two targets, each accounting for 50% of the variable portion of remuneration: consolidated recurring operating income (ROI) and consolidated free cash flow from operations (FCF).

Change – Introduction of non-financial targets

In 2016, in line with the Group's long-term strategy on environmental, social and governance (ESG) issues, the Board decided, at the recommendation of the Remuneration Committee, to introduce new equally-weighted non-financial performance criteria that would account for 30% of annual variable remuneration. The criteria are based on three areas that underpin the Group's strategy: organization 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
Organization and talent management	10%
Corporate social responsibility	10%
Sustainability	10%
TOTAL	**30%**

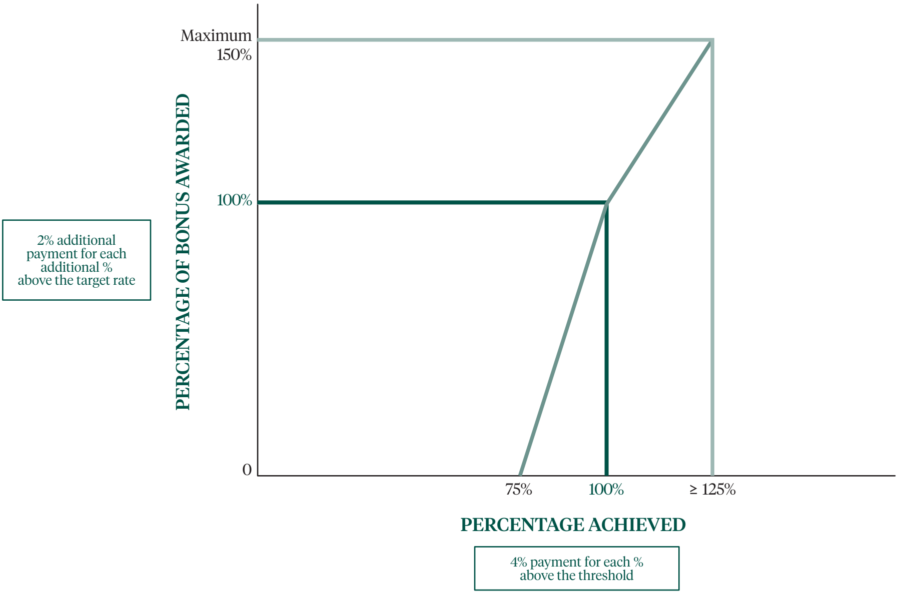
On the recommendation of the Remuneration Committee, non-financial targets are assessed each year by the Board, which takes into account the performance of the Chairman and Chief Executive Officer and of the Group Managing Director based on reports and presentations that describe the level of achievement of each target and justify the corresponding remuneration awarded to the executive corporate officers.

This assessment is based on a detailed proposal prepared by the Remuneration Committee, which relies in particular on objective information reported by the Chief Sustainability Officer, the Chief Compliance Officer, 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.

The achievement rate for each of the targets is presented in the table below. For each financial target, the achievement rate 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.

Achievement rate of financial targets *(versus target)*	Percentage of bonus awarded *(versus target amount)*
≤ 75%	0%
100%	100%
≥ 125%	150% (maximum)

Any achievement falling between the minimum (75%) and the target (100%) achievement rates or between the target and the maximum (125%) achievement rates will give rise to annual variable remuneration calculated on a straight-line basis between the relevant thresholds. For example, if an executive corporate officer were to achieve 90% of the target, he would receive 60% of his annual variable remuneration; if he were to achieve 110% of the target, he would receive 125% of the remuneration.



History of annual variable remuneration payments

Chairman and Chief Executive Officer – François-Henri Pinault

(in euros)	2014 (for 2013)	2015 (for 2014)	2016 (for 2015)	2017 (for 2016)	2018 (for 2017)
	1,239,480	1,560,900	1,158,960	1,407,318	1,944,000

Group Managing Director – Jean-François Palus

(in euros)	2014 (for 2013) (1)	2015 (for 2014) (1)	2016 (for 2015) (1)	2017 (for 2016) (1)	2018 (for 2017) (1)
	915,628	1,153,068	859,500	1,039,614	1,559,476

(1) Data restated to reflect the exchange rate as of December 31, 2018 (0.89453) in order to provide information at comparable exchange rates.

The Chairman and Chief Executive Officer was awarded variable remuneration of €1,944,000 for 2018. The achievement rate for each of the targets is presented in the table below.

Achievement rate of targets in 2018 – François-Henri Pinault, Chairman and Chief Executive Officer

Type	Indicator	Target weighting	Target *(in € millions)*
Financial criteria			
	Consolidated recurring operating income	35%	2,969
	Consolidated free cash flow from operations	35%	1,715
	TOTAL FINANCIAL CRITERIA	**70%**	
Non-financial criteria			
	Sustainability	10%	See description on page 196
	Corporate social responsibility	10%	
	Organization and talent management	10%	
TOTAL NON-FINANCIAL CRITERIA		**30%**	
TOTAL VARIABLE REMUNERATION PAID			

The Group Managing Director was awarded variable remuneration of €1,634,010 for 2018. The achievement rate for each of the targets is presented in the table below.

Achievement rate of targets in 2018 – Jean-François Palus, Group Managing Director

Type	Indicator	Target weighting	Target *(in € millions)*
Financial criteria			
	Consolidated recurring operating income	35%	2,969
	Consolidated free cash flow from operations	35%	1,715
	TOTAL FINANCIAL CRITERIA	**70%**	
Non-financial criteria			
	Sustainability	10%	See description on page 196
	Corporate social responsibility	10%	
	Organization and talent management	10%	
TOTAL NON-FINANCIAL CRITERIA		**30%**	
TOTAL VARIABLE REMUNERATION PAID			

	Thresholds								
	Minimum achievement rate	Payment	Target	Payment	Maximum achievement rate	Payment	Achieved	Rate of payment	Corresponding amount in €
	as a % of the target	*as a % of the index*	*as a % of the target*	*as a % of the index*	*as a % of the target*	*as a % of the index*	*as a % of the target*		
	75%	0%	100%	100%	125%	150%	133%	150%	756,000
	75%	0%	100%	100%	125%	150%	161%	150%	756,000
							> 125%	**150%**	**1,512,000**
			100%	100%	100%	100%	100%	100%	144,000
			100%	100%	100%	100%	100%	100%	144,000
			100%	100%	100%	100%	100%	100%	144,000
							100%	**100%**	**432,000**
									1 944,000

	Thresholds								
	Minimum achievement rate	Payment	Target	Payment	Maximum achievement rate	Payment	Achieved	Rate of payment	Corresponding amount in €
	as a % of the target	*as a % of the index*	*as a % of the target*	*as a % of the index*	*as a % of the target*	*as a % of the index*	*as a % of the target*		
	75%	0%	100%	100%	125%	150%	133%	150%	635,448
	75%	0%	100%	100%	125%	150%	161%	150%	635,448
							> 125%	**150%**	**1,270,896**
			100%	100%	100%	100%	100%	100%	121,038
			100%	100%	100%	100%	100%	100%	121,038
			100%	100%	100%	100%	100%	100%	121,038
							100%	**100%**	**363,114**
									1,634,010

Achievement of non-financial targets in 2018

For each target, the Committee concerned drew up a list of criteria to help determine the achievement rate of the non-financial targets. These were presented to and reviewed by the Remuneration Committee in order to align the remuneration of executive corporate officers with the Group's long-term strategy.

On this basis, the Board of Directors then assessed the achievement rate 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 strategic plan through the definition and roll-out of action plans for each brand (non-financial criterion) *Target applicable to both the Chairman and Chief Executive Officer and the Group Managing Director*	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, in terms of reducing our environmental footprint (based on the results of the EP&L) and our greenhouse gas emissions.
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*	I. Combating corruption 1. 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, - procedure on conflicts of interest, to be signed annually by a target population; 2. more rigorous anti-corruption checks for third parties; 3. e-learning program for Group employees; II. Compliance with competition law 1. competition policy (adapted to local legislation) and a procedure for participation in professional bodies; 2. e-learning program for Group employees.
Organization and talent management: active support for implementation of the talent management policy by brand management teams and of succession plans for members of the Group Executive Committee, Chief Executive Officers and Creative Directors (non-financial criterion) *Target applicable to both the Chairman and Chief Executive Officer and the Group Managing Director*	Support for the "Prometheus" project (overhaul of planning, procurement, logistics and sales processes for the Luxury activities) in terms of team change and brand reorganization aspects. Stronger succession plans for key positions, with an emphasis on the need to achieve gender parity in the talent pool within three years.

Multi-annual variable remuneration *(long-term incentive)*

A new long-term incentive system was introduced in 2013, based on Kering Monetary Units (known as KMUs) and no longer on performance shares. 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 seven luxury 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 in 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 2016 are presented in the table on pages 199 and 200.

At its meeting on February 12, 2018, the Board of Directors, acting on a recommendation of the Remuneration Committee, decided to maintain the KMU system and to maintain the value of the multi-annual variable remuneration at 100% for the Chairman and Chief Executive Officer and 80% for the Group Managing Director 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).

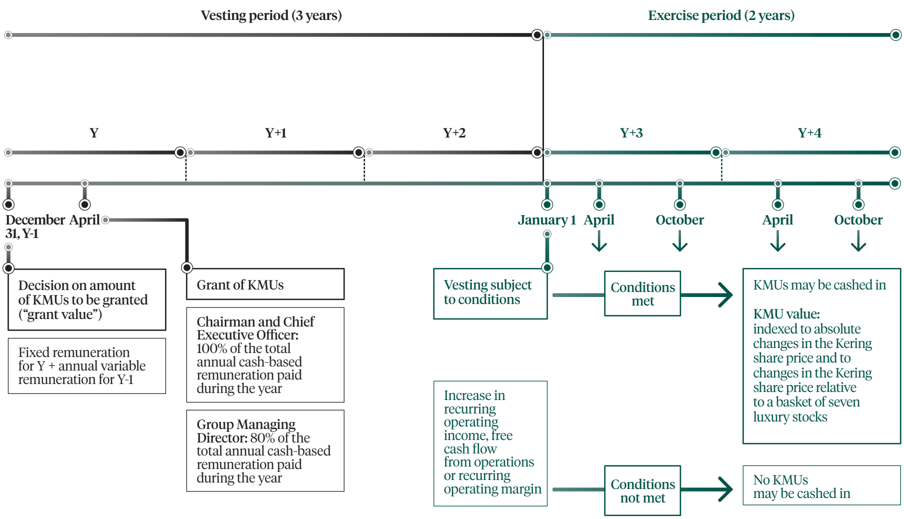
Accordingly, a total of 5,411 and 3,809 KMUs, with a unit value of €581 as of December 31, 2017, were awarded to the Chairman and Chief Executive Officer and to the Group Managing Director, respectively, corresponding to a respective award of €3,143,791 and €2,213,029.

To align the multi-annual variable remuneration system with the Group's long-term performance, since 2017, vesting of the KMUs awarded to the Chairman and Chief Executive Officer and the Group Managing Director 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 (the change in each indicator is measured at constant scope and as reported). Failing this, no KMUs will be cashed in.

The financial criteria are also based on the indicators used to assess the Group's performance, independently of any changes to the share price. The mechanism in place meets stricter requirements, since the KMU value is not in itself a performance condition but mechanically modifies the amount actually paid at the exercise date.



Kering Monetary Units (KMUs) in practice

The Chairman and Chief Executive Officer and the Group Managing Director are eligible to participate in the long-term remuneration plans set up by the Company for Group employees and executives.

The long-term component of executive remuneration is aligned with the Group's long-term strategic goals and 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 KMUs whose initial value of €100 (at December 31, 2011) is indexed to changes in the Kering share price relative to a basket of seven luxury stocks. This principle and criterion for determining long-term remuneration has been maintained. However, following the major transformation of the Group and in particular the distribution of a large portion of the PUMA shares held by Kering, the basket of stocks has been adapted to reflect only Luxury activities and not Sport & Lifestyle activities. Adidas and Nike have therefore been removed from the basket of stocks used as the benchmark.

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 the Remuneration Committee, the Board of Directors decided on March 10, 2017 to remove the lock-in obligation on Kering shares obtained by cashing in KMUs, because these instruments provide exclusively for a cash settlement.

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:

$$\boxed{UVs+1 = UVs \times ([1+VKs+1] + ([1+VKs+1] \times [1+VKs+1] / [1+VPVs+1])) / 2}$$

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: Burberry, Ferragamo, LVMH, 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
June 30, 2018	€885
December 31, 2018	€753

(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 KMUs granted to each executive corporate officer

François-Henri Pinault, Chairman and Chief Executive Officer

KMUs

Plan	KMUs granted (1)	Unit value *(in €)* (2)	Grant value *(in €)*	Vesting date (3)	Target/ Threshold (4)	Value as of Dec. 31, 2018 (€753)	Minimum required
2016	9,526	166 (5)	1,581,316	January 2019	Average increase in EPS/Increase of 2.5% or above	7,173,078	Achieved
2017	10,471	249 (6)	2,607,279	January 2020	Increase in at least one of: ROI, FCF or ROM	7,884,663	TBD
2018	5,411	581 (7)	3,143,791	January 2021	Increase in at least one of: ROI, FCF or ROM	4,074,483	TBD
	5,000	581 (7)	2,905,000	January 2019	No performance condition required (8)	3,765,000	N/A
	5,000	581 (7)	2,905,000	January 2020	No performance condition required (8)	3,765,000	N/A

Given that the performance condition has been achieved, the 9,526 KMUs relating to the 2016 Plan will be payable from April 2019 (first window) and may be cashed in until October 2020 (second window). Based on a value of €753 per KMU at December 31, 2018 (versus €166 at the award date), the value of this award is €7,173,078.

Jean-François Palus, Group Managing Director

KMUs

Plan	KMUs granted [1]	Unit value *(in €)* [2]	Grant value *(in €)*	Vesting date [3]	Target/ Threshold [4]	Value as of December 31, 2018 (€753)	Minimum required
2016	8,448	166 [5]	1,402,368	January 2019	Average increase in EPS/Increase of 2.5% or above	6,361,344	Achieved
2017	7,196	249 [6]	1,791,804	January 2020	Increase in at least one of: ROI, FCF or ROM	5,418,588	TBD
	5,000	249 [6]	1,245,000	January 2020	No performance condition required [8]	3,765,000	N/A
2018	3,809	581 [7]	2,213,029	January 2021	Increase in at least one of: ROI, FCF or ROM	2,868,177	TBD
	3,000	581 [7]	1,743,000	January 2019	No performance condition required [8]	2,259,000	N/A
	3,000	581 [7]	1,743,000	January 2020	No performance condition required [8]	2,259,000	N/A

Given that the performance condition has been achieved, the 8,448 KMUs relating to the 2016 Plan will be payable from April 2019 (first window) and may be cashed in until October 2020 (second window). Based on a value of €753 per KMU at December 31, 2018 (versus €166 at the award date), the value of this award is €6,361,344.

(1) *The value of the KMUs awarded is equal to 70% of the total annual cash-based remuneration paid in 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 seven luxury stocks.*
(3) *The KMU vesting period is set at three years as from January 1 of the year in which they are granted.*
(4) *With respect to the 2016 KMU plans, 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, 2015.*
(6) *Unit value at December 31, 2016.*
(7) *Unit value at December 31, 2017.*
(8) *Exceptional bonus awarded to executive corporate officers following the major transformation of the Group: following the Group's exit from retail activities, build an integrated group generating value for the brands across the Group and, once the Luxury Division has confirmed its ability to deliver profitable organic growth, focus the portfolio on luxury brands (see the description of this exceptional remuneration on page 201).*

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 did vest, because the performance condition had been achieved. These KMUs were exercised by the two executive corporate officers in October 2018, based on a value of €885 per KMU at June 30, 2018. 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%.

Exceptional remuneration

As agreed with the Board of Directors, management defined a strategy to be implemented once the disposal of the retail activities was complete. The aim of this strategy was to build an integrated group generating value for the brands across the Group and, once the Luxury Division had confirmed its ability to deliver profitable organic growth, to focus the portfolio on luxury brands.

The payment of a stock dividend representing a large portion of the PUMA shares held by Kering was part of this strategy: alongside the ability of the luxury brands to deliver healthy and profitable growth, the turnaround at PUMA was 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, has led to a major transformation of the Group.

In this context, and further to the approval of the shareholders granted at the Annual General Meeting of April 26, 2018, a total of 10,000 and 6,000 KMUs, with a unit value of €581 as of December 31, 2017, were awarded in 2018 to the Chairman and Chief Executive Officer and to the Group Managing Director, respectively, corresponding to a respective value of €5,810,000 and €3,486,000. 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.

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), providing him 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.

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 2018 to each executive corporate officer is €66,704, comprising €22,444 for the fixed portion and €44,260 for the variable portion.

In addition, Directors' fees paid by the Group's subsidiaries amounted to €125,000 for Jean-François Palus with respect to 2018. François-Henri Pinault received no Directors' fees from Group subsidiaries in 2018.

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.

Executive corporate officer	Employment contract Yes	Employment contract No	Supplementary pension plan Yes	Supplementary pension plan No	Indemnities or benefits owed or that may be payable on termination or change of duties Yes	Indemnities or benefits owed or that may be payable on termination or change of duties No	Indemnities relating to a non-competition clause Yes	Indemnities relating to a non-competition clause 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 the executive corporate officers in 2018, and no stock options are outstanding for François-Henri Pinault or Jean-François Palus.

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 2018

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 2018, no performance shares were granted to either François-Henri Pinault or Jean-François Palus.

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 2018	Amounts for 2017
Remuneration payable (1)	3,227,125	3,292,124
Value of multi-annual variable remuneration granted during the year (2)	8,953,791	2,607,279
TOTAL	**12,180,916**	**5,899,403**

(1) The amounts payable for the year correspond to components of remuneration for services rendered during the year. Multi-annual variable remuneration components are due at the end of a vesting period (of three years, in general), subject to the achievement of certain performance conditions. They are therefore not included in this section. However, they are included in the table summarizing multi-annual variable remuneration presented on page 199. In October 2018, the 9,900 KMUs relating to the 2014 Plan and the 11,153 KMUs relating to the 2015 Plan were cashed in, based on a value of €885 per KMU at June 30, 2018, for a total amount of €18,631,905.

(2) 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 2018	Amounts for 2017
Remuneration payable (1)	4,123,739	4,000,309
Value of multi-annual variable remuneration granted during the year (2)	5,699,029	3,036,804
TOTAL	**9,822,768**	**7,037,113**

(1) The amounts payable for the year correspond to components of remuneration for services rendered during the year. Multi-annual variable remuneration components are due at the end of a vesting period (of three years, in general), subject to the achievement of certain performance conditions. They are therefore not included in this section. However, they are included in the table summarizing multi-annual variable remuneration presented on page 200. In October 2018, the 9,758 KMUs relating to the 2015 Plan were cashed in, based on a value of €885 per KMU at June 30, 2018, for a total amount of €8,635,830.

(2) 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 executive corporate officers

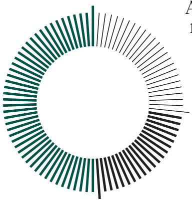
4.2.1 Structure of the 2019 remuneration policy

Acting on a recommendation of the Remuneration Committee, on February 11, 2019, the Board of Directors approved the remuneration policy for the Chairman and Chief Executive Officer and the Group Managing Director for 2019.

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 the fixed, variable and exceptional components making up total remuneration and benefits in kind granted to executive corporate officers in respect of their duties, will be submitted to the approval of Kering's 2019 Annual General Meeting.

The proposed remuneration structure for executive corporate officers is as follows, unchanged from the previous year:

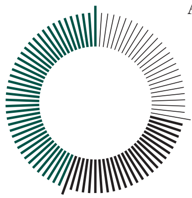
Chairman and Chief Executive Officer



(1) LTI = 100% of the fixed remuneration for year Y + annual variable remuneration for Y-1.

(2) Annual variable remuneration: 120%.

Group Managing Director



(1) LTI = 80% of the fixed remuneration for year Y + annual variable remuneration for Y-1.

(2) Annual variable remuneration: 100%.

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 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 its strategic long-term objectives on environmental, social and governance (ESG) issues. Variable remuneration is expressed as a percentage of annual fixed remuneration.

The annual variable remuneration of the Chairman and Chief Executive Officer (120%) and the Group Managing Director (100%) is based on the achievement of precisely defined targets, which are determined as follows:

Financial targets 70%	Consolidated recurring operating income (35%) Consolidated free cash flow from operations (35%)	Targets met	Chairman and Chief Executive Officer	120% of financial targets
			Group Managing Director	100% of financial targets
		Targets exceeded *(achievement rate of 125% or more)*	Chairman and Chief Executive Officer & Group Managing Director	150% of financial targets (maximum)
Non-financial targets 30%	Organization and talent management (10%) Corporate social responsibility (10%) Sustainability (10%)	Targets met	Chairman and Chief Executive Officer & Group Managing Director	100% of non-financial targets (maximum)

Any achievement falling between the minimum (75%) and the target (100%) achievement rates or between the target and the maximum (125%) achievement rates will give rise to annual variable remuneration calculated on a straight-line basis between the relevant thresholds. For example, if an executive corporate officer were to achieve 90% of the target, he would receive 60% of his annual variable remuneration; if he were to achieve 110% of the target, he would receive 125% of the remuneration.

The principles applied in 2018 aligning the criteria defining the annual variable remuneration for senior executives with those measuring the Group's performance (from both a financial and a non-financial perspective) would therefore be maintained, subject to the approval of the shareholders at the next Annual General Meeting.

Total variable remuneration due for 2019 will be paid in 2020, following the Annual General Meeting's approval of the financial statements. Payment is also subject to the Annual General Meeting's approval of the 2019 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 organization and talent management – 10%), which reflect Kering's goals in these areas.

Criteria for the non-financial targets defined for 2019 are listed below on page 205. For confidentiality reasons, the targets associated with financial criteria are not disclosed.

Financial criteria *(quantitative)* used to calculate annual variable remuneration	Weighting
Consolidated recurring operating income	35%
Consolidated free cash flow from operations	35%
SUB-TOTAL	**70%**

Non-financial criteria *(qualitative)* used to calculate annual variable remuneration	2019 targets	Weighting
Organization and talent management	Promote, support and implement actions to increase diversity in the workforce, with a particular emphasis on achieving gender balance Implement recruitment, training, remuneration and internal promotion programs aimed at increasing gender parity Prepare succession plans for Executive Committee members and key positions Promote and facilitate talent development	10%
Corporate social responsibility	*Risk management:* Training provided to employees worldwide by the Compliance Department; Regular Risk Committee meetings and effective implementation of action plans; Revision of anti-corruption risk mapping; Rigorous checks for third parties; Implementation of crisis management procedures *Implementation of anti-corruption policies and assessment of employee awareness of these policies:* Heightened involvement of brand Chief Executive Officers; Update of all compliance policies and procedures; Ongoing awareness initiatives for employees exposed to corruption risks; Performance of anti-corruption audits; Active support for the internal control and compliance teams within the Group	10%
Sustainability	Instill an active sustainability culture across all Group entities Promote and use the EP&L Initiate and support the implementation of measures in favor of sustainability Promote a culture of ethics across the Group Disseminate the Company's culture and values	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 2019

The factors determining payment of annual variable remuneration are the same as for 2018 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).

Achievement rate of financial targets	Percentage of bonus awarded
≤ 75%	0%
100%	100%
≥ 125%	150% (maximum)

Achievement rate of non-financial targets	Percentage of bonus awarded
0 to 100%	0 to 100%

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). The performance conditions applied since 2017 will be maintained but rendered more demanding and progressive, as described below.

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. 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.

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

Acting on a recommendation of the Remuneration Committee, the Board of Directors decided on February 11, 2019 to make the vesting conditions of KMUs more demanding by adopting a cumulative and progressive approach to the three indicators used.

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).

Under this system, 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 (the change in each indicator is measured at constant scope and as reported). Failing this, no KMUs may be cashed in.

Starting in 2019, the following system will be applied:

- three criteria met: 100% of the KMUs vest;
- two of three criteria met: 75% of the KMUs vest;
- one of three criteria met: 50% of the KMUs vest;
- no criteria met: no KMUs may be cashed in.

The financial 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

Executive corporate officers will not be eligible for any exceptional remuneration for 2019.

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 2019 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 February by the Board of Directors, based on a recommendation of the Remuneration Committee	Set in February 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%), organization and talent management (10%) • financial targets: free cash flow from operations (35%), recurring operating income (35%)	• three criteria met: 100% of the KMUs vest • two of three criteria met: 75% of the KMUs vest • one of three criteria met: 50% of the KMUs vest • no criteria met: no KMUs may 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 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 modernization of the economy ("Sapin II"), the Company will ask shareholders at the Annual General Meeting of April 24, 2019 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, allocating and awarding the fixed, variable and exceptional components of total remuneration and in kind benefits granted 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 the 2018 Reference Document, the Annual General Meeting approves the principles and criteria for determining, allocating and awarding the fixed, variable and exceptional components of total remuneration and benefits in kind granted to François-Henri Pinault, Chairman and Chief Executive Officer.

Ninth resolution

Approval of the principles and criteria for determining, allocating and awarding the fixed, variable and exceptional components of total remuneration and benefits in kind granted 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 the 2018 Reference Document, the Annual General Meeting approves the principles and criteria for determining, allocating and awarding the fixed, variable and exceptional components of total remuneration and benefits in kind granted to Jean-François Palus, Group Managing Director.

4.3 Remuneration of Directors – Directors' fees

At the Annual General Meeting held on May 6, 2014, the shareholders decided to increase 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 2017 and 2018.

Based on recommendations of the Remuneration Committee, the Board of Directors decided on February 11, 2019 to allocate Directors' fees on the basis of the actual presence of members at meetings of the Board and its specialized Committees in 2018. In accordance with applicable legislation, members may not use videoconferencing or other remote communication technologies to attend 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 at the Annual General Meeting, the rule followed by the Board in order to comply with the AFEP-MEDEF recommendation for a significant variable component with respect to Directors' fees is to divide the total amount between a 40% fixed portion and a 60% variable portion. The Directors' fees are thus 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 2018, a total amount of €743,592 will be paid to the non-executive Directors, allocated as follows:

- €305,911 for the fixed portion, of which €69,000 for the special portion;
- €437,681 for the variable portion.

Non-voting Directors do not collect any Directors' fees in respect of their participation in those meetings of the Board of Directors that they are invited to attend.

Directors' fees

The table below shows Directors' fees paid in 2017 and 2018 for fiscal years 2016 and 2017:

Members of the Board of Directors other than the Chief Executive Officer and Group Managing Director		Amounts paid during the year *(in €)* 2018	2017
Patricia Barbizet [(1)]	Directors' fees	153,845	159,115
	Committee Chair	23,000	23,000
	Fixed portion	37,407	36,361
	Variable portion	93,437	99,754
Laurence Boone [(2)]	Directors' fees	50,564	48,107
	Committee Chair	-	-
	Fixed portion	11,222	18,181
	Variable portion	39,342	29,926
Yseulys Costes	Directors' fees	74,186	81,914
	Committee Chair	-	-
	Fixed portion	29,926	29,544
	Variable portion	44,260	52,371
Jean-Pierre Denis	Directors' fees	104,562	110,123
	Committee Chairman	23,000	23,000
	Fixed portion	29,926	27,271
	Variable portion	51,636	59,852
Sophie L'Hélias	Directors' fees	104,562	68,553
	Committee Chair	23,000	15,458
	Fixed portion	29,926	18,181
	Variable portion	51,636	34,914

Members of the Board of Directors other than the Chief Executive Officer and Group Managing Director		Amounts paid during the year *(in €)* 2018	2017
Baudouin Prot	Directors' fees	49,492	67,172
	Committee Chairman	-	-
	Fixed portion	22,444	27,271
	Variable portion	27,048	39,901
Daniela Riccardi	Directors' fees	66,704	57,640
	Committee Chair	-	-
	Fixed portion	22,444	22,726
	Variable portion	44,260	34,914
Sapna Sood	Directors' fees	69,268	40,625
	Committee Chair	-	-
	Fixed portion	29,926	18,181
	Variable portion	39,342	22,445
Ginevra Elkann (3)	Directors' fees	9,905	-
	Committee Chair	-	-
	Fixed portion	4,988	-
	Variable portion	4,918	-
Sophie Bouchillou (4)	Directors' fees	43,188	48,549
	Committee Chair	-	-
	Fixed portion	11,222	13,635
	Variable portion	31,965	34,914
Claire Lacaze (4)	Directors' fees	17,317	-
	Committee Chair	-	-
	Fixed portion	7,481	-
	Variable portion	9,836	-
Luca Cordero di Montezemolo (5)	Directors' fees		19,287
	Committee Chairman	-	-
	Fixed portion	-	6,816
	Variable portion	-	12,469
Philippe Lagayette (5)	Directors' fees	-	31,595
	Committee Chairman	-	7,452
	Fixed portion	-	9,090
	Variable portion	-	14,963
Jochen Zeitz (5)	Directors' fees	-	19,287
	Committee Chairman	-	-
	Fixed portion	-	6,818
	Variable portion	-	12,469
TOTAL		**743,593**	**751,967**

(1) The term of office of Vice-Chair Patricia Barbizet expired on December 14, 2018.
(2) The term of office of Laurence Boone expired on July 26, 2018.
(3) Ginevra Elkann was appointed by the Board of Directors at its meeting of October 22 and 23, 2018.
(4) The term of office of Sophie Bouchillou expired in July 2018. She was replaced by Claire Lacaze, whose term of office began on July 12, 2018, when she was elected by the Works Council.
(5) The terms of office of Luca Cordero 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.

5. SHARE CAPITAL AND OWNERSHIP STRUCTURE

5.1 Share capital

5.1.1 Share capital

Share capital as of December 31, 2018

As of December 31, 2018, 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 totaled 178,808,637 (after deducting treasury shares, which do not carry voting rights).

As of December 31, 2018, to the Company's knowledge:

- the Directors directly held 0.022% of the share capital, representing 0.118% of the voting rights (after deducting treasury shares, which do not carry voting rights);
- the Company directly held 429,017 treasury shares, but did not hold any under the liquidity agreement; none of the Company's shares were held by controlled companies.

Share capital movements over the past 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)
2018	-	-	-	**€505,117,288**	**126,279,322**	**179,237,654**
2017	-	-	-	€505,117,288	126,279,322	179,325,618
2016	-	-	-	€505,117,288	126,279,322	179,011,319

(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 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).

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 authorized the Board of Directors to trade in Company shares for a period of 18 months in accordance with the goals and terms of the stock repurchase program filed with the AMF. This program 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 authorization 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), April 27, 2017 (maximum purchase price of €320 per share) and April 26, 2018 (maximum purchase price of €480 per share).

On April 24, 2019, the Annual General Meeting will be asked to authorize the Company to trade in its own shares under a new stock repurchase program with the same conditions as those stipulated for previous authorizations. The maximum purchase price would be raised to €580 per share.

The objectives that could be pursued within the scope of these transactions involving the repurchase 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 practice.

Stock repurchase program

Within the scope of the stock repurchase program authorized at the Annual General Meeting of April 26, 2018, the Group set up a stock repurchase agreement with an investment services provider with a maximum term of four months on October 29, 2018. The agreement concerned a first tranche of up to 631,000 shares, representing approximately 0.5% of the share capital, up to an amount of €300 million and at a price not exceeding €480 per share.

In 2018, the Group purchased 429,017 shares, which it still held in treasury as of December 31, 2018.

Repurchase and sale of shares in 2018 – Trading costs – Number of treasury shares held as of December 31, 2018

Stock repurchasing

No shares were repurchased in 2018 pursuant to the authorization given at the Annual General Meeting on April 27, 2017.

A total of 638,270 shares were repurchased by the Company pursuant to the authorization given at the Annual General Meeting on April 26, 2018, at an average price of €409.94 per share.

In 2018, Kering therefore repurchased a total of 638,270 shares at an average price of €409.94 for the following purposes:

- 209,253 shares at an average price of €446.22 per share under the liquidity agreement;
- 429,017 shares at an average price of €392.25 per share pursuant to the agreement signed on October 29, 2018, for cancellation purposes.

The shares repurchased represent 0.51% of the share capital.

Disposals

In 2018, Kering sold 209,253 shares at an average price of €447.85 per share under the liquidity agreement.

The disposals made represent 0.17% of the share capital.

Trading costs

Total share trading costs for repurchases and sales amounted to €0.5 million.

Share cancellations in 2018

No Kering shares were canceled during the year.

As of the end of the reporting period, the Company held 429,017 shares in treasury. These shares will subsequently be canceled.

Repurchasing and sale of Kering shares between January 1 and February 11, 2019

Since January 1, 2019, the Company has repurchased 24,863 shares at an average price of €403.18 and has sold 24,863 shares at an average price of €404.76 under the liquidity agreement.

The Company has also repurchased 109,927 shares pursuant to the agreement signed on October 29, 2018, at an average price of €412.65 per share, for cancellation purposes.

Share cancellations in 2019

No shares were canceled between January 1 and February 11, 2019.

Use of derivatives in 2018

Kering did not buy any call options on its own shares in 2018.

As of December 31, 2018, Kering did not hold any call options on its own shares.

5.1.3 Authorizations to issue securities giving access to the share capital

Authorizations to issue shares or other securities in force as of December 31, 2018

Pursuant to the decisions of the Annual General Meeting on April 27, 2017, the Board of Directors has the following authorizations:

Description of authorization	Date of Annual General Meeting *(resolution no.)*	Period of validity *(expiry date)*	Maximum authorized nominal amount *(in € millions)*	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 [(2)]	April 27, 2017 (13th)	26 months (June 2019)	200 [(1)]	Unused
Share capital increase via the capitalization of reserves, profits or additional paid-in capital	April 27, 2017 (14th)	26 months (June 2019)	200 [(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 payment for shares tendered to a public exchange offer, or to debt securities	April 27, 2017 (15th)	26 months (June 2019)	50 [(4)]	Unused
Share capital increase via the issue, without pre-emptive subscription rights, by 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 [(2)(5)]	Unused
Authorization 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 payment for in-kind contributions, limited to 10% of the share capital	April 27, 2017 (19th)	26 months (June 2019)	50.5 [(4)]	Unused
Share capital increases 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 canceling shares				
Authorization to reduce the share capital by canceling shares	April 27, 2017 (12th)	24 months (April 2019)	10% of the share capital per 24-month period	Unused

(1) This amount represents the overall nominal cap for share capital increases that may be carried out under the authorizations 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 Annual General Meeting held on April 27, 2017 authorized 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 capitalizing reserves, profits or additional paid-in capital and to grant free shares.

These authorizations 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 2012.

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, 2018, 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 applicable 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 organization, 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, 2018, Company and Group employees and executive corporate officers held 120,436 shares, representing 0.1% of the share capital, under the provisions of Article L. 225-102 of the French Commercial Code.

Company employees also held 10,792 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 11, 2019, the Board of Directors acknowledged and proposed the following net income appropriation to the Annual General Meeting:

(in €)

Source	
Retained earnings	1,055,345,450.73
Net income for the year	1,656,573,983.48
Total for appropriation	2,711,919,434.21
Appropriation	
Legal reserve (1)	-
Dividend (2)	1,325,932,881.00
Retained earnings	1,385,986,553.21
Total	2,711,919,434.21

(1) The amount of the legal reserve having reached 10% of the share capital.
(2) Representing a dividend of €10.50 per share qualifying for the 40% tax allowance, payable on May 6, 2019. This amount corresponds to the interim dividend (€3.50 per share) paid on January 17, 2018 (€441,977,627) plus the final dividend of €883,955,254, equal to €7.00 per share, calculated on the basis of the maximum number of shares carrying dividend rights.

At the Annual General Meeting to be held on April 24, 2019, the Board of Directors will ask shareholders to approve a dividend of €10.50 per share for 2018, carrying dividend rights as of January 1, 2018.

An interim dividend of €3.50 per share was paid on January 17, 2019 pursuant to a decision made by the Board of Directors on December 14, 2018.

If this dividend is approved, the balance of €7.00 per share will have an ex-dividend date of May 2, 2019 and will be paid on May 6, 2019.

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
2018	€6.00	40%
2017	€4.60	40%
2016	€4.00	40%

5.1.6 Share pledges

As of December 31, 2018, 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, 2018, 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

	2018				
	Number of shares	% of share capital	Number of theoretical voting rights (1) (2)	% of theoretical voting rights (1) (2)	% of actual voting rights (3)
Artémis group	51,649,783	40.90%	103,267,550	57.61%	57.75%
Treasury shares	429,017	0.34%	429,017	0.24%	0.00%
Employees and corporate officers	120,436	0.10%	240,872	0.14%	0.14%
Free float	74,080,086	58.66%	75,300,215	42.01%	42.11%
TOTAL	**126,279,322**	**100.00%**	**179,237,654**	**100.00%**	**100.00%**

	2017				
	Number of shares	% of share capital	Number of theoretical voting rights (1) (2)	% of theoretical voting rights (1) (2)	% of actual voting rights (3)
Artémis group	51,617,767	40.88%	103,235,534	57.57%	57.57%
The Capital Group (4)			see Note (4) below		
Harris Associates (5)			see Note (5) below		
Treasury shares	0	0.00%	0	0.00%	0.00%
Employees	323,198	0.26%	634,623	0.35%	0.35%
Free float	74,338,357	58.86%	75,455,461	42.08%	42.08%
TOTAL	**126,279,322**	**100.00%**	**179,325,618**	**100.00%**	**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) Treasury shares lose their voting rights at the Annual General Meeting.
(4) 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.
(5) On February 11, 2016, Harris Associates reported that it had crossed below the 5% threshold of Kering's share capital.

Artémis is wholly owned by Financière Pinault, itself controlled by the Pinault family. Artémis holds 57.61% of the Company's theoretical voting rights (57.75% of the actual 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.

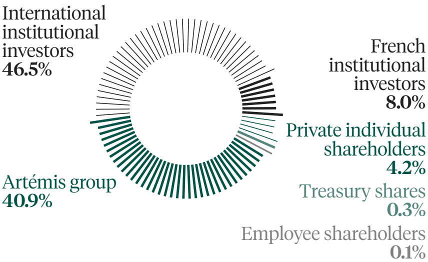
Regarding the majority shareholder's control of the Company, the following factors all contribute toward maintaining an effective balance of power:

- the organization and operating rules of the Board and of its specialized 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, (iii) 80% of the Remuneration Committee, and (iv) 60% of the Appointments 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.

To the Company's knowledge, no shareholders reported crossing above or below the 5% threshold in 2018, or between January 1st, 2019 and March 15, 2019.

					2016
	Number of shares	% of share capital	Number of theoretical voting rights [1] [2]	% of theoretical voting rights [1] [2]	% of actual voting rights [3]
	51,617,767	40.88%	102,770,114	57.41%	57.41%
	8,943,087	7.08%	8,943,087	4.99%	4.99%
			see Note (5) below		
	0	0.00%	0	0.00%	0.00%
	476,713	0.38%	904,377	0.51%	0.51%
	65,241,755	51.66%	66,393,741	37.09%	37.09%
	126,279,322	**100.00%**	**179,011,319**	**100.00%**	**100.00%**

Breakdown of share capital as of December 31, 2018 (rounded figures)



As of December 31, 2018, private individual shareholders held 4.2% of the Group's share capital. Institutional investors owned 54.5% of the share capital, with 8.0% held by French institutions and 46.5% by investors residing outside France.

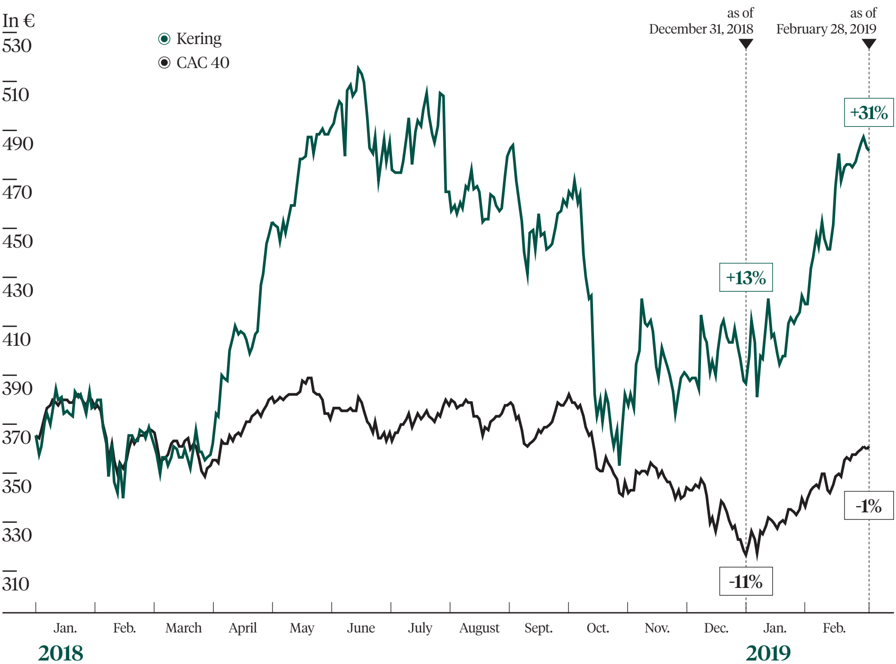
Among the international institutional investors, North American-based and UK-based shareholders held 20.7% and 11.1% of the share capital, respectively. Continental European investors (excluding France) held 8.2% of the share capital, including Germany (2.0%), Switzerland (1.8%) and Norway (1.5%). Shareholders 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
Initial public offering	October 25, 1988 (Second Market)
Main indices	CAC 40 (since February 9, 1995)
	EURO STOXX 50 (since September 24, 2018)
Number of shares	126,279,322 as of December 31, 2018
Tickers	ISIN code: FR 0000121485 Reuters: PRTP.PA Bloomberg: KER:FP

Change in the price of the Kering share compared to the CAC 40 index from January 1, 2018 to February 28, 2019



Market price and trading volume of the Kering share

	2018	2017	2016	2015	2014
High [1] *(in €)*	514.60	405.95	214.35	197.00	167.40
Low [1] *(in €)*	339.29	209.60	138.60	139.05	137.35
Price [1] as of December 31 *(in €)*	411.60	393.00	213.30	157.95	159.50
Market capitalization as of December 31 ***(in € millions)***	**51,977**	**49,628**	**26,935**	**19,946**	**20,140**
Daily average trading volume *(in number of shares)*	268,475	209,407	255,805	356,633	224,261
Number of shares as of December 31	**126,279,322**	**126,279,322**	**126,279,322**	**126,279,322**	**126,266,490**

(1) Closing price.
Source: Euronext.

Listed securities of the Group as of December 31, 2018

Securities listed on Euronext Paris	ISIN code
Equities	
Kering	FR 0000121485

Securities listed on the Luxembourg Stock Exchange	ISIN code
Bonds	
Kering 3.125% April 2019	FR 0011236983
Kering 2.50% July 2020	FR 0011535764
Kering 2.75% April 2024	FR 0011832039
Kering 1.375% October 2021	FR 0012199008
Kering 0.875% March 2022	FR 0012648244
Kering 1.60% April 2035	FR 0012669257
Kering 1.25% May 2026	FR 0013165677
Kering 1.50% April 2027	FR 0013248721

Stock market data

Kering share

2017	Share price *(in €)*				Volume		
					Average daily	Shares traded	
	Average [1]	High [2]	Low [2]	Monthly change	(in number of shares)	in € millions	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

(1) Closing price.
(2) Intra-day price.

2018	Share price *(in €)*					Volume	
						Shares traded	
	Average (1)	High (2)	Low (2)	Monthly change	Average daily (in number of shares)	in € millions	Number of shares
January(3)	375.23	387.99	354.62	+3.8%	203,529	1,782	4,477,629
February(3)	360.12	380.09	338.17	-4.9%	265,887	2,037	5,317,732
March(3)	356.99	369.12	346.91	+0.2%	192,472	1,553	4,041,904
April(3)	405.10	445.81	361.59	+23.4%	248,942	2,158	4,978,839
May	470.30	493.40	443.58	+9.8%	212,714	2,226	4,679,698
June	493.01	522.40	468.70	-1.2%	235,022	2,409	4,935,453
July	483.56	509.60	451.70	-5.7%	224,862	2,381	4,946,953
August	463.75	487.40	449.60	+2.6%	191,899	2,046	4,413,681
September	449.96	468.60	428.20	-1.3%	450,239	4,057	9,004,772
October	395.22	469.50	351.70	-14.7%	456,401	4,113	10,497,222
November	394.42	427.30	369.10	-2.4%	263,094	2,296	5,788,074
December	400.71	419.80	377.60	+7.2%	283,115	2,157	5,379,183

(1) Closing price.
(2) Intra-day price.
(3) Data restated for the distribution in kind of PUMA shares on May 16, 2018.
Source: Euronext.

2019	Share price *(in €)*					Volume	
						Shares traded	
	Average (1)	High (2)	Low (2)	Monthly change	Average daily (in number of shares)	in € millions	Number of shares
January	408.81	439.30	380.70	+6.3%	248,863	2,233	5,474,979
February	465.86	487.80	430.70	+9.7%	262,880	2,438	5,257,608

(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 customized 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. In addition, on November 5 and 6, 2018, 85 registered shareholders participated in a private tour of Laennec, Kering's new headquarters in Paris, during which they visited the *Reliquaires* art exhibition and learned about the site's history.

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 organizing 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 centers around the world. A Capital Markets Day dedicated to Gucci and Kering Eyewear was also held in Florence, Italy, on June 6 and 7, 2018, for the benefit of analysts and investors.

In addition, at the initiative of its Board of Directors, the Company began thinking about strengthening dialogue with investors, particularly on environmental, social and governance (ESG) issues. With this in mind, and with the support of the Remuneration Committee Chair, the legal and financial teams prepared a governance roadshow for November 2018 to meet with a number of institutional investors, which together represent 22% of the free float.

The Group meets with individual investors and analysts upon request and maintains proactive relationships in terms of reporting to the 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 No. 596/2014 on market abuse and the AMF's General Regulations. The communications agency is included on the list published by the AMF, thus benefiting from a presumption of full and effective communication.

2019 shareholders' agenda

April 17, 2019	**First-quarter 2019 revenue**
April 24, 2019	**Annual General Meeting**
July 2019	**First-half 2019 results**
October 2019	**Third-quarter 2019 revenue**

The Board of Directors

CHAPTER 5
Financial information

1. ACTIVITY REPORT

1.1 Changes in Group structure and highlights of 2018

Strategic redeployment and discontinued operations

PUMA

Following the approval of the transaction by Kering shareholders at the Annual General Meeting on April 26, 2018, the distribution of PUMA shares to Kering shareholders took effect on May 16, 2018, the payment date for the stock dividend. The distribution to Kering shareholders was made on the basis of a ratio of 1 PUMA share for 12 Kering shares held, in accordance with the terms of the transaction announced by Kering on February 13, 2018, and valued at the opening price of the PUMA share on the Xetra trading platform in Frankfurt (€429.00).

PUMA's results up to May 16, 2018 have therefore been reclassified in the consolidated income statement to "Net income from discontinued operations". A gain resulting from the relinquishment of control of PUMA following the distribution was recognized in the consolidated income statement in "Net income from discontinued operations". Cash flows relating to PUMA's operations up to May 16, 2018 have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations" (see Note 4 – Discontinued operations, to the consolidated financial statements).

Following the distribution, Kering held 15.70% of PUMA's share capital and 15.85% of its outstanding shares and voting rights, subject to a six-month lock-up period that ended on November 16, 2018. Since Kering continues to have a significant influence on PUMA's governance, its investment in this company is included in "Investments in equity-accounted companies" in the 2018 consolidated financial statements. The Group's share of PUMA's earnings since May 16, 2018 is presented in the 2018 consolidated income statement in "Share in earnings (losses) of equity-accounted companies" (see Note 20 – Investments in equity-accounted companies, to the consolidated financial statements).

Stella McCartney

On March 28, 2018, Ms. Stella McCartney and Kering jointly announced that they had entered into an agreement for the sale and purchase of Kering's 50% stake in Stella McCartney Ltd to Ms. Stella McCartney, who will thus become the sole owner of her brand.

The cooperation between Stella McCartney and Kering will continue with the aim of guaranteeing a smooth transition in order to minimize disruptions and maintain the brand's momentum. Kering and Stella McCartney will also continue their close cooperation in the domain of sustainable fashion, with Ms. Stella McCartney remaining a Board member of the Kering Foundation.

The results of the Stella McCartney brand have therefore been reclassified to "Net income from discontinued operations" in the consolidated income statement for the fiscal periods presented. Cash flows relating to the brand's operations have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations". Since March 28, 2018, the brand's assets and liabilities have been presented in the 2018 consolidated statement of financial position under "Assets held for sale" and "Liabilities associated with assets held for sale", and they will continue to be recorded in these lines until the date of their effective sale, which is expected to take place in the first quarter of 2019 (see Note 4 – Discontinued operations, to the consolidated financial statements).

Volcom

On April 6, 2018, Kering announced that preparations had commenced for the disposal of Volcom, as the brand no longer constitutes a core asset. This move is consistent with the Group's strategy to fully dedicate itself to the development of its Luxury Houses.

Volcom's results have therefore been reclassified to "Net income from discontinued operations" in the consolidated income statement for the fiscal periods presented. Cash flows relating to the brand's operations have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations". Since April 6, 2018, the brand's assets and liabilities have been presented in the 2018 consolidated statement of financial position under "Assets held for sale" and "Liabilities associated with assets held for sale", and they will continue to be recorded in these lines until the date of their effective sale (see Note 4 – Discontinued operations, to the consolidated financial statements).

Christopher Kane

On June 21, 2018, Kering announced that discussions were underway with Mr. Christopher Kane about the conditions in which the British designer could take back full control of his eponymous brand. Christopher Kane and Kering wish to continue to collaborate with the aim of achieving a gradual and harmonious transition.

The results of the Christopher Kane brand have therefore been reclassified to "Net income from discontinued operations" in the consolidated income statement for the fiscal periods presented. Cash flows relating to the brand's operations have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations". Since June 21, 2018, the brand's assets and liabilities have been presented in the 2018 consolidated statement of financial position under "Assets held for sale" and "Liabilities associated with assets held for sale", and they will continue to be recorded in these lines until the date of their effective sale (see Note 4 – Discontinued operations, to the consolidated financial statements).

The put options granted to Mr. Christopher Kane on 29% of the brand's capital, initially recognized in "Other financial liabilities" with an offsetting entry to "Equity attributable to owners of the parent", have been derecognized and Kering's interest in Christopher Kane has been reduced to 51% (from 80% previously).

Changes in scope of consolidation during 2018 are presented in full in Note 36 – List of consolidated subsidiaries as of December 31, 2018, to the consolidated financial statements.

Creative changes at Bottega Veneta

On June 15, 2018, Bottega Veneta announced that it had appointed Daniel Lee as its new Creative Director with effect from July 1, 2018, replacing Tomas Maier who had been with the Italian House since 2001.

Bond redemptions

On March 26, 2018, Kering announced the success of its offer to redeem bonds maturing in 2019, 2021 and 2022 for an aggregate nominal amount of €405 million (excluding accrued interest). On September 28, 2018, Kering redeemed more bonds maturing in 2019, 2020, 2021 and 2022, for an aggregate nominal amount of €370 million (excluding accrued interest). The bonds were redeemed as part of the Group's strategy to actively manage its liquidity and optimize its financing structure (see Note 29 – Borrowings and debt, to the consolidated financial statements).

Stock repurchase program

On October 29, 2018, Kering announced that it intended to repurchase up to 1.0% of its share capital over the following 12 months under the stock repurchase program authorized at the April 26, 2018 Annual General Meeting (see Note 25 – Equity, to the consolidated financial statements). An agreement was signed with an investment services provider to put in place a first tranche of the repurchase program covering a maximum volume of 631,000 shares (corresponding to approximately 0.5% of the share capital), up to an amount of €300 million and at a maximum price per share of €480. The purchases will be carried out over a period not exceeding four months, and the purchased shares will subsequently be canceled.

E-commerce internalization strategy

As part of new developments in its digital strategy, Kering announced on November 26, 2018 that after a highly successful and fruitful seven-year partnership with Yoox Net-à-Porter (YNAP), the e-commerce activities handled since 2012 through the YNAP joint venture will transition back to the Group during the first half of 2020.

Appointments and corporate governance at Kering

During 2018, Kering's Board of Directors appointed two new members: Ginevra Elkann, replacing Laurence Boone following her appointment as Chief Economist of the OECD; and Financière Pinault, a corporate director represented by Héloïse Temple-Boyer, replacing Patricia Barbizet. Kering's shareholders will be invited to ratify these two appointments at the next Annual General Meeting on April 24, 2019.

On August 20, 2018, Kering appointed Patrick Pruniaux, Chief Executive Officer of Ulysse Nardin, as CEO of Girard-Perregaux. In his new role, Mr. Pruniaux, who continues to serve as CEO of Ulysse Nardin, heads up the Group's Swiss Luxury Watches Houses and reports to Albert Bensoussan, Chief Executive Officer of Kering's Watches and Jewelry Division.

Also during the year, Kering strengthened its organization in Greater China by appointing Jinqing Cai as President of Kering Greater China, effective from September 10, 2018.

1.2 2018 business review

Definitions of Kering's non-IFRS financial indicators are presented at the end of this chapter on page 70.

Key figures

Condensed consolidated income statement

(in € millions)	2018	2017 (1)	Change
Revenue	13,665.2	10,815.9	+26.3%
Recurring operating income	3,943.8	2,690.7	+46.6%
as a % of revenue	*28.9%*	*24.9%*	*+4.0 pts*
EBITDA	4,435.7	3,122.8	+42.0%
as a % of revenue	*32.5%*	*28.9%*	*+3.6 pts*
Other non-recurring operating income and expenses	(222.4)	(164.2)	+35.4%
Finance costs, net	(207.3)	(220.2)	-5.9%
Income tax expense	(867.7)	(550.8)	+57.5%
Share in earnings (losses) of equity-accounted companies	11.9	(3.6)	N/A
Net income from continuing operations	2,658.3	1,751.9	+51.7%
o/w attributable to owners of the parent	*2,630.6*	*1,728.7*	*+52.2%*
o/w attributable to non-controlling interests	*27.7*	*23.2*	*+19.4%*
Net income from discontinued operations	1,095.2	113.2	N/A
Net income attributable to owners of the parent	3,714.9	1,785.6	+108.1%
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent	2,816.7	1,886.6	+49.3%

(1) Income and expense items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

Earnings per share

	2018	2017 (1)	Change
Earnings per share attributable to owners of the parent	€29.49	€14.17	+108.1%
Earnings per share from continuing operations (excluding non-recurring items) attributable to owners of the parent	€22.36	€14.97	+49.4%

(1) The 2017 earnings per share figures have been adjusted to exclude the earnings of PUMA, Stella McCartney, Volcom and Christopher Kane in accordance with IFRS 5.

Operating investments

(in € millions)	2018	2017 (1)	Change
Gross operating investments	(828.0)	(605.2)	+36.8%

(1) Gross operating investments for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

Free cash flow from operations

(in € millions)	2018	2017 (1)	Change
Free cash flow from operations	2,955.2	2,205.5	+34.0%

(1) Free cash flow from operations for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 has been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

Revenue

(in € millions)	2018	%	2017 (1)	%	Reported change	Comparable change (2)
Total Houses	13,246.7	97%	10,513.3	97%	+26.0%	+29.1%
Corporate and other	418.5	3%	302.6	3%	+38.3%	+42.1%
Total revenue	**13,665.2**	**100%**	**10,815.9**	**100%**	**+26.3%**	**+29.4%**

(1) Revenue generated by PUMA, Stella McCartney, Volcom and Christopher Kane in 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.
(2) On a comparable Group structure and exchange rate basis.

Consolidated revenue for 2018 amounted to €13,665 million, up 26.3% on 2017 as reported and 29.4% based on a comparable Group structure and exchange rates.

Exchange rate fluctuations shaved €258 million off the overall 2018 revenue figure, due to the depreciation of the US dollar (€93 million negative effect), and, to a lesser extent, the Hong Kong dollar (€29 million), the Japanese yen (€27 million) and the Chinese yuan (€25 million).

Revenue by region

(in € millions)	2018	%	2017 (1)	%	Reported change	Comparable change (2)
Western Europe	4,471.5	33%	3,625.0	33%	+23.4%	+23.7%
North America	2,704.7	20%	2,050.5	19%	+31.9%	+37.8%
Japan	1,157.5	8%	961.3	9%	+20.4%	+23.9%
Sub-total – mature markets	**8,333.7**	**61%**	**6,636.8**	**61%**	**+25.6%**	**+28.0%**
Eastern Europe, Africa and the Middle East	725.1	6%	624.5	6%	+16.1%	+19.4%
South America	186.1	1%	147.1	1%	+26.5%	+37.1%
Asia-Pacific (excluding Japan)	4,420.3	32%	3,407.5	32%	+29.7%	+33.8%
Sub-total – emerging markets	**5,331.5**	**39%**	**4,179.1**	**39%**	**+27.6%**	**+31.7%**
Total revenue	**13,665.2**	**100%**	**10,815.9**	**100%**	**+26.3%**	**+29.4%**

(1) Revenue generated by PUMA, Stella McCartney, Volcom and Christopher Kane in 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.
(2) On a comparable Group structure and exchange rate basis.

Revenue generated outside the eurozone represented 78% of the consolidated total in 2018.

Quarterly revenue data

Consolidated revenue by quarter

	First quarter	Second quarter	Third quarter	Fourth quarter	
2018	**3,106.2**	**3,325.7**	**3,402.0**	**3,831.3**	**€13,665.2m**
2017	**2,442.6**	**2,630.4**	**2,665.2**	**3,077.7**	€10,815.9m

Quarterly revenue by activity

(in € millions)	First quarter	Second quarter	Third quarter	Fourth quarter	Total 2018
Gucci	1,866.6	1,986.2	2,096.0	2,336.1	8,284.9
Yves Saint Laurent	408.2	400.0	446.9	488.4	1,743.5
Bottega Veneta	261.2	291.0	258.9	298.0	1,109.1
Other Houses	461.7	533.8	516.4	597.3	2,109.2
Total Houses	**2,997.7**	**3,211.0**	**3,318.2**	**3,719.8**	**13,246.7**
Corporate and other	**108.5**	**114.7**	**83.8**	**111.5**	**418.5**
KERING TOTAL	**3,106.2**	**3,325.7**	**3,402.0**	**3,831.3**	**13,665.2**

(in € millions)	First quarter (1)	Second quarter (1)	Third quarter (1)	Fourth quarter (1)	Total 2017 (1)
Gucci	1,354.0	1,478.5	1,553.8	1,824.9	6,211.2
Yves Saint Laurent	364.4	346.4	383.7	406.9	1,501.4
Bottega Veneta	280.4	310.0	280.7	305.2	1,176.3
Other Houses	350.9	408.6	390.7	474.2	1,624.4
Total Houses	**2,349.7**	**2,543.5**	**2,608.9**	**3,011.2**	**10,513.3**
Corporate and other	**92.9**	**86.9**	**56.3**	**66.5**	**302.6**
KERING TOTAL	**2,442.6**	**2,630.4**	**2,665.2**	**3,077.7**	**10,815.9**

(1) Revenue generated by PUMA, Stella McCartney, Volcom and Christopher Kane in 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

(comparable change (1))	First-quarter change	Second-quarter change	Third-quarter change	Fourth-quarter change	Full-year 2018
Gucci	+48.7%	+40.1%	+35.1%	+28.1%	+36.9%
Yves Saint Laurent	+19.6%	+19.8%	+16.1%	+19.4%	+18.7%
Bottega Veneta	+0.7%	-2.3%	-8.4%	-3.2%	-3.4%
Other Houses	+38.6%	+34.7%	+32.2%	+25.5%	+32.1%
Total Houses	**+36.9%**	**+31.3%**	**+27.1%**	**+23.3%**	**+29.1%**
Corporate and other	**+27.2%**	**+37.7%**	**+43.7%**	**+64.9%**	**+42.1%**
KERING TOTAL	**+36.6%**	**+31.5%**	**+27.5%**	**+24.2%**	**+29.4%**

(1) On a comparable Group structure and exchange rate basis.

Recurring operating income

The Group's gross margin for 2018 amounted to €10,198 million, up €2,282 million or 28.8% on 2017 as reported. Recurring operating expenses increased by 19.7% year on year as reported.

Kering's recurring operating income totaled €3,944 million in 2018, up 46.6% on 2017 as reported. Consolidated recurring operating margin came to 28.9%, fueled by the margin for the Group's Houses, which widened by 4.1 points to 31.6%.

(in € millions)	2018	2017 (1)	Change
Total Houses	4,191.0	2,895.2	+44.8%
Corporate and other	(247.2)	(204.5)	-20.9%
Recurring operating income	**3,943.8**	**2,690.7**	**+46.6%**

(1) Recurring operating income generated by PUMA, Stella McCartney, Volcom and Christopher Kane in 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

EBITDA

(in € millions)	2018	2017 (1)	Change
Recurring operating income	**3,943.8**	**2,690.7**	**+46.6%**
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	491.9	432.1	+13.8%
EBITDA	**4,435.7**	**3,122.8**	**+42.0%**

(1) EBITDA generated by PUMA, Stella McCartney, Volcom and Christopher Kane in 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

(in € millions)	2018	2017 (1)	Change
Total Houses	4,598.5	3,251.6	+41.4%
Corporate and other	(162.8)	(128.8)	-26.4%
EBITDA	**4,435.7**	**3,122.8**	**+42.0%**

(1) EBITDA generated by PUMA, Stella McCartney, Volcom and Christopher Kane in 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

EBITDA margin widened by 3.6 points on a reported basis to 32.5% in 2018 from 28.9% in 2017.

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 €222 million in 2018 and primarily corresponded to €140 million in asset impairment losses, of which €88 million is related to the write down of goodwill and a brand within the Group's Other Houses. The overall net expense figure also includes all of the costs related to the departure of Tomas Maier, Bottega Veneta's Creative Director, as well as restructuring costs incurred within the Other Houses.

In 2017, "Other non-recurring operating income and expenses" represented a net expense of €164 million and primarily corresponded to €149 million in asset impairment losses, of which €115 million related to write-downs within the Group's Other Houses of goodwill and a brand (see Note 10 – Other non-recurring operating income and expenses, to the consolidated financial statements).

Finance costs, net

(in € millions)	2018	2017 (1)	Change
Cost of net debt	(77.4)	(110.7)	-30.1%
Other financial income and expenses	(129.9)	(109.5)	+18.6%
Finance costs, net	**(207.3)**	**(220.2)**	**-5.9%**

(1) The net finance costs of PUMA, Stella McCartney, Volcom and Christopher Kane have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

The Group's cost of net debt was €77 million in 2018, 30.1% lower than the €111 million recorded for 2017. This sharp year-on-year decrease primarily stemmed from the positive impact of the reduction in its average outstanding bond debt.

Other financial income and expenses represented a net expense of €130 million in 2018, up 19% on the €110 million net expense recorded for 2017. This increase notably reflects a €28 million non-recurring expense incurred in connection with the partial redemption of four bond issues maturing in 2019, 2020, 2021 and 2022. The redemptions took place in April and October 2018 and represented aggregate nominal amounts of €405 million and €370 million respectively (see Note 11 – Finance costs, net, to the consolidated financial statements).

Income tax expense

(in € millions)	2018	2017 [1]	Change
Income tax expense	(867.7)	(550.8)	+57.5%
Effective tax rate	24.7%	23.9%	+0.8 pts
Tax income on other non-recurring operating income and expenses	**36.3**	**6.3**	**N/A**
Tax expense on recurring income	**(904.0)**	**(557.1)**	**+62.3%**
Effective tax rate on recurring income	**24.2%**	**22.6%**	**+1.6 pts**

(1) Income tax data for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

In connection with the tax investigation opened in Milan in 2017, an audit unit of the Italian tax authorities completed a tax audit and delivered a report on January 25, 2019 alleging that Luxury Goods International (LGI), a Swiss subsidiary of Kering, had conducted business activities in Italy that should have resulted in payment of Italian income tax, an assertion that Kering contests.

The audit report covers earnings for the years 2011 through 2017 and the estimated claimable tax represents approximately €1,400 million. The report will now be reviewed by the tax authority unit in charge of assessing the report's findings, which will make its final determination. Kering contests the findings of the audit report in terms of both substance and amount. The Group is confident about the proceedings currently underway and will continue to fully cooperate with the Italian tax authorities in complete transparency in order to defend all of its rights.

At this stage of the proceedings, Kering does not have the necessary information to record a specific accounting provision based on a reliable estimate of the tax exposure. The Group strictly monitors its tax positions and adopts a prudent approach to assessing its tax exposure, particularly regarding its transfer pricing policy (see Note 12 – Income taxes, to the consolidated financial statements).

Net income from discontinued operations

In accordance with IFRS 5, income and expense items relating to PUMA, Stella McCartney, Volcom and Christopher Kane have been reclassified to "Net income from discontinued operations" in the 2018 financial statements and the data for 2017 have been restated for comparability purposes.

"Net income from discontinued operations" breaks down as follows:

(in € millions)	2018	2017
Revenue	**1,949.5**	**4,661.8**
Cost of sales	(979.7)	(2,444.9)
Gross margin	**969.8**	**2,216.9**
Payroll expenses	(275.2)	(645.8)
Other recurring operating income and expenses	(547.0)	(1,313.8)
Recurring operating income	**147.6**	**257.3**
Other non-recurring operating income and expenses	(175.2)	(77.5)
Operating income (loss)	**(27.6)**	**179.8**
Finance costs, net	(26.4)	(22.5)
Income (loss) before tax	**(54.0)**	**157.3**
Income tax	(29.1)	(40.2)
Share in earnings (losses) of equity-accounted companies	(0.9)	1.6
Net gain (loss) on disposal of discontinued operations	1,179.2	(5.5)
Net income	**1,095.2**	**113.2**
o/w attributable to owners of the parent	1,084.3	56.9
o/w attributable to non-controlling interests	10.9	56.3

The Group's relinquishment of control of PUMA following the distribution of the stock dividend gave rise to a net gain of €1,181 million in 2018. "Other non-recurring operating income and expenses" includes impairment losses relating to Volcom and Christopher Kane.

In 2018, PUMA accounted for the greatest share of "Net income from discontinued operations":

PUMA

(in € millions)	2018 [1]	2017
Revenue	**1,462.0**	**4,151.7**
Recurring operating income	**130.0**	**243.9**
as a % of revenue	***8.9%***	***5.9%***
EBITDA	154.3	314.4
as a % of revenue	*10.6%*	*7.6%*
Gross operating investments	29.4	124.3

(1) Contribution from January 1 up to the date on which the Group relinquished control over PUMA, i.e., May 16, 2018.

See Note 4 – Discontinued operations, to the consolidated financial statements.

1.3 Operating performances by brand

Information concerning the breakdown of revenue (by region, product and distribution channel) is set out in Chapter 2 of this Reference Document.

Luxury Houses

(in € millions)	2018	2017 [1]	Change
Revenue	**13,246.7**	**10,513.3**	**+26.0%**
Recurring operating income	**4,191.0**	**2,895.2**	**+44.8%**
as a % of revenue	***31.6%***	***27.5%***	***+4.1 pts***
EBITDA	4,598.5	3,251.6	+41.4%
as a % of revenue	*34.7%*	*30.9%*	*+3.8 pts*
Gross operating investments	610.3	471.0	+29.6%
Average FTE headcount	27,057	22,781	+18.8%

(1) Data relating to Stella McCartney and Christopher Kane for 2017 have been reclassified to "Discontinued operations", in accordance with IFRS 5.

In 2018, the worldwide luxury market (as presented and defined in Chapter 2 of this Reference Document) grew 6% at constant exchange rates (2% as reported) according to the 17th edition of Bain & Company/Altagamma's annual study of the luxury market. 2018 was therefore the second year of very robust growth for the luxury industry following on from 2017 when it picked up sharply, growing 5% at constant exchange rates.

However, these figures mask highly divergent performances for the industry's different players, following the same clear polarization of performance that was previously apparent.

Sales trends by region for full-year 2018 were generally in line with those seen in the last quarter of 2017 and the first half of 2018.

The industry's robust performance in 2018 was fueled by spending on luxury goods by Chinese customers, which accounted for around a third of the year's total sales. Overall, sales for Mainland China jumped 20% at constant exchange rates. This strong momentum drove performance for the whole of the Asia-Pacific region (where sales rose 9% at constant exchange rates, excluding Japan and Mainland China) in a context where domestic demand remained generally high.

Growth in the Americas – where the United States accounts for 89% of the market – held firm throughout 2018, reaching 5% at constant exchange rates (a negative 1% as reported). The top sales performances were from e-commerce and stores directly operated by luxury brands, whereas business in multi-brand department stores remained highly dependent on sales promotions and special offers.

The market in Western Europe saw 3% growth at constant exchange rates in 2018 (1% as reported), weighed down by lower sales to tourists, although domestic demand continued to trend upwards. Based on Global Blue data, tourist sales contracted by some 4% year on year, with no marked improvement in the second half despite a lower basis of comparison with the previous year.

Conversely, tourist sales in Japan continued the same upward pattern begun in the second half of 2017, with overall growth reaching 6% at constant exchange rates (3% as reported).

In the world's other regions, geopolitical tension hampered performance in the Middle East and more generally the purchasing behavior of Middle Eastern consumers, both in their domestic market and in Europe.

As in 2017, the picture was mixed across product categories in 2018. Accessories fared well, particularly shoes, as did jewelry. However, sales of watches, after showing signs of a recovery at the beginning of the year (albeit remaining volatile depending on delivery schedules to distributors) ended up stagnating in 2018. Ready-to-wear did not have an easy year, particularly in the second half, with sales edging down by 1% for 2018 as a whole.

In addition, certain defined market trends already apparent in 2017 intensified during 2018. For example, e-commerce for luxury brands expanded rapidly and travel retail sales rose sharply. Millennials continued to fuel the industry's growth, as luxury goods purchased by generations Y and Z represented at least a third of the market in value terms (based on Bain & Company data). This younger customer base is clearly reflected in the performances of the industry's different segments, with streetwear and sneakers outperforming the rest of the market, which in turn has led all luxury brands to adapt their offerings.

In terms of the currency effect, the first half of 2018 was impacted by the euro gaining strength (which began in the second half of 2017 and continued into the first few months of 2018), but currency volatility was less pronounced in the second half of the year. Accordingly, for Kering's Luxury Houses, reported growth was 710 basis points lower than growth at constant exchange rates for the first six months of 2018, but the effect reversed in the second half, with the reported figure coming in 30 basis points higher than growth at constant exchange rates.

Revenue

The scope of the Group's Luxury Houses underwent changes during 2018 with the decision to account for Stella McCartney and Christopher Kane as discontinued operations in accordance with IFRS 5. This accounting treatment was applied following the decisions announced by Kering on March 28 and June 21, 2018, respectively, that it intended to relinquish control of these brands. Consequently, the Group's income statement headings (from "Revenue" down to "Net income from continuing operations") do not include any contribution from Stella McCartney or Christopher Kane for either 2017 or 2018. This means that the Luxury Houses' performance for 2018 is fully comparable with that for 2017.

The Group's Luxury Houses posted exceptional revenue growth of 29.1% based on a comparable Group structure and exchange rates (26.0% as reported) and once again significantly outperformed their market. This propelled revenue to €13,247 million.

Despite very high bases of comparison – particularly for Gucci, whose sales began accelerating in the second half of 2016 and continued throughout 2017 – revenue generated by the Group's Luxury Houses climbed 25.1% in the second half of 2018 on a comparable basis (25.2% as reported). In first-half 2018, the comparable and reported growth figures were 33.9% and 26.9%, respectively.

Retail sales in directly operated stores and online topped the €10 billion mark, coming in at €10,233 million. This represented a year-on-year jump of 31.0%, propelled by excellent retail performances from Gucci, Yves Saint Laurent and Balenciaga, and by the ongoing rise in online sales, which surged more than 70% during the year.

Directly operated stores accounted for 77.2% of total revenue generated by the Group's Luxury Houses in 2018, versus 76.1% in 2017. This increase reflects three main factors. First, Gucci's greater weighting within the total revenue figure. Second, the strategy implemented by all of the brands to more effectively control their distribution and strengthen their exclusivity while prudently managing the expansion of the directly operated store network. And third, the Group's objective of retaining or developing a network of high-quality wholesalers for a select number of brands and product categories and in certain regions.

Wholesale sales for 2018 were 24.1% higher year on year on a comparable basis, with all of the Group's main wholesale markets registering brisk 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

The Group's Luxury Houses posted sharp revenue rises across all of their principal regions in 2018.

Sales in emerging markets advanced 31.7% year on year, with the Asia-Pacific region posting a 34.1% rise. All of the main markets in this region – which accounts for almost 88% of total sales in emerging markets – saw very strong growth, largely fueled by the fact that Chinese customers shifted their purchases to the region from Western Europe. In particular, revenue in Greater China jumped 29.1% despite an extremely high basis of comparison with 2017.

In mature markets – which represent almost 61% of Luxury Houses' sales – revenue was up 27.4%, breaking down as follows by region:

- a 23.0% rise in Western Europe, with robust growth for all of the main markets despite lower tourist numbers in the region;
- a 37.3% rise in North America, chiefly driven by excellent showings from Gucci, Yves Saint Laurent and Balenciaga, spurred by their successful direct distribution channels (both online and offline);
- a 23.7% rise in Japan, led by a sharp upturn in sales to Chinese customers.

Revenue by product category

There were no significant changes in the breakdown of sales between the various product categories in 2018. The proportion of revenue contributed by shoes increased by 0.9 percentage points, reflecting this category's strong momentum during the year, particularly for sneakers. The revenue contribution from Jewelry and Watches declined by a similar proportion, reflecting the difference in this division's growth figures compared with the other product categories.

Revenue from royalties rose steeply in 2018 – more than 10% – mainly powered by the successful development of eyewear licenses.

Recurring operating income

Recurring operating income for the Group's Luxury Houses totaled €4,191 million in 2018, up by a steep 44.8% on 2017 as reported. Recurring operating margin topped 30%, coming in at 31.6%. This sharp 410 basis-point increase as reported was achieved thanks to a very favorable operating leverage effect, with sales growth exceeding increases in cost bases, particularly for Gucci, Yves Saint Laurent and Balenciaga.

Exchange rate fluctuations and currency hedges negatively affected recurring operating income in absolute value terms, although this impact was mostly felt in the first half of the year. These factors also had a dilutive effect on recurring operating margin. The intrinsic growth in the recurring operating income and margin figures (before the currency effect) was therefore all the more impressive.

EBITDA jumped 41.4% year on year to €4,599 million, and the EBITDA margin widened by 380 basis points to 34.7%.

Store network and operating investments

The Luxury Houses' operating investments – which do not include certain investments in logistics and information systems centralized by the Corporate entity for all of the brands – totaled €610 million in 2018, €139 million higher than in 2017. Approximately 64% of these investments were paid out in the second half of the year, representing a seasonality more or less unchanged from 2017 (when some 62% of operating investments were paid out in the second half). As a proportion of revenue, operating investments represented 4.6% in 2018, on a par with the 4.5% figure for 2017.

As of December 31, 2018, the Luxury Houses had a network of 1,439 directly operated stores, including 833 (58%) in mature markets and 606 in emerging markets. Net store additions during the year totaled 104, largely attributable to the scheduled expansion of the Yves Saint Laurent and Balenciaga networks. The year-on-year increase in the total network can also be explained by the Group's drive to raise its brands' presence in travel retail and duty-free stores, including by taking operations that were previously controlled by a franchisee back under direct management. This particularly concerns the Gucci network.

Gucci

(in € millions)	2018	2017	Change
Revenue	**8,284.9**	**6,211.2**	**+33.4%**
Recurring operating income	**3,275.2**	**2,124.1**	**+54.2%**
as a % of revenue	***39.5%***	***34.2%***	***+5.3 pts***
EBITDA	3,514.6	2,331.0	+50.8%
as a % of revenue	*42.4%*	*37.5%*	*+4.9 pts*
Gross operating investments	312.7	248.5	+25.8%
Average FTE headcount	14,628	11,543	+26.7%

Following on from its very strong showing in 2017, which was an exceptional year in all respects, Gucci delivered an excellent performance in 2018. The House far outperformed the personal luxury goods market and continued to methodically roll out action plans geared to supporting its long-term growth.

Gucci's strategy was once again centered on ensuring the quality and exclusivity of its distribution in order to continuously enhance customer experience and raise the productivity levels of all distribution channels. The measures taken to achieve these goals included ramping up the new store concept (with 84 stores created or converted to this concept during the year), recruiting and training sales staff, developing the brand's online offering and adopting new customer relationship management tools. Nearly, all of these actions required investments.

Having more or less completed the reworking of its product offering in 2017, Gucci's creative and merchandising teams are now working on maximizing the growth potential of each product category by constantly honing the overall offering. The focus is on segmenting in order to meet the needs of a wide-ranging, diversified customer base and on optimizing the mix between carry-over and new products. Alessandro Michele's collections continue to appeal to customers not only for their creativity but also for the unique and consistent narrative thread that runs through them.

Gucci has devised a communication policy designed to sustain the brand's desirability and increase engagement levels of both existing and future customers of all ages and nationalities. It is based on a 360° approach using all types of traditional and innovative media as well as original partnerships with artists. Digital communication is particularly effective for creating a brand universe that is both unique and inclusive, and the investments that Gucci has made in this respect have enabled it to position itself as one of the most advanced luxury brands in this domain.

Finally, the opening in early 2018 of the Gucci ArtLab – a development and excellence center for leather goods and shoes located near Florence in Italy – marks a further step forward in the brand's intense drive to reorganize and rescale its prototyping and production capacities. This work forms part of a wider ambition, which will be pursued in 2019 and over the medium term, to make the brand's supply chain and information systems more agile, responsive, able to absorb the expected rise in demand, and support the omni-channel model.

Revenue

Gucci's revenue topped the €8 billion mark in 2018, reaching €8,285 million. This represents a year-on-year jump of 33.4% as reported and 36.9% based on comparable exchange rates. Revenue growth amounted to 44.1% in the first half of the year and remained extremely robust in the second half despite a very high basis of comparison, coming in at 31.3% at constant exchange rates (versus 45.7% in the second half of 2017).

Retail sales generated in directly operated stores jumped 38.3% at constant exchange rates, fueled by increasingly higher traffic and enhanced productivity in the brand's stores. This pushed up the average sales rise for directly operated stores to around 33% on a comparable basis over the last three years.

Sales generated in the wholesale network advanced 30.7% based on comparable data, with the number of points of sale relatively stable year on year. All of the brand's main markets reported robust growth during the year.

Revenue by region

In view of the proportion of Gucci's sales that are generated in directly operated stores (85.3% in 2018), the following revenue analysis by region only concerns the retail business.

In the brand's mature markets, North America took over from Western Europe as the main growth driver for sales generated in directly operated stores, with a comparable-basis increase of 43.6%. This performance illustrates the brand's success both among Millennials and a more traditional clientele, thanks to the depth and breadth of its product offering. North America was also by far the highest performing region in terms of online sales, which surged by over 60%.

In Japan, in-store sales advanced by an impressive 35.7% on a comparable basis, led by the recovery in tourist numbers seen since the second half of 2017, especially for Chinese tourists, as well as domestic market share gains.

In Western Europe, the brand was still highly attractive to both Europeans and non-Europeans, which helped offset the region's lower number of tourists and drove a 28.5% revenue hike for the region overall.

In emerging markets, revenue vaulted 42.7% at constant exchange rates, with all regions contributing to this excellent performance, including Asia-Pacific, where revenue surged 45.0%. Strong sales momentum with Chinese customers drove very solid growth in Mainland China as well as significant revenue increases in the region's other markets.

Revenue by product category

All of the brand's main product categories recorded very strong sales rises during the year in directly operated stores, giving Gucci a healthy and balanced growth profile.

These excellent sales figures demonstrate the success of both the brand's new collections and carry-over. Following the work carried out to renew and refresh its offering between 2015 and 2017, in 2018 the proportion of carry-over, particularly for leather goods, reached the target level that Gucci had set itself, helping to make the brand's performance even more resilient.

Royalties were up in 2018, primarily due to a robust showing from eyewear, licensed to Kering Eyewear, and a good second half for the fragrances and cosmetics business operated by Coty.

Recurring operating income

In 2018, for the first time in its history, Gucci's recurring operating income topped €3 billion, soaring 54.2% as reported to €3,275 million. Its recurring operating income margin widened by 530 basis points to 39.5%, partly due to a further rise in gross margin achieved on the back of a better distribution mix and optimized production organization. However, the main growth driver was a particularly favorable 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 retail expenses on communications and information systems in line with the industry's accelerating digital transformation. The impact of these initiatives was offset by strict cost control measures for other expense items.

Gucci's EBITDA for 2018 stood at €3,515 million, and the EBITDA margin was over 40%.

Store network and operating investments

As of December 31, 2018, Gucci operated 540 stores directly, including 229 in emerging markets. A net 11 new stores were added during the year. The brand now has an overall network that is adapted to its operations in terms of store numbers, but it has identified opportunities for improving its distribution in certain regions. This is particularly the case for travel retail, which saw the most store openings in 2018. Apart from these targeted openings, Gucci's focus is still on increasing organic growth by pursuing its refurbishment program for existing stores. As of December 31, 2018, around 44% 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 esthetic.

Gucci's gross operating investments amounted to €313 million in 2018, up 25.8% on 2017. The 2018 figure mostly corresponds to the refurbishment program aimed at introducing the new store concept across the brand's entire network. As anticipated, and in line with 2017, Gucci's operating investments were particularly concentrated on the second half of the year (accounting for some 63% of the total).

Yves Saint Laurent

(in € millions)	2018	2017	Change
Revenue	**1,743.5**	**1,501.4**	**+16.1%**
Recurring operating income	**459.4**	**376.9**	**+21.9%**
as a % of revenue	***26.3%***	***25.1%***	***+1.2 pts***
EBITDA	502.8	422.1	+19.1%
as a % of revenue	*28.8%*	*28.1%*	*+0.7 pts*
Gross operating investments	89.0	73.0	+21.9%
Average FTE headcount	3,087	2,594	+19.0%

Yves Saint Laurent has been the Group's second-largest Luxury House in terms of revenue since 2016, and in 2018 it continued down the growth path both for sales and profitability. After seven consecutive years of over 20% growth, Yves Saint Laurent's sales advanced almost 19% on a comparable basis in 2018.

Yves Saint Laurent's teams – led by its CEO, Francesca Bellettini – are rigorously and effectively implementing the strategy that has been mapped out for the brand and are taking all of the requisite measures to ensure the success of the collections designed by Anthony Vaccarello, Creative Director since April 2016. This work includes managing major projects for the brand such as optimizing information systems, modernizing the supply chain, and increased insourcing of the production development process and production. Improving distribution is also a key strategic objective, notably by expanding the store network and developing online sales.

Revenue

Yves Saint Laurent's sales advanced 18.7% at constant exchange rates in 2018 (16.1% as reported).

Revenue from directly operated stores climbed 18.5% on a comparable basis. This strong performance, which moved up a gear in the second half, was mainly powered by the measures put in place to efficiently allocate and restock items at the brand's points of sale, as well as by actions undertaken to enhance the customer in-store experience, and clienteling.

Sales generated in the wholesale network advanced 20.9% on a comparable basis. The wholesale channel remains strategically important for Yves Saint Laurent as it perfectly complements its retail business. However, the brand is keeping a very close eye on the quality and exclusivity of its distribution and is focusing its wholesale business on a limited number of distributors.

Revenue by region

In view of the proportion of Yves Saint Laurent's sales that are generated in directly operated stores (68.2% in 2018), the following revenue analysis by region only concerns the retail business.

Yves Saint Laurent notched up revenue rises across all major regions in 2018.

Sales in Yves Saint Laurent's heritage markets rose 17.2% based on comparable data.

Year-on-year growth was particularly strong in North America, coming in at 26.8% on a comparable basis – higher than in 2017.

The pace of growth was also robust in Japan where the brisk momentum seen at the end of 2017, thanks partly to the greater number of Chinese tourists, continued into 2018 and drove up sales by 20.2%.

In Western Europe, 2018 sales were hampered by fewer purchases by tourists and changes to the brand's in-store teams, mainly in the early part of the year. Sales nevertheless moved upwards throughout the year, with growth ultimately reaching 10.7% despite a very high basis of comparison (27.1% growth in 2017).

In emerging markets, sales generated in directly operated stores were up 20.8% on 2017. In the Asia-Pacific region (excluding Japan), which once again accounted for more than three-quarters of the brand's total sales in emerging markets, growth remained brisk in all of Yves Saint Laurent's main markets, particularly taking into account the already very strong growth figure of 39.4%

in 2017. This region's performance in 2018 was buoyed by the opening of new stores in line with the brand's expansion plan.

Performances delivered by the wholesale network were very good in most regions, with the brand continuing to outperform market trends in North America and furthering its relationships with certain key accounts in Asia.

Revenue by product category

Leather goods was Yves Saint Laurent's main growth driver in 2018, propelled by the measures taken by the brand over the last several years to constantly renew and refresh this category's offering, with a specific creative team. This has helped it to both attract new customers and retain existing customers in all of its markets.

Ready-to-wear – which continued to occupy an essential place in the brand's offering – saw a fairly balanced weighting of sales between women's and men's collections. However, the merchandising work undertaken to make the brand's ready-to-wear offering and price architecture more relevant – notably for men's collections – has not yet fully paid off and the category's performance remained mixed in 2018.

The brand's third leading product category – shoes – was affected by relatively weak sales in the Middle East, which is a key market for women's shoes, as well as by the under-representation of sneakers in the offering.

Licensed product categories delivered good performances during the year in view of their maturity and their already very significant size in their respective markets.

Recurring operating income

Yves Saint Laurent ended 2018 with recurring operating income of €459 million, versus €377 million in 2017, representing a year-on-year increase of 21.9%. Recurring operating margin was 26.3%, up 120 basis points as reported. This further year-on-year improvement is in line with the brand's goals and the growth trajectory it has set itself. It also demonstrates how the brand has now reached critical mass, enabling it to capitalize on its operating leverage without straining its capacity to finance certain operating expenses that are essential for its short- and medium-term expansion.

EBITDA rose by €81 million to €503 million, and the EBITDA margin was 28.8%.

Store network and operating investments

As of December 31, 2018, Yves Saint Laurent directly operated 219 stores, including 99 in emerging markets. There were 35 net store openings during the year, in line with the brand's store network expansion plan.

Yves Saint Laurent's gross operating investments rose €16 million year on year to €89 million in 2018, reflecting the brand's store opening and refurbishment strategy. This expenditure was subject to a strong seasonal effect, with the first half of the year only accounting for 37% of the overall outlay. As a percentage of revenue, gross operating investments remained contained, at approximately 5%.

Bottega Veneta

(in € millions)	2018	2017	Change
Revenue	**1,109.1**	**1,176.3**	**-5.7%**
Recurring operating income	**242.0**	**294.0**	**-17.7%**
as a % of revenue	***21.8%***	***25.0%***	***-3.2 pts***
EBITDA	284.3	337.3	-15.7%
as a % of revenue	*25.6%*	*28.7%*	*-3.1 pts*
Gross operating investments	68.6	51.0	+34.5%
Average FTE headcount	3,574	3,381	+5.7%

The year 2018 was marked by the departure of Tomas Maier, Bottega Veneta's long-standing designer, and the subsequent June 15, 2018 appointment of Daniel Lee as the brand's new Creative Director. This change heralds a new phase in the brand's plan to re-energize its leather goods offering and develop its other product categories.

Various action plans have been set in motion since 2016 and, following on from 2017, 2018 saw further encouraging signs in terms of the popularity of Bottega Veneta's new lines and consumer reaction to its communication campaigns. However, the action plans put in place are designed to cover the long term, and their benefits will only start to be felt in the second half of 2019. They are particularly aimed at rejuvenating and broadening Bottega Veneta's customer base, raising awareness of the brand – especially in mature markets – and enhancing the in-store customer experience.

The first fashion show presenting Daniel Lee's creations will take place at Women's Fashion Week in Milan in February 2019.

Revenue

Bottega Veneta's revenue decreased by 3.4% in 2018 on a comparable basis and 5.7% as reported.

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 81.7% of the brand's total sales in 2018. Revenue generated in directly operated stores contracted 4.7% year on year, with particularly negative trends in Western Europe, where sales were held back by less tourist spending. In addition, taking into account the product mix and average selling price, online sales are increasing very solidly but do not at this stage represent a significant portion of revenue and are therefore not yet a growth vector.

Sales to wholesalers rose 2.8% in 2018, following two years of reorganizing this distribution channel with the twin aims of (i) avoiding the risk of saturation in points of sale and (ii) only working 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 retail business.

In Western Europe, which was Bottega Veneta's best-performing region in 2017, the falloff in tourist numbers that began at the end of 2017 continued and intensified in 2018. This led to lower sales in the region's main markets and revenue was down 12.0% on 2017 at constant exchange rates.

In North America, after a good start to the year fueled by the opening of a new flagship store on New York's Madison Avenue, sales were weighed down by the fact that the brand's offering was not truly renewed during the transition phase between its two Creative Directors. This resulted in revenue edging down 0.8%.

This transition period also impacted Japan, as well as emerging markets, despite Chinese consumers switching their purchases from Europe to Asia. Consequently, sales in Japan contracted 1.0%. In emerging markets, the overall decrease was 2.5%, with the Asia-Pacific region (excluding Japan) registering a 2.9% falloff.

Revenue by product category

The leather goods category – which is still Bottega Veneta's core business, accounting for 84.0% of its total sales, including to wholesalers – posted negative growth for the year. This was due to revenue attrition for the brand's iconic lines (carry-over and seasonal variants), despite another encouraging showing from new lines.

Revenue for all of Bottega Veneta's other categories increased in the first six months of the year, but suffered in the second half due to the transition process. However, ready-to-wear revenue held firm throughout the year, and the Pre-Fall 2019 collection (presented in late 2018 exclusively to the media and buyers) was very well received.

Recurring operating income

Bottega Veneta's recurring operating income for 2018 totaled €242 million, down €52 million (or 17.7%) compared with 2017. Recurring operating margin narrowed by 320 basis points to 21.8%, mainly due to the targeted and controlled increase in certain operating expenses within a context of lower sales. These expenses relate to all of the initiatives put in place to enable Bottega Veneta to enter a new phase in its expansion and ensure that the brand will be in a position to use its current transition period as a springboard for future growth. They were mainly used for managing and running the stores and for communication and marketing campaigns.

EBITDA totaled €284 million, and the EBITDA margin narrowed 310 basis points to 25.6%, which is still a very high margin for the sector.

Store network and operating investments

As of December 31, 2018, Bottega Veneta had 279 directly operated stores, including 125 in emerging markets. There were 9 net store openings during the year. The streamlining program of its 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).

Against this backdrop and in view of the need to refurbish its existing store network, in 2018 Bottega Veneta increased its operating investment budget. Altogether, gross operating investments totaled €69 million, up €18 million on 2017. This investment drive – which raised gross operating investments as a percentage of revenue to 6.2% – is necessary in view of the relaunch phase that the brand is currently undergoing.

Other Houses

(in € millions)	2018	2017 [1]	Change
Revenue	**2,109.2**	**1,624.4**	**+29.8%**
Recurring operating income	**214.4**	**100.2**	**+114.0%**
as a % of revenue	***10.2%***	***6.2%***	***+4.0 pts***
EBITDA	296.8	161.2	+84.1%
as a % of revenue	*14.1%*	*9.9%*	*+4.2 pts*
Gross operating investments	140.0	98.5	+42.1%
Average FTE headcount	5,769	5,263	+9.6%

(1) Data relating to Stella McCartney and Christopher Kane for 2017 have been reclassified to "Discontinued operations", in accordance with IFRS 5.

Revenue

The scope of the Group's Other Houses underwent changes during 2018. This was due to the decision to account for Stella McCartney and Christopher Kane as discontinued operations in accordance with IFRS 5 in view of Kering's intention to relinquish control of these two brands.

Consequently, the Group's income statement headings (from "Revenue" down to "Net income from continuing operations") do not include any contribution from Stella McCartney or Christopher Kane for either 2017 or 2018. This means that the Other Houses' performance for 2017 is fully comparable with that for 2018.

Overall revenue generated by the Other Houses advanced 32.1% on a comparable basis in 2018, topping €2 billion (€2,109 million). This excellent performance was led by the Couture and Leather Goods Division, although the Watches and Jewelry Division also saw solid revenue growth.

In light of the above-described changes in the scope of consolidation and Balenciaga's robust growth in both 2017 and 2018, the proportion of sales generated in directly operated stores increased significantly, approaching 51%. This distribution channel, which is the main channel used by Balenciaga, Brioni, Boucheron and Qeelin, registered 43.6% sales growth on a comparable basis. This strong showing was driven by excellent performances turned in by Balenciaga and Alexander McQueen. Only Brioni's retail revenue decreased slightly, due to its reduced number of stores.

Sales to the wholesale network rose 23.6% year on year on a comparable basis, with Balenciaga leading the way, as expected. All of the other brands also posted increases at constant exchange rates, apart from Brioni and Girard-Perregaux, whose sales were weighed down by the ongoing overhaul of their distribution network.

Revenue by region

Sales for the Other Houses were up across all of the Group's main regions in 2018, with very balanced performance between mature and emerging markets.

In mature markets, revenue surged 31.1%. In Western Europe, the increase was 31.0% at constant exchange rates, despite certain brands being adversely affected by lackluster tourist numbers during the year. In Japan and North America, the Other Houses delivered resounding performances, with sales jumping 30.8% and 30.6%, respectively, at constant exchange rates, spurred by Balenciaga's strong appeal in those regions.

In emerging markets, year-on-year growth was 34.9%, mirroring trends for the Asia-Pacific region and, to a lesser extent, the Near- and Middle-East. All of the major Asia-Pacific markets were very dynamic during the year and the region's overall growth came to 43.8%, with the majority of the Other Houses reporting double-digit sales rises.

Revenue by product category

All product categories experienced sales growth in 2018.

The categories that saw the briskest momentum were shoes followed by ready-to-wear, although leather goods also had a very good year, with revenue growth topping 20%.

Jewelry and high jewelry turned in a solid showing in the latter part of the year, and sales for the watches brands continued their recovery begun in the second half of 2017, ending 2018 up on the previous year.

Recurring operating income

Recurring operating income for the Other Houses doubled in 2018, reaching €214 million (versus €100 million in 2017).

Recurring operating margin topped the 10% mark, widening by 400 basis points to 10.2%.

This remarkable year-on-year increase was mainly attributable to Balenciaga's rapid expansion and operating leverage. It was particularly impressive given (i) the lack of any significant improvement in recurring operating margin for the watches brands and (ii) the highly dilutive impact of the investments undertaken to develop Boucheron and Pomellato and the costs relating to Brioni's transformation.

EBITDA for the Other Houses totaled €297 million, up 84.1% on 2017 as reported, and the EBITDA margin stood at 14.1%.

Store network and operating investments

The network of directly operated stores owned by the Other Houses totaled 401 units as of December 31, 2018, representing an increase of 49 stores compared with one year earlier. This rise was due to openings carried out mainly by Balenciaga, but also by Alexander McQueen, Boucheron and Qeelin as part of their respective strategies to gradually expand their exclusive distribution networks (which include taking over stores previously operated under franchise agreements). Brioni was the only brand to decrease the number of its stores.

As of December 31, 2018, the network comprised 248 stores in mature markets and 153 in emerging markets.

Overall, gross operating investments for the Other Houses totaled €140 million, up 42.1% on 2017, with 70% of the investments concentrated in the second half of the year. This increase is directly related to the ambitious, but controlled, objective of expanding the Other Houses' store network.

The Other Houses performed as follows in 2018, beginning with the brands in the Couture and Leather Goods Division:

- Alexander McQueen pursued its strategy begun in 2017 to strengthen its shoes and leather goods collections. Ready-to-wear remained at the heart of the offering, with the brand continuing its exacting focus on quality and creativity but at the same time seeking to achieve a better balance between daywear, evening pieces and tailoring. The new points of sale opened in 2018 contributed to good revenue growth for Alexander McQueen's directly operated stores, and momentum for wholesale sales was particularly strong during the year. As a whole, the House – which also includes the McQ line, positioned in the accessible luxury segment – once again posted a very satisfactory recurring operating margin;
- for the second year in a row, Balenciaga achieved record-high revenue growth, and its collections now rank among the most keenly anticipated and highly acclaimed in the industry. Ready-to-wear and shoes were the flag-bearers of the brand's renewed look and their sales rose sharply year on year. In view of its significant revenue increase, Balenciaga enjoyed a particularly strong leverage effect, resulting in a steep rise in recurring operating margin;
- Brioni saw its sales decrease due to the ongoing measures to streamline its distribution channels, both in its network of directly operated stores and its wholesale network. On a same-store basis, however, revenue trends were encouraging. Against this backdrop, and despite a more efficient manufacturing base, the brand's recurring operating margin remained highly eroded.

For the jewelry brands, 2018 was another year of expansion and investment, in line with their respective strategic plans:

- 2018 was a milestone year for Boucheron, which celebrated its 160th anniversary. At the end of the year, the brand reopened its flagship store at Place Vendôme in Paris after more than twelve months of refurbishment works. Also during 2018, Boucheron opened new stores across the globe, with the strategic aim of penetrating new markets and extending awareness of the brand. Boucheron's sales were up year on year but, as expected, the brand development measures it is undertaking are having a short-term negative effect on its recurring operating margin;
- Pomellato reported very solid revenue growth in 2018 whereas DoDo's performance was more mixed. Pomellato grew its sales both in its legacy market (Western Europe) and all of its other operating regions thanks to its contemporary and complementary offering. Combined recurring operating margin for Pomellato and DoDo was up year on year as a result of tight cost control and in spite of all the expenses incurred for sustaining awareness of the two brands, enabling them to reach out to new markets;
- Qeelin had an excellent year in 2018, registering high revenue growth driven by the brand's rapid expansion in Mainland China and growing repute in Greater China;
- for the Girard-Perregaux and Ulysse Nardin watches brands, 2018 was marked by the decision to place both brands under the direction of one Chief Executive Officer and step up the creation of synergies. Work continued on streamlining and renewing the offering of both watchmakers, backed up by marketing and communication campaigns that were better thought out and more targeted. Ulysse Nardin's sales momentum was very satisfactory and the brand saw its recurring operating margin begin to pick up. For Girard-Perregaux, however, 2018 was another year of transition, and the brand is still in the stages of turning itself around.

Corporate and other

(in € millions)	2018	2017	Change
Recurring operating income (excluding corporate long-term incentive plans)	(183.1)	(170.4)	+7.5%
Cost of corporate long-term incentive plans	(64.1)	(34.1)	+88.0%
Recurring operating income (loss)	**(247.2)**	**(204.5)**	**+20.9%**

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) the Kering Sourcing Department (KGS), a profit center 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.

Kering Eyewear delivered a strong showing in 2018, thanks in particular to the takeover of the Cartier license. Kering Eyewear’s sales leapt 43.3% at constant exchange rates to €495 million, and it contributed €391 million to consolidated revenue, after eliminating intra-group sales and royalties paid to the Group’s brands. Excluding sales to major international distributors and stores operated by the Group’s brands (which, combined, accounted for 39% of Kering Eyewear’s sales), EMEA was once again Kering Eyewear’s main market, followed by the Americas, with both of these regions each making up around 20% of total revenue. In terms of distribution channels, local chains and the 3Os (Opticians, Optometrists and Ophthalmologists) constitute the main sales channel for Kering Eyewear (representing almost 50% of total sales). This channel is growing fast, testifying to the efficient sales structure put in place by Kering Eyewear.

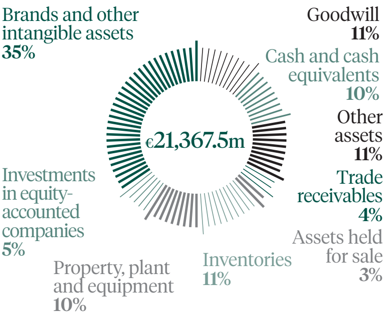
Despite recognizing the amortization expense on the portion of the indemnity paid to Safilo for the early termination of the Gucci license – which was capitalized in the Group’s statement of financial position in an amount of €43 million as of December 31, 2017 and is being amortized over a residual period of approximately three years – Kering Eyewear ended 2018 with a recurring operating income figure that was not only positive but was also higher than in 2017.

Overall, net costs recorded by the “Corporate and other” segment in 2018 totaled €247 million, €43 million (or 20.9%) higher than the 2017 figure. Out of the total year-on-year increase, €30 million stemmed from the cost of long-term incentive plans, including those of corporate officers, linked to the rise in Kering’s share price. Excluding the cost of long-term incentive plans, net costs recorded by the “Corporate and other” segment were 7.5% higher in 2018 than in 2017. This rise is contained thanks to Kering Eyewear’s growing contribution to this segment, but also thanks to the strict financial discipline exercised despite all of the projects carried by the Corporate teams on behalf of the brands.

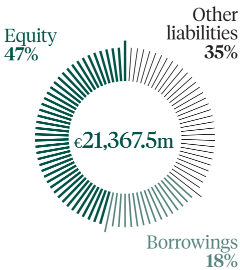
Gross operating investments for the “Corporate and other” segment rose sharply by €84 million year on year to €218 million. Adjusted for the payment in 2018 of the last €30 million installment of compensation paid to Safilo for the early termination of the Gucci license (which was already capitalized), gross operating investments increased by €54 million. This year-on-year rise reflects (i) the acceleration of projects to upgrade IT systems, (ii) measures taken to enhance the Group’s logistics capabilities, and (iii) Kering Eyewear’s operating investments.

1.4 Financial structure as of December 31, 2018

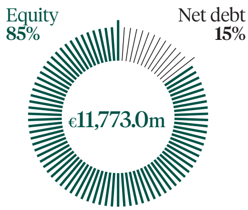
Assets



Equity and liabilities



Capital employed



Condensed statement of financial position

(in € millions)	Dec. 31, 2018	Dec. 31, 2017	IFRS 5 [(1)]	Change
Goodwill	2,399.2	3,421.2	-984.2	-37.8
Brands and other intangible assets	7,393.6	11,159.0	-3,870.6	+105.2
Property, plant and equipment	2,228.5	2,267.6	-327.1	+288.0
Investments in equity-accounted companies	1,074.7	48.6	+999.5	+26.6
Other non-current assets	1,200.6	1,364.3	-364.4	+200.7
Non-current assets	**14,296.6**	**18,260.7**	**-4,546.8**	**+582.7**
Inventories	2,414.7	2,699.1	-846.5	+562.1
Trade receivables	849.5	1,366.5	-560.0	+43.0
Cash and cash equivalents	2,216.6	2,136.6	-446.5	+526.5
Other current assets	1,051.0	1,114.5	-223.9	+160.4
Current assets	**6,531.8**	**7,316.7**	**-2,076.9**	**+1,292.0**
Assets held for sale	**539.1**	-	**+390.0**	**+149.1**
TOTAL ASSETS	**21,367.5**	**25,577.4**	**-6,233.7**	**+2,023.8**
Equity attributable to owners of the parent	9,905.9	11,948.2	-3,248.5	+1,206.2
Equity attributable to non-controlling interests	155.7	678.2	-519.5	-3.0
Total equity	**10,061.6**	**12,626.4**	**-3,768.0**	**+1,203.2**
Non-current borrowings	3,171.6	4,245.5	-32.8	-1,041.1
Other non-current liabilities	1,723.8	2,942.9	-1,186.9	-32.2
Non-current liabilities	**4,895.4**	**7,188.4**	**-1,219.7**	**-1,073.3**
Current borrowings	756.4	939.7	-40.4	-142.9
Other current liabilities	5,465.5	4,822.9	-1,118.3	+1,760.9
Current liabilities	**6,221.9**	**5,762.6**	**-1,158.7**	**+1,618.0**
Liabilities associated with assets held for sale	**188.6**	-	**-87.3**	**+275.9**
TOTAL EQUITY AND LIABILITIES	**21,367.5**	**25,577.4**	**-6,233.7**	**+2,023.8**

(1) *All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).*

Net debt

(in € millions)	Dec. 31, 2018	Dec. 31, 2017	IFRS 5 [(1)]	Change
Gross borrowings	3,928.0	5,185.2	-73.2	-1,184.0
Cash	(2,216.6)	(2,136.6)	+446.5	-526.5
Net debt	**1,711.4**	**3,048.6**	**+373.3**	**-1,710.5**

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

Capital employed

(in € millions)	Dec. 31, 2018	Dec. 31, 2017	IFRS 5 [(1)]	Change
Total equity	10,061.6	12,626.4	-3,768.0	+1,203.2
Net debt	1,711.4	3,048.6	+373.3	-1,710.5
Capital employed	**11,773.0**	**15,675.0**	**-3,394.7**	**-659.6**

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

1.5 Comments on the Group's financial position

Brands

As of December 31, 2018, the value of brands net of deferred tax liabilities amounted to €5,269 million, compared with €8,001 million as of December 31, 2017.

Operating infrastructure

	Owned outright	Finance leases	Operating leases	2018	2017 [(1)]
Stores	**3**	**4**	**1,432**	**1,439**	**1,335**
Logistics units	**7**	-	**102**	**109**	**91**
Production units & other	**34**	**1**	**66**	**101**	**95**

(1) Operating infrastructure data for 2017 have been restated for comparability purposes to show the infrastructure of Continuing Operations only.

Current assets and liabilities

(in € millions)	Dec. 31, 2018	Dec. 31, 2017	IFRS 5 [(1)]	Translation adjustments and other	Cash flow
Inventories	2,414.7	2,699.1	-846.5	+39.6	+522.5
Trade receivables	849.5	1,366.5	-560.0	+55.3	-12.3
Trade payables	(745.8)	(1,240.7)	+673.1	+0.1	-178.3
Net current tax receivables (payables)	(1,212.7)	(736.8)	+30.5	+8.3	-514.7
Other current assets (liabilities), net	(2,191.7)	(1,537.8)	+163.1	-223.8	-593.2
Current assets (liabilities)	**(886.0)**	**550.3**	**-539.8**	**-120.5**	**-776.0**

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

The increase in inventories in 2018 – which was due to higher volumes of purchases made by the Group's main Houses, particularly Gucci, to support sales growth – resulted in a €523 million net cash outflow.

The rise in trade payables in 2018 generated a €178 million cash inflow and was attributable to the Group's higher revenue figures, particularly for Gucci.

The €515 million rise in net current tax payables is due to the steep increase in the Group's profitability.

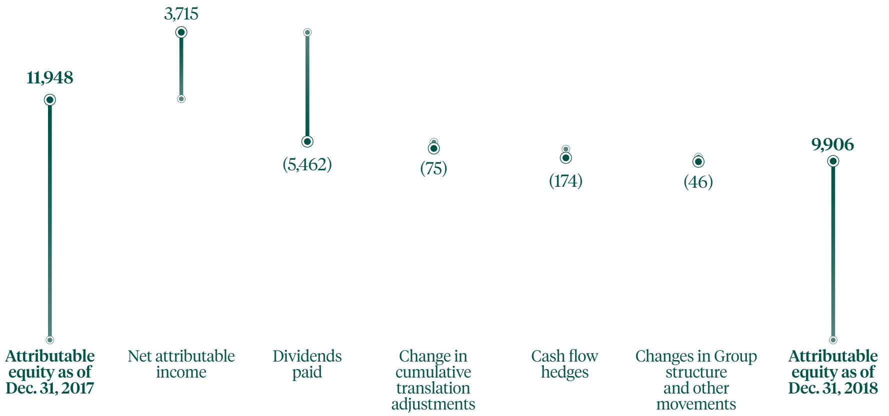
Lastly, net other current liabilities were €593 million higher, reflecting the combined impact of (i) a steep increase in liabilities related to components of variable remuneration linked to the Group's strong performance, (ii) the higher interim dividend, (iii) unfavorable movements in the value of hedging instruments, and (iv) the increase, as expected, in other operating payables.

Equity

As of December 31, 2018, equity attributable to owners of the parent totaled €9,906 million, down by a considerable €2,042 million compared with December 31, 2017. This was due to the fact that the May 16, 2018 dividend payment included not only a €505 million cash dividend but also an exceptional stock dividend in the form of PUMA shares, representing €4,515 million. The interim dividend decided by the Board of Directors in December 2018, which amounted to €442 million and was paid out on January 17, 2019, also impacted equity attributable to owners of the parent for 2018. The effect of these dividend payments was partially offset by the Group's much higher attributable net income figure, which reached €3,715 million and included a €1,181 million capital gain with respect to PUMA.

As of December 31, 2018, 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, 2017. As of December 31, 2018 and December 31, 2017, Kering held no shares in treasury in connection with the liquidity agreement. However, within the scope of the stock repurchase program authorized at the April 26, 2018 Annual General Meeting, Kering purchased 429,017 of its own shares in 2018, which it still held in treasury as of December 31, 2018. These shares will be canceled once the stock repurchase program is completed (see Note 25 – Equity, to the consolidated financial statements).

As of December 31, 2018, equity attributable to non-controlling interests stood at €156 million (versus €678 million as of December 31, 2017), down sharply following the deconsolidation of PUMA on May 16, 2018, which had a €520 million impact.



1.6 Comments on movements in net debt

Breakdown of net debt

The Group's net debt stood at €1,711 million as of December 31, 2018, down significantly on the December 31, 2017 figure of €3,049 million and breaking down as follows:

(in € millions)	Dec. 31, 2018	Dec. 31, 2017	IFRS 5 (1)	Change
Bonds	2,836.2	4,096.1	-	-1,259.9
Bank borrowings	200.0	318.5	-67.1	-51.4
Commercial paper	-	-	-	-
Other borrowings	891.8	770.6	-6.1	+127.3
Gross borrowings	**3,928.0**	**5,185.2**	**-73.2**	**-1,184.0**
Cash and cash equivalents	(2,216.6)	(2,136.6)	+446.5	-526.5
Net debt	**1,711.4**	**3,048.6**	**+373.3**	**-1,710.5**

(1) The components of the net debt of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

As of December 31, 2018, the Group's gross borrowings included €393 million concerning put options granted to non-controlling interests (compared with €386 million as of December 31, 2017).

The year-on-year decrease in gross borrowings was notably due to partial redemptions of four bond issues carried out in April and October 2018, each with an initial nominal value of €500 million. The Group redeemed a total of €775 million with the aim of improving its debt structure and cost of debt by using its strong cash generation while optimizing cash and cash equivalents with nil or negative yields. Optimizing the maturities of the Group's debt and the costs of the redemptions was a critical factor in these refinancing operations. Another contributing factor to scaling back the Group's gross borrowings was the redemption at maturity in October 2018 of the bonds issued in 2013.

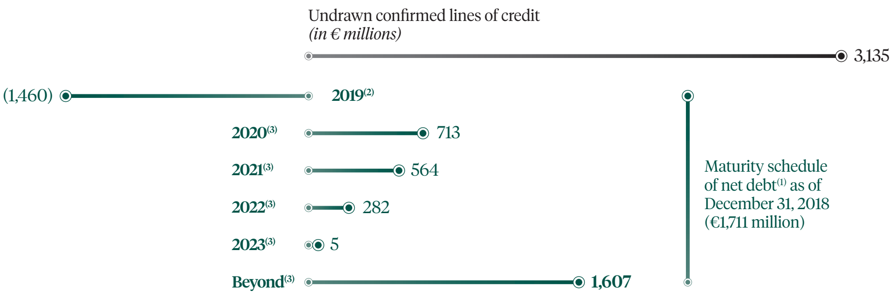
Solvency

The Group has a very sound financial structure and on March 22, 2018 Standard & Poor's upgraded Kering's long-term BBB rating with a positive outlook to BBB+ with a positive outlook.

Liquidity

As of December 31, 2018, the Group had cash and cash equivalents totaling €2,217 million (€2,137 million as of December 31, 2017), as well as confirmed lines of credit totaling €3,135 million (€3,747 million as of December 31, 2017). The balance of confirmed undrawn lines of credit was €3,135 million as of end-December 2018 (€3,690 million as of December 31, 2017).

Maturity schedule of net debt



(1) Net debt is defined on page 71.
(2) Gross borrowings less cash and cash equivalents.
(3) Gross borrowings.

The portion of the Group's gross borrowings maturing within one year corresponded to 19.3% as of December 31, 2018 (18.1% as of December 31, 2017). Consequently, 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)	2018	2017	Change
Net debt as of January 1	**3,048.6**	**4,370.7**	
Restatement of net debt as of January 1 for discontinued operations (IFRS 5)	**367.1**	-	-
Free cash flow from operations	(2,955.2)	(2,205.5)	-749.7
Dividends paid	780.3	597.3	+183.0
Net interest paid and dividends received	187.0	179.5	+7.5
Net acquisitions (disposals) of Kering shares	167.9	(0.2)	+168.1
Other acquisitions and disposals	93.8	367.3	-273.5
Other movements	21.9	(260.5)	+282.4
Net debt at the period end	**1,711.4**	**3,048.6**	**-1,337.2**

Free cash flow from operations

Cash flow from operating activities

(in € millions)	2018	2017 (1)	Change
Cash flow from operating activities before tax, dividends and interest	**4,391.6**	**3,124.9**	**+40.5%**
Change in working capital requirement (excluding tax)	(51.6)	(35.8)	+44.1%
Income tax paid	(562.0)	(316.0)	+77.8%
Net cash from operating activities	**3,778.0**	**2,773.1**	**+36.2%**

(1) *Cash flows for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.*

Operating investments

(in € millions)	2018	2017 (1)	Change
Net cash from operating activities	**3,778.0**	**2,773.1**	**+36.2%**
Purchases of property, plant and equipment and intangible assets	(828.0)	(605.2)	+36.8%
Proceeds from disposals of property, plant and equipment and intangible assets	5.2	37.6	-86.2%
Free cash flow from operations	**2,955.2**	**2,205.5**	**+34.0%**

(1) *Cash flows for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.*

Gross operating investments by activity

(in € millions)	2018	2017 (1)	Change
Total Houses	610.3	471.0	+29.6%
Corporate and other	217.7	134.2	+62.2%
Gross operating investments	**828.0**	**605.2**	**+36.8%**

(1) Cash flows for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

In 2018, 61% of the Group's gross operating investments concerned the store network (versus 55% in 2017). Thirty percent of these investments related to store openings and 31% to conversion and refurbishment work.

Available cash flow

(in € millions)	2018	2017 (1)	Change
Free cash flow from operations	**2,955.2**	**2,205.5**	**+34.0%**
Interest and dividends received	5.4	5.2	+3.8%
Interest paid and equivalent	(192.4)	(184.7)	+4.2%
Available cash flow	**2,768.2**	**2,026.0**	**+36.6%**

(1) Cash flows for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

Dividends paid

The cash dividend paid by Kering SA to its shareholders in 2018 amounted to €758 million (including the €253 million interim dividend paid on January 17, 2018). Dividends paid in 2018 also included €23 million paid to non-controlling interests in consolidated subsidiaries.

In 2017, the cash dividend paid by Kering SA to its shareholders amounted to €581 million (including the interim dividend paid on January 18, 2017). Dividends paid in 2017 also included €16 million paid to non-controlling interests in consolidated subsidiaries (after reclassifying PUMA and Stella McCartney dividends to discontinued operations in accordance with IFRS 5).

Other acquisitions and disposals

Other acquisitions and disposals amounted to €94 million in 2018 and mainly included financing transactions carried out with non-controlled or equity-accounted companies, as well as a €17 million impact from remeasurements of put options written over non-controlling interests.

In 2017, other acquisitions and disposals amounted to €367 million and mainly concerned the remeasurement of put options written over non-controlling interests.

Other movements

This item includes an €85 million positive impact of fluctuations in exchange rates in 2018 (€189 million negative impact in 2017).

1.7 Results and share capital of the parent company

The parent company ended 2018 with net income of €1,657 million compared with €3,915 million in 2017. The 2018 figure includes €1,010 million in dividends received from subsidiaries (versus €3,839 million in 2017).

As of December 31, 2018, Kering's share capital comprised 126,279,322 shares with a par value of €4 each.

Payment of a cash dividend

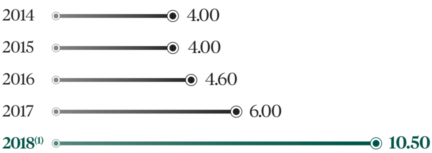
At its February 11, 2019 meeting, the Board of Directors decided that it would ask shareholders to approve a €10.50 per-share cash dividend for 2018 at the Annual General Meeting to be held to approve the financial statements for the year ended December 31, 2018.

An interim cash dividend of €3.50 per share was paid on January 17, 2019 pursuant to a decision by the Board of Directors on December 14, 2018.

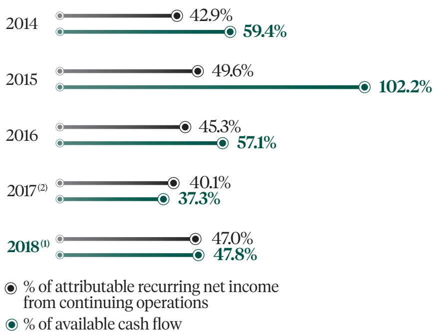
If the final dividend is approved, the total cash dividend payout in 2019 with respect to 2018 will amount to €1,322.0 million, taking into account Kering shares held in treasury for the stock repurchase program.

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, the amount of available cash flow.

Dividend per share *(in €)*



Payout ratios



(1) Subject to the approval of the April 24, 2019 Annual General Meeting.
(2) Data restated for discontinued operations (PUMA, Stella McCartney, Volcom and Christopher Kane), in accordance with IFRS 5.

1.8 Transactions with related parties

Transactions with related parties in 2018 are described in Note 35 – Transactions with related parties, to the consolidated financial statements.

1.9 Subsequent events

No significant events occurred between December 31, 2018 and February 11, 2019 – the date on which the Board of Directors authorized the consolidated financial statements for issue.

At its meeting on February 11, 2019, the Board of Directors of Kering appointed Ms. Sophie L'Hélias as independent lead director, with a standard role of, among others, speaking on behalf of the Board on ESG (Environmental, Societal, Governance) matters, in coordination with the Chairman of the Board.

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.

The Group is continuing to implement its strategy focused on achieving same-store revenue growth while ensuring a targeted and selective expansion of the store network in order to strengthen its Houses' operating margins for the long term.

The Group's operating environment remains unsettled with regards to the macroeconomic and geopolitical uncertainties, national trade policies, and fluctuations in exchange rates, events that could impact consumer trends and tourism.

Against this backdrop, in 2019 the Group plans to pursue the strategic measures that it has successfully implemented in recent years, namely rigorously managing and allocating its resources in order to further enhance its operating performance, maintaining a high level of cash flow generation and continuing to 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 2017 revenue adjusted as follows by:

- neutralizing the portion of revenue corresponding to entities divested in 2017;
- including the portion of revenue corresponding to entities acquired in 2018;
- remeasuring 2017 revenue at 2018 exchange rates.

These adjustments give rise to comparative data at constant scope and exchange rates, which serve 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 their 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 that 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.

EBITDA

The Group uses EBITDA to monitor its operating performance. This financial indicator corresponds to recurring operating income plus net charges to depreciation, amortization and provisions on non-current operating assets recognized in recurring operating income.

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 of which the interest rate risk is fully or partly hedged as part of a fair value relationship.

Effective tax rate on recurring income

The effective tax rate on recurring income 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 centers and IT systems.

2.1 Financial investments

The Group has a balanced portfolio of complementary brands and did not undertake any major investments in 2018 or 2017. Financial investments represented net cash outflows of €15.8 million for 2018, relating mainly to measures taken to internalize the production chain and the distribution network (compared to €1.6 million in net cash inflows for 2017, 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 restated in accordance with IFRS 5 is shown on the line "Net cash from (used in) discontinued operations" and represented a cash outflow of €379.1 million in 2018, versus a cash inflow of €87.7 million one year earlier (restated). This mainly concerned PUMA, Stella McCartney, Volcom and Christopher Kane.

(See Note 4 – 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 €828 million as of December 31, 2018, up 36.8% year on year. For Luxury activities, the 29.6% increase in investments reflects the continued focus on consolidating the existing store network and achieving organic growth, and selective store openings. In 2018, 61% of the Group's gross operating investments concerned the store network (versus 55% in 2017).

Gross operating investments for the "Corporate and other" segment rose sharply by €84 million year on year to €218 million. Adjusted for the payment in 2018 of the last €30 million installment of compensation paid to Safilo for the early termination of the Gucci license (which was already capitalized), gross operating investments increased by €54 million. This year on year rise reflects (i) the acceleration of projects to upgrade IT systems, (ii) measures taken to enhance the Group's logistics capabilities, and (iii) the fact that the figure now includes Kering Eyewear's operating investments.

Luxury Houses

The Luxury Houses' gross operating investments totaled €610 million in 2018, €139 million (or 29.6%) higher than in 2017. As a proportion of revenue, gross operating investments remained stable and represented 4.6% in 2018 (versus 4.5% in 2017).

As of December 31, 2018, the Luxury Houses had a network of 1,439 directly operated stores, including 833 (58%) in mature markets and 606 in emerging markets. Net store additions during the year totaled 104, largely attributable to the scheduled expansion of the Yves Saint Laurent and Balenciaga networks. The year-on-year increase in the total network can also be explained by the Group's drive to raise its brands' presence in travel retail and duty-free stores, including by taking operations that were previously controlled by a franchisee back under direct management. This particularly concerns the Gucci network.

Gucci

As of December 31, 2018, Gucci operated 540 stores directly, including 229 in emerging markets. A net 11 new stores were added during the year. The brand now has an overall network that is adapted to its operations in terms of store numbers, but it has identified opportunities for improving its distribution in certain regions. This is particularly the case for travel retail, which saw the most store openings in 2018. Apart from these targeted openings, Gucci's focus is still on increasing organic growth by pursuing its refurbishment program for existing stores.

Gucci's gross operating investments amounted to €313 million in 2018, up 25.8% on 2017. The 2018 figure mostly corresponds to the refurbishment program aimed at introducing the new store concept across the brand's entire network. The objective of keeping investments below the threshold of 5% of revenue was met, as gross operating investments represented 4% of sales.

Yves Saint Laurent

As of December 31, 2018, Yves Saint Laurent directly operated 219 stores, including 99 in emerging markets. There were 35 net store openings during the year, in line with the brand's store network expansion plan.

Yves Saint Laurent's gross operating investments rose €16 million year on year to €89 million in 2018, reflecting the brand's store opening and refurbishment strategy. This expenditure was subject to a strong seasonal effect, with the first half of the year only accounting for 37% of the overall outlay. As a percentage of revenue, gross operating investments remained contained, at approximately 5%.

Bottega Veneta

As of December 31, 2018, Bottega Veneta had 279 directly operated stores, including 125 in emerging markets. There were 9 net store openings during the year. The streamlining program of its 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).

Against this backdrop and in view of the need to refurbish its existing store network, in 2018 Bottega Veneta increased its operating investment budget. Altogether, gross operating investments totaled €69 million, up €18 million on 2017. This investment drive – which raised gross operating investments as a percentage of revenue to 6.2% – is necessary in view of the relaunch phase that the brand is currently undergoing.

Other Houses

The network of directly operated stores owned by the Other Houses totaled 401 units as of December 31, 2018, representing a net increase of 49 stores compared with one year earlier. The network counted 248 stores in mature markets and 153 in emerging markets.

Overall, gross operating investments for the Other Houses totaled €140 million, up 42.1% on 2017, with 70% of the investments concentrated in the second half of the year. This increase is directly related to the ambitious, but controlled, objective of expanding the Other Houses' store network.

3. CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2018

3.1 Consolidated income statement

for the years ended December 31, 2018 and 2017

(in € millions)	Notes	2018	2017 [(1)]
CONTINUING OPERATIONS			
Revenue	6	**13,665.2**	**10,815.9**
Cost of sales		(3,467.0)	(2,899.8)
Gross margin		**10,198.2**	**7,916.1**
Payroll expenses	7-8	(2,080.4)	(1,797.8)
Other recurring operating income and expenses		(4,174.0)	(3,427.6)
Recurring operating income	9	**3,943.8**	**2,690.7**
Other non-recurring operating income and expenses	10	(222.4)	(164.2)
Operating income		**3,721.4**	**2,526.5**
Finance costs, net	11	(207.3)	(220.2)
Income before tax		**3,514.1**	**2,306.3**
Income tax expense	12	(867.7)	(550.8)
Share in earnings (losses) of equity-accounted companies		11.9	(3.6)
Net income from continuing operations		**2,658.3**	**1,751.9**
o/w attributable to owners of the parent		2,630.6	1,728.7
o/w attributable to non-controlling interests	15	27.7	23.2
DISCONTINUED OPERATIONS			
Net income from discontinued operations	4	**1,095.2**	**113.2**
o/w attributable to owners of the parent		1,084.3	56.9
o/w attributable to non-controlling interests		10.9	56.3
TOTAL GROUP			
Net income of consolidated companies		**3,753.5**	**1,865.1**
o/w attributable to owners of the parent		3,714.9	1,785.6
o/w attributable to non-controlling interests	15	38.6	79.5

(in € millions)	Notes	2018	2017 [(1)]
Net income attributable to owners of the parent		**3,714.9**	**1,785.6**
Earnings per share *(in €)*	13.1	29.49	14.17
Fully diluted earnings per share *(in €)*	13.1	29.49	14.17
Net income from continuing operations attributable to owners of the parent		**2,630.6**	**1,728.7**
Earnings per share *(in €)*	13.1	20.88	13.72
Fully diluted earnings per share *(in €)*	13.1	20.88	13.72
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent		**2,816.7**	**1,886.6**
Earnings per share *(in €)*	13.2	22.36	14.97
Fully diluted earnings per share *(in €)*	13.2	22.36	14.97

(1) Income and expense items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Discontinued operations", in accordance with IFRS 5.

3.2 Consolidated statement of comprehensive income
for the years ended December 31, 2018 and 2017

(in € millions)	Notes	2018	2017
Net income		**3,753.5**	**1,865.1**
Actuarial gains and losses[(1)]		9.6	20.1
Total items not reclassified to income		**9.6**	**20.1**
Foreign exchange gains and losses		(70.6)	(249.5)
Cash flow hedges[(1)]		(142.0)	45.2
Financial assets at fair value[(1)]		(13.3)	3.9
Share in other comprehensive income of equity-accounted companies		12.0	-
Total items to be reclassified to income		**(213.9)**	**(200.4)**
Other comprehensive income (loss), net of tax	**14**	**(204.3)**	**(180.3)**
Total comprehensive income		**3,549.2**	**1,684.8**
o/w attributable to owners of the parent		3,504.8	1,648.7
o/w attributable to non-controlling interests		44.4	36.1

(1) Net of tax.

3.3 Consolidated statement of financial position

as of December 31, 2018 and 2017

ASSETS

(in € millions)	Notes	Dec. 31, 2018	Dec. 31, 2017
Goodwill	16	2,399.2	3,421.2
Brands and other intangible assets	17	7,393.6	11,159.0
Property, plant and equipment	18	2,228.5	2,267.6
Investments in equity-accounted companies	20	1,074.7	48.6
Non-current financial assets	21	336.3	364.3
Deferred tax assets	12.2	830.1	964.6
Other non-current assets		34.2	35.4
Non-current assets		**14,296.6**	**18,260.7**
Inventories	22	2,414.7	2,699.1
Trade receivables	23	849.5	1,366.5
Current tax receivables	12.2	90.6	78.6
Other current financial assets	24-30	60.9	155.6
Other current assets	24	899.5	880.3
Cash and cash equivalents	28	2,216.6	2,136.6
Current assets		**6,531.8**	**7,316.7**
Assets held for sale		**539.1**	-
TOTAL ASSETS		**21,367.5**	**25,577.4**

EQUITY AND LIABILITIES

(in € millions)	Notes	Dec. 31, 2018	Dec. 31, 2017
Share capital		505.2	505.2
Capital reserves		2,428.3	2,428.3
Treasury shares		(168.3)	-
Translation adjustments		(206.7)	(131.7)
Remeasurement of financial instruments		(97.8)	76.0
Other reserves		7,445.2	9,070.4
Equity attributable to owners of the parent	**25**	**9,905.9**	**11,948.2**
Non-controlling interests	15	155.7	678.2
Total equity	**25**	**10,061.6**	**12,626.4**
Non-current borrowings	29	3,171.6	4,245.5
Other non-current financial liabilities	30	3.0	0.7
Provisions for pensions and other post-employment benefits	26	88.0	125.7
Other non-current provisions	27	14.2	55.5
Deferred tax liabilities	12.2	1,578.6	2,712.2
Other non-current liabilities		40.0	48.8
Non-current liabilities		**4,895.4**	**7,188.4**
Current borrowings	29	756.4	939.7
Other current financial liabilities	24-30	553.2	367.6
Trade payables	24	745.8	1,240.7
Provisions for pensions and other post-employment benefits	26	8.6	10.7
Other current provisions	27	255.7	182.4
Current tax liabilities	12.2	1,303.3	815.4
Other current liabilities	24	2,598.9	2,206.1
Current liabilities		**6,221.9**	**5,762.6**
Liabilities associated with assets held for sale		**188.6**	-
TOTAL EQUITY AND LIABILITIES		**21,367.5**	**25,577.4**

3.4 Consolidated statement of cash flows
for the years ended December 31, 2018 and 2017

(in € millions)	Notes	2018	2017 [1]
Net income from continuing operations		**2,658.3**	**1,751.9**
Net recurring charges to depreciation, amortization and provisions on non-current operating assets		491.9	432.1
Other non-cash income and expenses		(6.6)	10.3
Cash flow from operating activities	**33.2**	**3,143.6**	**2,194.3**
Interest paid/received		186.6	181.4
Dividends received		(1.0)	(0.2)
Current tax expense	12.1	1,062.4	749.4
Cash flow from operating activities before tax, dividends and interest		**4,391.6**	**3,124.9**
Change in working capital requirement		(51.6)	(35.8)
Income tax paid	12.2.1	(562.0)	(316.0)
Net cash from operating activities		**3,778.0**	**2,773.1**
Purchases of property, plant and equipment and intangible assets		(828.0)	(605.2)
Proceeds from disposals of property, plant and equipment and intangible assets		5.2	37.6
Acquisitions of subsidiaries, net of cash acquired		(15.8)	1.6
Proceeds from disposals of subsidiaries and associates, net of cash transferred		-	-
Purchases of other financial assets		(80.3)	(65.1)
Proceeds from disposals of other financial assets		21.9	31.8
Interest and dividends received		5.4	5.2
Net cash used in investing activities		**(891.6)**	**(594.1)**
Dividends paid to owners of the parent company		(757.6)	(580.9)
Dividends paid to non-controlling interests		(22.8)	(16.4)
Transactions with non-controlling interests		(2.7)	(27.8)
Treasury share transactions		(167.9)	0.2
Debt issues	33.3	73.1	299.4
Debt redemptions/repayments	33.3	(1,404.5)	(410.1)
Increase/decrease in other borrowings	33.3	(27.9)	(364.4)
Interest paid and equivalent		(192.4)	(184.7)
Net cash used in financing activities		**(2,502.7)**	**(1,284.7)**
Net cash from (used in) discontinued operations	4	(379.1)	87.7
Impact of exchange rate variations		(67.6)	159.8
Net increase (decrease) in cash and cash equivalents		**(63.0)**	**1,141.8**
Cash and cash equivalents at beginning of year	**33.1**	**1,899.3**	**757.5**
Cash and cash equivalents at end of year	**33.1**	**1,836.3**	**1,899.3**

(1) Cash flow items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

3.5 Consolidated statement of changes in equity
for the years ended December 31, 2018 and 2017

(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	Equity – Non-controlling interests	Equity – Total
As of January 1, 2017	**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**
Share capital increase									50.1	50.1
Treasury shares(2)							(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(3)							(324.4)	(324.4)	(62.8)	(387.2)
As of December 31, 2017	**126,279,322**	**505.2**	**2,428.3**	**-**	**(131.7)**	**76.0**	**9,070.4**	**11,948.2**	**678.2**	**12,626.4**
Total comprehensive income					**(75.0)**	**(144.1)**	**3,723.9**	**3,504.8**	**44.4**	**3,549.2**
Share capital increase									0.2	0.2
Treasury shares(2)				(168.3)			0.3	(168.0)		(168.0)
Cash dividend paid							(947.1)	(947.1)	(45.0)	(992.1)
Stock dividend paid (PUMA shares)							(4,514.5)	(4,514.5)		(4,514.5)
First-time application of IFRS 9(2)						(29.7)	29.7			
First-time application of IFRS 15(2)							(15.4)	(15.4)		(15.4)
Changes in Group structure and other changes(3)							97.9	97.9	(522.1)	(424.2)
As of December 31, 2018	**126,279,322**	**505.2**	**2,428.3**	**(168.3)**	**(206.7)**	**(97.8)**	**7,445.2**	**9,905.9**	**155.7**	**10,061.6**

(1) Shares with a par value of €4 each.
(2) Net of tax.
(3) Changes in Group structure and other changes include put options granted to non-controlling interests (see Note 29 – Borrowings).

Notes to the consolidated financial statements for the year ended December 31, 2018

Note 1 – Introduction

Kering, the Group's parent company, is a *société anonyme* (a French corporation) 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, 2018 reflect the accounting position of Kering and its subsidiaries, together with its interests in associates and joint ventures.

On February 11, 2019, the Board of Directors approved the consolidated financial statements for the year ended December 31, 2018 and authorized their publication. These consolidated financial statements will only be considered as final after their adoption by the April 24, 2019 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, 2018 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, 2018

The Group has applied the following standards, amendments and interpretations in its consolidated financial statements, newly applicable as of January 1, 2018:

- amendments to IAS 28 and IFRS 1 (part of the Annual Improvements to IFRSs 2014-2016 Cycle), and amendments to IAS 40, IFRS 2 and IFRS 4. These amendments have no impact on the consolidated financial statements;
- IFRIC 22 – *Foreign Currency Transactions and Advance Consideration*, which has no impact on the consolidated financial statements;
- IFRS 9 – *Financial Instruments*, which sets out the recognition and disclosure principles for financial assets and liabilities. These principles replace those contained in IAS 39 – *Financial Instruments: Recognition and Measurement*;
- IFRS 15 – *Revenue from Contracts with Customers*, which establishes new revenue recognition principles and supersedes IAS 18 – *Revenue* with effect from January 1, 2018.

IFRS 9 – Financial Instruments

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 Luxury Houses, which are essentially retail businesses, is extremely low. The Group takes out credit risk insurance covering the majority of trade receivables in its wholesale and department stores 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 for its Houses 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 recognized in equity over the term of the transactions and taken to net finance costs when the hedged item is settled. A negative impact of €30 million net of deferred taxes was recognized as of January 1, 2018 in "Remeasurement of financial instruments" with an offsetting entry to "Other reserves".

IFRS 15 – ***Revenue from Contracts with Customers***

IFRS 15 does not have a significant impact on the Kering group owing to the nature of its business activities. The Houses are essentially retail businesses, with the exception of the Watches brands and Kering Eyewear. The Group has therefore applied the "cumulative catch-up" transition method, as it considers that this does not distort comparability between 2017 and 2018 data. A negative impact of €15 million net of deferred taxes was recognized as of January 1, 2018 within equity.

Note 2.3 describes the basis of preparation of the financial statements resulting from the application of these new standards.

2.2.2 Standards, amendments and interpretations adopted by the European Union but not mandatorily applicable as of January 1, 2018

The Group has elected not to early adopt the following standards, amendments and interpretations whose application is not mandatory for financial periods beginning on or after 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*, IFRIC 4, SIC 15 and SIC 27. IFRS 16 will be mandatorily applicable as of January 1, 2019;
- amendment to IFRS 9 – *Financial Instruments* concerning prepayment features with negative compensation, mandatorily applicable as of January 1, 2019;
- IFRIC 23 – *Uncertainty over Income Tax Treatments*, mandatorily applicable as of 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:

- amendments contained in the Annual Improvements to IFRSs 2015-2017 Cycle and concerning IAS 12, IAS 23, IFRS 3 and IFRS 11, which the IASB indicates will be mandatorily applicable as of January 1, 2019;
- the various amendments to IAS 19 and IAS 28, which the IASB indicates will be mandatorily applicable as of January 1, 2019;
- amendments to IAS 1 and IAS 8 – *Definition of Material*, which the IASB indicates will be mandatorily applicable as of January 1, 2020;
- amendments to IFRS 3 – *Definition of a Business*, which the IASB indicates will be mandatorily applicable as of January 1, 2020;
- changes in the IFRS conceptual framework, which the IASB indicates will be mandatorily applicable as of January 1, 2020;
- IFRS 17 – *Insurance Contracts*, mandatorily applicable as of January 1, 2021.

2.2.4 Expected impacts of future standards, amendments and interpretations

IFRS 16 – ***Leases*****, applicable as of January 1, 2019**

Bases for the application of IFRS 16 by Kering

The application of IFRS 16 as of January 1, 2019 will have a material impact on Kering's consolidated financial statements since the Houses are essentially retail businesses. Virtually all of the Group's leases are property leases.

Accordingly, Kering has been rolling out an IT tool across the Group to manage the operational aspects of its property leases and to calculate the financial impacts thereof, taking into account all operational issues on the ground. A team comprising representatives from different departments (finance, real estate, legal and IT) is responsible for this project.

Following significant changes in Group structure in the first half of 2018, particularly the deconsolidation of PUMA and the classification of Stella McCartney, Volcom and Christopher Kane within discontinued operations in accordance with IFRS 5, the Group decided for practical reasons not to apply the full retrospective transition method, according to which IFRS 16 is also applied to the comparative period presented, in this case 2018.

In accordance with the transitional provisions set out in paragraph C5 (b) of IFRS 16, the Group will therefore apply the modified retrospective approach, which consists in accounting for the cumulative impact of applying IFRS 16 at the date of first-time application, i.e., January 1, 2019.

Pursuant to the transitional provisions set out in paragraph C8 (b) (ii) of IFRS 16, the Group will apply the standard using the simplified cumulative approach and recognize a right-of-use asset for leases previously classified as operating leases (under IAS 17). The right-of-use asset will equal the lease liability, adjusted by the amount of any prepaid or accrued lease payments already recognized in the statement of financial position as of December 31, 2018.

Estimated lease liabilities as of January 1, 2019

In line with the above-described strategy, the Group has conducted simulations to measure the expected amount of lease liabilities at the transition date, resulting in an estimated impact of between €3,400 million and €3,900 million (a median estimated impact of €3,700 million). The final amount of lease liabilities is likely to change between the date of these financial statements and the publication of the financial statements for the first half of 2019 as regards the estimated term of certain leases. This is because market positions in certain countries could still evolve in this period, thereby calling into question some of the assumptions used to date to estimate lease terms.

These estimates should be considered in light of the off-balance sheet commitments relating to operating leases set out in Note 34.2.1 – Contractual obligations, which amounted to €4,148.9 million as of December 31, 2018. The difference between this amount and estimated lease liabilities under IFRS 16 is attributable to the factors described below:

- unlike off-balance sheet commitments, lease liabilities evidently do not include liabilities under contracts already entered into as of December 31, 2018 but which take effect after the date of transition;
- unlike off-balance sheet commitments, lease liabilities do not include liabilities under leases with an initial term of one year or less, pursuant to the recognition exemptions set out in paragraph 5 (a) of IFRS 16;
- unlike off-balance sheet commitments, lease liabilities do not include liabilities under leases with a low-value underlying asset, pursuant to the recognition exemptions set out in paragraph 5 (b) of IFRS 16;
- the estimated term of certain leases under IFRS 16 may differ from that used to calculate off-balance sheet commitments: this may be the case for leases for which the Group is reasonably certain to exercise an extension or termination option;
- lastly, off-balance sheet commitments do not reflect the impact of discounting lease liabilities.

Impacts on the presentation of Kering's consolidated financial statements

The application of IFRS 16 will change the presentation of the consolidated financial statements as from June 30, 2019:

- the consolidated statement of financial position will show:
  - a new "Right-of-use assets" line representing the right to use the leased assets, which will be recorded within non-current assets between "Brands and other intangible assets" and "Property, plant and equipment",
  - a new "Lease liabilities" line representing obligations associated with right-of-use assets, which will be recorded within current and non-current liabilities;
- three lines on the consolidated income statement will be used to reflect the impact of leases:
  - rental expense, which will appear within "Other recurring operating income and expenses" and will include variable lease payments, payments under leases with a low-value underlying asset and payments under leases with an initial term of one year or less, as well as all rental charges under all lease contracts,
  - right-of-use amortization expense, which will be included within "Other recurring operating income and expenses" as part of "Net recurring charges to depreciation, amortization and provisions on non-current operating assets" for the fixed discounted portion of lease payments under all leases with an initial term of more than one year (with the exception of low-value asset leases),
  - interest expense relating to lease liabilities, which will be included within "Finance costs, net";
- two different lines on the consolidated statement of cash flows will be used to reflect the impact of leases:
  - the "Net cash from (used in) operating activities" line, which will include disbursements relating to variable lease payments, to leases with a low-value underlying asset and to leases with an initial term of one year or less, as well as all rental charges under all lease contracts,
  - the "Net cash from (used in) financing activities" line, which will include disbursements relating to fixed lease payments, corresponding to the reimbursement of lease liabilities (including interest).

Impacts on Kering's key performance indicators (KPIs)

The revised presentation of the consolidated financial statements as a result of applying IFRS 16 calls into question the relevance of Kering's key performance indicators (recurring operating income, free operating cash flow and net debt).

Regarding recurring operating income and free operating cash flow, the new financial statement presentation resulting from IFRS 16 will not enable a faithful representation of the Group's full operating performance, i.e., including all operating leases. It should be noted in this respect that for 2018, variable lease payments account for 55% of the Group's total rental expense, while fixed lease payments account for 45%.

Accordingly, the Group is currently working to redefine its main KPIs in order to continue providing financial statement users with the financial metrics needed to effectively monitor the Group's operating performance. In accordance with IFRS 8, as from the first half of 2019, the Group's segment information will include revised operating performance indicators that reflect the full impact of existing operating leases under IAS 17. Net debt will not include lease liabilities.

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;
- assets held for sale, which are measured and recognized 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 judgment

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 recognized 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 8 – Share-based payment;
- Note 12 – 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 judgment 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 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 shareholders have maintained present access to the economic benefits of the entity.

In the case of present access to the entity's economic benefits, non-controlling interests are maintained in the statement of financial position and the liability is recognized against equity attributable to owners of the parent. Where access to the entity's economic benefits is no longer available by virtue of the put option, the corresponding non-controlling interests are derecognized. The difference between the liability representing the commitment to repurchase the non-controlling interests and the carrying amount of derecognized 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 recognized 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 recognized 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 recognizes 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 recognized using the acquisition method.

Business combinations are recognized 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 recognized 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 recognized as goodwill. If the difference is negative, the gain on the bargain purchase is immediately recognized 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 recognized on any subsequent acquisition of non-controlling interests. Acquisitions and disposals of non-controlling interests are recognized 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 recognized 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 recognized 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 recognized directly in other comprehensive income, the foreign exchange component is also recognized in other comprehensive income. Otherwise, the component is recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized at cost less accumulated amortization 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 recognized separately from goodwill.

Intangible assets are amortized 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 amortized but are tested for impairment at least annually or more frequently when there is an indication that an impairment loss is likely.

Brands representing a predominant category of the Group's intangible assets are recognized 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 license by a third party.

Software acquired as part of recurring operations is usually amortized 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 capitalized and amortized 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 recognized 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 recognized 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 recognized 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 an asset's recoverable amount is less than its net carrying amount, an impairment loss is recognized. 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.

Leases

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 leases.

Leases that 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 recognized in property, plant and equipment against the corresponding debt recognized 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.

Leases that do not transfer substantially all the risks and rewards incidental to ownership are classified as operating leases. Payments made under operating leases are recognized 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 recognized 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, 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 realizable value. Net realizable 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 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 recognize 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 fiscal year.

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 five 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 recognized.

Impairment is charged first to goodwill where appropriate, and recognized under "Other non-recurring operating income and expenses" in the income statement as part of operating income.

Impairment losses recognized 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 disposed portion 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 recognized 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 IFRS 9, financial assets are classified within one of the following three categories:

- financial assets at fair value through the income statement (profit or loss);
- financial assets at amortized cost;
- financial assets at fair value through other comprehensive income.

The classification determines the accounting treatment for the instrument. It is defined by the Group upon initial recognition, based on the characteristics of the instrument and the management objective behind the asset's purchase. Purchases and sales of financial assets are recognized on the transaction date, which is the date the Group is committed to the purchase or sale of the asset. A financial asset is derecognized 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

Financial assets at fair value through the income statement mostly comprise financial assets giving rise to contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding.

This category includes:

- trading assets the Group intends to resell in the near term and that are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivative instruments not eligible for hedge accounting are also classified as assets and liabilities contracted for trading purposes;
- assets designated as at fair value under the fair value option. These primarily relate to the portfolio of money market funds (UCITS) that are managed and whose performance is tracked on a fair value basis.

Changes in the fair value of these assets are taken to the income statement. Net gains or losses arising on assets at fair value through the income statement correspond to interest income, dividends and changes in the fair value of the assets.

Net gains and losses arising on derivatives contracted for trading purposes relate to the amounts traded and to changes in the fair value of the corresponding instruments.

2. Financial assets at amortized cost

Financial assets are carried at amortized cost if they are held as part of a business model whose objective is to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 shown in "Non-current financial assets", "Trade receivables" and "Other current financial assets" in the statement of financial position.

These financial assets are initially recognized at fair value and subsequently at amortized cost using the effective interest method. Net gains and losses on loans and receivables relate to interest income and impairment allowances.

Impairment allowances are recognized in the income statement based on the expected loss model:

- for its trade receivables, the Group applies a provision matrix for each country/brand based on historical loss data. Credit insurance that may be taken out by the Group is taken into account in the evaluation of the risk and therefore of the provision;
- for its other financial assets, an analysis is carried out taking into account the probability of counterparty default.

3. Financial assets at fair value through other comprehensive income

Financial assets are carried at fair value. Changes in fair value are recognized through other comprehensive income if the financial assets are held as part of a business model whose objective is achieved both by (i) collecting contractual cash flows (corresponding solely to payments of principal and interest on the principal amount outstanding) and (ii) selling these financial assets.

This category includes debt instruments meeting the contractual cash flow and business model characteristics set out above.

It also includes shares where the Group has elected to classify shares in this category, in which case changes in the fair value of the shares are recognized directly in other comprehensive income until the shares are sold, with the exception of dividends received in respect of these shares, which are systematically recognized in the income statement.

2.11.2 Financial liabilities

The measurement of financial liabilities depends on their IFRS 9 classification. Excluding put options granted to non-controlling interests, derivative liabilities and financial liabilities accounted for under the fair value option, the Group recognizes all financial liabilities and particularly borrowings, trade payables and other liabilities initially at fair value less transaction costs and subsequently at amortized 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 amortized 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 recognized 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 recognized 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 IFRS 9, 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 recognized at amortized cost;
- embedded derivatives not closely related to the debt are recognized at fair value with changes in fair value recognized 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 recognized;
- 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 organized markets or traded over the counter with leading counterparties.

All derivatives are recognized in the statement of financial position under other current or non-current assets and liabilities depending on their maturity and accounting classification, and are valued at fair value as of the 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 recognized assets or liabilities or a highly probable transaction that would impact net income;
- a fair value hedge is used to hedge the risk of changes in the fair value of recognized assets or liabilities or a firm commitment not yet recognized that would impact 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 of the following conditions are met:

- the hedged instrument and the hedging instrument are both eligible;
- there is a formal designation and documentation of the hedging relationship as of the date of inception;
- there is an economic relationship between the hedged item and the hedging instrument.

Any hedge ineffectiveness must be recognized in the income statement at each reporting date.

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:

- for cash flow and net investment hedges, fair value gains and losses attributable to the effective portion of the hedging instrument are recognized directly in other comprehensive income. For foreign currency derivatives, changes in the time value of the options and changes in premiums and discounts are also recognized in other comprehensive income. These amounts are reclassified to the income statement to match the recognition of the hedged items, mainly in gross margin for the effective portion of commercial transaction hedges, and in net finance costs for financial hedges and the time value of commercial hedges;
- 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 definition of net debt used by Group companies comprises gross debt including accrued interest receivable, less net cash as defined by 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, on which the 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 recognized 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 recognized 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 recognized. 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 the 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 amortized 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

Income tax expense for the year comprises the current and deferred tax expense.

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 recognized 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 recognized on taxable temporary differences relating to investments in subsidiaries, associates and joint ventures unless the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Provisions

Provisions for litigation, disputes and miscellaneous contingencies and losses are recognized 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 provision for restructuring costs is recognized 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 recognizes 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. 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 recognized 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 recognized 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 recognized in recurring operating income. The provision recognized 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 recognized 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, together with income from associated services, and income from royalties and operating licenses.

Sales of goods and associated services

Sales of goods, whether through a retail network or wholesale operations, are recognized when the Group satisfies its performance obligation to its customers, typically upon delivery.

Sales of goods are measured:

- at the fair value of the consideration received;
- excluding taxes;
- net of any rebates or discounts;
- net of any returned goods, when a wholesaler has a contractual right of return or routinely makes returns, in which case a specific provision is set aside. When such returns are not contractual, the provision for returns is estimated based on historical data. Provisions for returns are presented in the statement of financial position under liabilities in respect of future refunds. A corresponding asset (with an offsetting adjustment to cost of sales) representing the right to recover the goods from the customer is also recognized;
- in the event of deferred payment beyond habitual credit terms that is not backed by a financing institution, the revenue from the sale corresponds to the discounted price. The difference between the discounted price and the cash value is recognized under "Other financial income and expenses".

Warranties in connection with certain product categories are recognized under "Other provisions" and have no impact on revenue recognition.

Revenue from services directly related to the sale of goods is recognized in the period in which such services are rendered.

Income from royalties and operating licenses

Income from royalties and operating licenses is recognized in accordance with the contractual obligations specific to each agreement, over time as the performance obligation is satisfied, for example, when calculated based on the value of the underlying sales generated by the licensee under the agreement.

2.20 Operating income

Operating income includes all revenue and expenses directly related to Group activities, both recurring revenue and expense items and revenue and expenses arising 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 period, 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 price 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 are 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 of 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 separate 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 Strategic redeployment and discontinued operations

PUMA

Following the approval of the transaction by Kering shareholders at the Annual General Meeting on April 26, 2018, the distribution of PUMA shares to Kering shareholders took effect on May 16, 2018, the payment date for the stock dividend. The distribution to Kering shareholders was made on the basis of a ratio of 1 PUMA share for 12 Kering shares held, in accordance with the terms of the transaction announced by Kering on February 13, 2018, and valued at the opening price of the PUMA share on the Xetra trading platform in Frankfurt (€429.00).

PUMA's results up to May 16, 2018 have therefore been reclassified in the consolidated income statement to "Net income from discontinued operations". A gain resulting from the relinquishment of control of PUMA following the distribution was recognized in the consolidated income statement in "Net income from discontinued operations". Cash flows relating to PUMA's operations up to May 16, 2018 have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations" (see Note 4 – Discontinued operations, to the consolidated financial statements).

Following the distribution, Kering held 15.70% of PUMA's share capital and 15.85% of its outstanding shares and voting rights, subject to a six-month lock-up period that ended on November 16, 2018. Since Kering continues to have a significant influence on PUMA's governance, its investment in this company is included in "Investments in equity-accounted companies" in the 2018 consolidated financial statements. The Group's share of PUMA's earnings since May 16, 2018 is presented in the 2018 consolidated income statement in "Share in earnings (losses) of equity-accounted companies" (see Note 20 – Investments in equity-accounted companies, to the consolidated financial statements).

Stella McCartney

On March 28, 2018, Ms. Stella McCartney and Kering jointly announced that they had entered into an agreement for the sale and purchase of Kering's 50% stake in Stella McCartney Ltd to Ms. Stella McCartney, who will thus become the sole owner of her brand.

The cooperation between Stella McCartney and Kering will continue with the aim of guaranteeing a smooth transition in order to minimize disruptions and maintain the brand's momentum. Kering and Stella McCartney will also continue their close cooperation in the domain of sustainable fashion, with Ms. Stella McCartney remaining a Board member of the Kering Foundation.

The results of the Stella McCartney brand have therefore been reclassified to "Net income from discontinued operations" in the consolidated income statement for the fiscal periods presented. Cash flows relating to the brand's operations have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations". Since March 28, 2018, the brand's assets and liabilities have been presented in the 2018 consolidated statement of financial position under "Assets held for sale" and "Liabilities associated with assets held for sale", and they will continue to be recorded in these lines until the date of their effective sale, which is expected to take place in the first quarter of 2019 (see Note 4 – Discontinued operations, to the consolidated financial statements).

Volcom

On April 6, 2018, Kering announced that preparations had commenced for the disposal of Volcom, as the brand no longer constitutes a core asset. This move is consistent with the Group's strategy to fully dedicate itself to the development of its Luxury Houses.

Volcom's results have therefore been reclassified to "Net income from discontinued operations" in the consolidated income statement for the fiscal periods presented. Cash flows relating to the brand's operations have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations". Since April 6, 2018, the brand's assets and liabilities have been presented in the 2018 consolidated statement of financial position under "Assets held for sale" and "Liabilities associated with assets held for sale", and they will continue to be recorded in these lines until the date of their effective sale (see Note 4 – Discontinued operations, to the consolidated financial statements).

Christopher Kane

On June 21, 2018, Kering announced that discussions were underway with Mr. Christopher Kane about the conditions in which the British designer could take back full control of his eponymous brand. Christopher Kane and Kering wish to continue to collaborate with the aim of achieving a gradual and harmonious transition.

The results of the Christopher Kane brand have therefore been reclassified to "Net income from discontinued operations" in the consolidated income statement for the fiscal periods presented. Cash flows relating to the brand's operations have been reclassified in the consolidated statement of cash flows to "Net cash from (used in) discontinued operations". Since June 21, 2018, the brand's assets and liabilities have been presented in the 2018 consolidated statement of financial position under "Assets held for sale" and "Liabilities associated with assets held for sale", and they will continue to be recorded in these lines until the date of their effective sale (see Note 4 – Discontinued operations, to the consolidated financial statements).

The put options granted to Mr. Christopher Kane on 29% of the brand's capital, initially recognized in "Other financial liabilities" with an offsetting entry to "Equity attributable to owners of the parent", have been derecognized and Kering's interest in Christopher Kane has been reduced to 51% (from 80% previously).

Changes in scope of consolidation during 2018 are presented in full in Note 36 – List of consolidated subsidiaries as of December 31, 2018, to the consolidated financial statements.

3.2 Creative changes at Bottega Veneta

On June 15, 2018, Bottega Veneta announced that it had appointed Daniel Lee as its new Creative Director with effect from July 1, 2018, replacing Tomas Maier who had been with the Italian House since 2001.

3.3 Bond redemptions

On March 26, 2018, Kering announced the success of its offer to redeem bonds maturing in 2019, 2021 and 2022 for an aggregate nominal amount of €405 million (excluding accrued interest). On September 28, 2018, Kering redeemed more bonds maturing in 2019, 2020, 2021 and 2022 for an aggregate nominal amount of €370 million (excluding accrued interest). The bonds were redeemed as part of the Group's strategy to actively manage its liquidity and optimize its financing structure (see Note 29 – Borrowings and debt, to the consolidated financial statements).

3.4 Stock repurchase program

On October 29, 2018, Kering announced that it intended to repurchase up to 1.0% of its share capital over the following 12 months under the stock repurchase program authorized at the April 26, 2018 Annual General Meeting (see Note 25 – Equity, to the consolidated financial statements). An agreement was signed with an investment services provider to put in place a first tranche of the repurchase program covering a maximum volume of 631,000 shares (corresponding to approximately 0.5% of the share capital), up to an amount of €300 million and with a maximum price per share of €480. The purchases will be carried out over a period not exceeding four months, and the purchased shares will subsequently be canceled.

3.5 E-commerce internalization strategy

As part of new developments in its digital strategy, Kering announced on November 26, 2018 that after a highly successful and fruitful seven-year partnership with Yoox Net-à-Porter (YNAP), the e-commerce activities handled since 2012 through the YNAP joint venture will transition back to the Group during the first half of 2020.

3.6 Appointments and corporate governance at Kering

During 2018, Kering's Board of Directors appointed two new members: Ginevra Elkann, replacing Laurence Boone following her appointment as Chief Economist of the OECD; and Financière Pinault, a corporate director represented by Héloïse Temple-Boyer, replacing Patricia Barbizet. Kering's shareholders will be invited to ratify these two appointments at the next Annual General Meeting on April 24, 2019.

On August 20, 2018, Kering appointed Patrick Pruniaux, Chief Executive Officer of Ulysse Nardin, as CEO of Girard-Perregaux. In his new role, Mr. Pruniaux, who continues to serve as CEO of Ulysse Nardin, heads up the Group's Swiss Luxury Watches Houses and reports to Albert Bensoussan, Chief Executive Officer of Kering's Watches and Jewelry Division.

Also during the year, Kering strengthened its organization in Greater China by appointing Jinqing Cai as President of Kering Greater China, effective from September 10, 2018.

Note 4 – Discontinued operations

In accordance with IFRS 5, the Group measured these disposal groups at the lower of their carrying amount and fair value less disposal costs.

For all periods presented, the net income or loss from discontinued operations is shown on a separate line of the income statement within "Net income from discontinued operations". Similarly, cash flows relating to discontinued operations are shown on a separate line of the statement of cash flows. Discontinued operations include PUMA, Stella McCartney, Volcom and Christopher Kane.

In the statement of financial position as of December 31, 2018, the assets and liabilities relating to the discontinued operations are presented on separate lines, without restatement for previous periods. Discontinued operations include PUMA, Stella McCartney, Volcom and Christopher Kane.

4.1 Impact on the consolidated income statement

(in € millions)	2018	2017
Revenue	**1,949.5**	**4,661.8**
Cost of sales	(979.7)	(2,444.9)
Gross margin	**969.8**	**2,216.9**
Payroll expenses	(275.2)	(645.8)
Other recurring operating income and expenses	(547.0)	(1,313.8)
Recurring operating income	**147.6**	**257.3**
Other non-recurring operating income and expenses	(175.2)	(77.5)
Operating income (loss)	**(27.6)**	**179.8**
Finance costs, net	(26.4)	(22.5)
Income (loss) before tax	**(54.0)**	**157.3**
Income tax	(29.1)	(40.2)
Share in earnings (losses) of equity-accounted companies	(0.9)	1.6
Net gain (loss) on disposal of discontinued operations	1,179.2	(5.5)
Net income	**1,095.2**	**113.2**
o/w attributable to owners of the parent	1,084.3	56.9
o/w attributable to non-controlling interests	10.9	56.3

The Group's relinquishment of control of PUMA following the distribution of the stock dividend gave rise to a net gain of €1,181 million in 2018. The "Other non-recurring operating income and expenses" line includes impairment losses relating to Volcom and Christopher Kane.

In 2018, PUMA accounted for the greatest share of "Net income from discontinued operations":

PUMA

(in € millions)	2018 (1)	2017
Revenue	**1,462.0**	**4,151.7**
Recurring operating income	**130.0**	**243.9**
as a % of revenue	***8.9%***	***5.9%***
EBITDA	154.3	314.4
as a % of revenue	*10.6%*	*7.6%*
Gross operating investments	29.4	124.3

(1) Contribution from January 1 up to the date on which the Group relinquished control over PUMA, i.e., May 16, 2018.

4.2 Impact on the consolidated statement of cash flows

(in € millions)	2018	2017
Net cash from (used in) operating activities	(193.8)	238.2
Net cash used in investing activities	(71.2)	(131.1)
Net cash from (used in) financing activities	98.0	(14.1)
Impact of exchange rate variations	2.6	(7.7)
Net change in cash and cash equivalents	**(164.4)**	**85.3**
Opening cash and cash equivalents and changes in intra-Group cash flows	(214.7)	2.4
Net cash from (used in) discontinued operations	**(379.1)**	**87.7**

4.3 Impact on the consolidated statement of financial position

As of December 31, 2018, "Assets held for sale" and "Liabilities associated with assets held for sale" concern the operations of Stella McCartney, Volcom and Christopher Kane, which are in the process of being sold.

(in € millions)	2018	2017
Assets held for sale	539.1	-
Liabilities associated with assets held for sale	188.6	-

Note 5 – 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 approach used by the Group's chief operating decision maker.

Net recurring charges to depreciation, amortization and provisions on non-current operating assets reflect net charges to depreciation, amortization and provisions on intangible assets and property, plant and equipment recognized 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.

5.1 Information by segment

(in € millions)	Gucci	Yves Saint Laurent
2018		
Revenue[1]	8,284.9	1,743.5
Recurring operating income (loss)	**3,275.2**	**459.4**
Recurring charges to depreciation, amortization and provisions on non-current operating assets	239.4	43.4
Other non-cash recurring operating income and expenses	(199.0)	(38.3)
Purchases of property, plant and equipment and intangible assets, gross	312.7	89.0
Segment assets as of December 31, 2018	**9,401.3**	**1,758.5**
Segment liabilities as of December 31, 2018	**2,812.0**	**505.4**
2017[2]		
Revenue[1]	6,211.2	1,501.4
Recurring operating income (loss)	**2,124.1**	**376.9**
Recurring charges to depreciation, amortization and provisions on non-current operating assets	206.9	45.2
Other non-cash recurring operating income and expenses	(95.9)	0.4
Purchases of property, plant and equipment and intangible assets, gross	248.5	73.0
Segment assets as of December 31, 2017[2]	**8,790.0**	**1,534.9**
Segment liabilities as of December 31, 2017[2]	**2,307.8**	**399.0**

(1) Non-Group.
(2) The data shown for 2017 have been restated for PUMA, Stella McCartney, Volcom and Christopher Kane, in accordance with IFRS 5.

5.2 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 analyzed based on the revenue generated in each region, and not based on their geographic location.

(in € millions)	2018	2017[1]
Western Europe	4,471.5	3,625.0
North America	2,704.7	2,050.5
Japan	1,157.5	961.3
Sub-total – mature markets	**8,333.7**	**6,636.8**
Eastern Europe, Middle East and Africa	725.1	624.5
South America	186.1	147.1
Asia-Pacific (excluding Japan)	4,420.3	3,407.5
Sub-total – emerging markets	**5,331.5**	**4,179.1**
Revenue	**13,665.2**	**10,815.9**

(1) Revenue data by geographic area for 2017 have been restated for PUMA, Stella McCartney, Volcom and Christopher Kane, which were reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

Bottega Veneta	Other Houses	Total Houses	Corporate and other	Total
1,109.1	2,109.2	13,246.7	418.5	13,665.2
242.0	**214.4**	**4,191.0**	**(247.2)**	**3,943.8**
42.3	82.4	407.5	84.4	491.9
(38.4)	(39.9)	(315.6)	246.8	(68.8)
68.6	140.0	610.3	217.7	828.0
868.6	**2,921.1**	**14,949.5**	**1,269.7**	**16,219.2**
244.0	**717.0**	**4,278.4**	**587.2**	**4,865.6**
1,176.3	1,624.4	10,513.3	302.6	10,815.9
294.0	**100.2**	**2,895.2**	**(204.5)**	**2,690.7**
43.3	61.0	356.4	75.7	432.1
(32.0)	(17.3)	(144.8)	122.2	(22.6)
51.0	98.5	471.0	134.2	605.2
859.7	**2,757.4**	**13,942.0**	**1,076.9**	**15,018.9**
241.3	**583.7**	**3,531.8**	**470.0**	**4,001.8**

5.3 Reconciliation of segment assets and liabilities

(in € millions)	Dec. 31, 2018	Dec. 31, 2017 (1)
Goodwill	2,399.2	2,436.9
Brands and other intangible assets	7,393.6	7,282.5
Property, plant and equipment	2,228.5	1,939.2
Other non-current assets	34.2	15.2
Non-current segment assets	**12,055.5**	**11,673.8**
Inventories	2,414.7	1,848.1
Trade receivables	849.5	788.2
Other current assets	899.5	708.8
Segment assets	**16,219.2**	**15,018.9**
Investments in equity-accounted companies	1,074.7	48.6
Non-current financial assets	336.3	364.3
Deferred tax assets	830.1	964.6
Current tax receivables	90.6	78.6
Other current financial assets	60.9	155.6
Cash and cash equivalents	2,216.6	2,136.6
Assets held for sale (1)	539.1	6,810.2
TOTAL ASSETS	**21,367.5**	**25,577.4**

(1) *For the purposes of presenting the segment information, the segment assets of PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 are shown on the line "Assets held for sale".*

(in € millions)	Dec. 31, 2018	Dec. 31, 2017 (1)
Deferred tax liabilities on brands	1,520.9	1,526.1
Trade payables	745.8	554.2
Other current liabilities	2,598.9	1,921.5
Segment liabilities	**4,865.6**	**4,001.8**
Total equity	10,061.6	12,626.4
Non-current borrowings	3,171.6	4,245.5
Other non-current financial liabilities	3.0	0.7
Other non-current liabilities	40.0	48.8
Non-current provisions for pensions and other post-employment benefits	88.0	125.7
Other non-current provisions	14.2	55.5
Other deferred tax liabilities	57.7	86.8
Current borrowings	756.4	939.7
Other current financial liabilities	553.2	367.6
Current provisions for pensions and other post-employment benefits	8.6	10.7
Other current provisions	255.7	182.4
Current tax liabilities	1,303.3	815.4
Liabilities associated with assets held for sale (1)	188.6	2,070.4
TOTAL EQUITY AND LIABILITIES	**21,367.5**	**25,577.4**

(1) *For the purposes of presenting the segment information, the segment liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 are shown on the line "Assets held for sale".*

Note 6 – Revenue

(in € millions)	2018	2017 [(1)]
Net sales of goods	13,488.4	10,649.8
Net sales of services	15.1	-
Revenue from concessions and licenses	134.1	123.3
Other revenue	27.6	42.8
TOTAL	**13,665.2**	**10,815.9**

(1) Revenue data relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

Note 7 – Payroll expenses and headcount

7.1 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 8 – Share-based payment) and expenses relating to employee benefits recognized in recurring operating income (as detailed in Note 26 – Employee benefits).

(in € millions)	2018	2017 [(1)]
Total Houses	(1,732.7)	(1,515.4)
Corporate and other	(347.7)	(282.4)
TOTAL	**(2,080.4)**	**(1,797.8)**

(1) Payroll expense items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

7.2 Average headcount on a full-time equivalent basis by activity

	2018	2017 [(1)]
Total Houses	27,057	22,781
Corporate and other	3,538	3,028
TOTAL	**30,595**	**25,809**

(1) Average headcount on a full-time equivalent basis for 2017 has been restated for PUMA, Stella McCartney, Volcom and Christopher Kane, in accordance with IFRS 5.

7.3 Headcount on the payroll at year-end by activity

	Dec. 31, 2018	Dec. 31, 2017 [(1)]
Total Houses	30,925	25,549
Corporate and other	3,870	3,348
TOTAL	**34,795**	**28,897**

(1) Headcount on the payroll at year-end for 2017 has been restated for PUMA, Stella McCartney, Volcom and Christopher Kane, in accordance with IFRS 5.

Note 8 – Share-based payment

Kering Monetary Units (KMUs)

Since 2013, the Group has granted certain employees Kering Monetary Units (KMUs), namely long-term incentive plans based on synthetic shares that are systematically settled in cash.

The Group recognizes 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 intrinsic movements in the Kering share and in comparison with the average increase in a basket of seven stocks from the luxury industry only (since the deconsolidation of PUMA in first-half 2018).

The terms and conditions of outstanding KMU plans, with respect to both continuing operations and discontinued operations (PUMA, Stella McCartney, Volcom and Christopher Kane), are as follows:

Plans based on Kering Monetary Units	2014 Plan	2015 Plan	2016 Plan	2017 Plan	2018 Plan
Grant date	04/22/2014	05/22/2015	05/20/2016	05/29/2017	05/18/2018
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	301	316	323	319	331
Number initially granted	122,643	114,997	126,974	111,000	64,281
Number of existing KMUs as of Jan. 1, 2018	27,647	92,160	131,790	108,382	-
Number awarded in 2018					64,281
Number forfeited in 2018	13	5,271	17,863	14,256	
Number exercised in 2018	27,458	83,682			
Number of existing KMUs as of Dec. 31, 2018	176	3,207	113,927	94,126	64,281
Number exercisable as of Dec. 31, 2018	176	3,207	N/A	N/A	N/A
Fair value at grant date *(in €)*	144.00	167.00	166.00	249.00	581.0
Weighted average price of KMUs paid *(in €)*	459.71	719.26	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 2018, the Group recognized a €102.8 million payroll expense within recurring operating income in respect of vested KMUs (€106.2 million recognized in 2017 for continuing operations). The 2014 and 2015 KMU plans also gave rise to a cash outflow of €100.7 million in 2018 (€17.3 million in 2017 for continuing operations).

Note 9 – Recurring operating income

Recurring operating income and EBITDA are key indicators of the Group's operating performance.

9.1 Recurring operating income by activity

(in € millions)	2018	2017 (1)
Total Houses	4,191.0	2,895.2
Corporate and other	(247.2)	(204.5)
TOTAL	**3,943.8**	**2,690.7**

(1) Operating income relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

9.2 Reconciliation of recurring operating income with EBITDA

(in € millions)	2018	2017 (1)
Recurring operating income	3,943.8	2,690.7
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	491.9	432.1
EBITDA	**4,435.7**	**3,122.8**

(1) EBITDA relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 has been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

Note 10 – Other non-recurring operating income and expenses

(in € millions)	2018	2017 (1)
Non-recurring operating expenses	**(227.8)**	**(205.6)**
Asset impairment	(140.4)	(148.5)
Restructuring costs	(53.2)	(25.7)
Capital losses on disposals	(0.4)	-
Other	(33.8)	(31.4)
Non-recurring operating income	**5.4**	**41.4**
Capital gains on disposals	0.6	31.2
Other	4.8	10.2
TOTAL	**(222.4)**	**(164.2)**

(1) Other non-recurring operating income and expense items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

Other non-recurring operating income and expenses consist of unusual items that could distort the assessment of each House's financial performance.

Other non-recurring operating income and expenses represented a net expense of €222.4 million in 2018, chiefly comprising:

- impairment of goodwill relating to Ulysse Nardin and Brioni (Other Houses) for €88.3 million, with no impact on consolidated cash;
- impairment of assets for €52.1 million, mainly relating to Houses within the Couture and Leather Goods Division;
- costs of restructuring industrial and sales operations for €53.2 million, mainly relating to Houses within the Couture and Leather Goods Division;
- other costs, including costs associated with the departure of Tomas Maier, Bottega Veneta's Creative Director.

In 2017, other non-recurring operating income and expenses represented a net expense of €164.2 million, chiefly comprising:

- impairment of a brand and certain items of goodwill with respect to Other Houses (Ulysse Nardin, Sowind and Brioni) for €115.0 million, with no impact on consolidated cash;
- impairment of assets for €33.5 million, mainly within the Houses;
- a net capital gain on a building amounting to €31.2 million;
- costs of restructuring industrial and sales operations, mainly within the Houses, for €25.7 million.

Note 11 – Finance costs, net

(in € millions)	2018	2017 [1]
Cost of net debt	**(77.4)**	**(110.7)**
Income from cash and cash equivalents	6.4	4.4
Finance costs at amortized cost	(84.2)	(114.3)
Gains and losses on cash flow hedging derivatives	0.4	(0.8)
Other financial income and expenses	**(129.9)**	**(109.5)**
Net gains and losses on financial assets measured at fair value	(0.3)	(6.3)
Foreign exchange gains and losses	(6.2)	(3.7)
Ineffective portion of cash flow and fair value hedges	(89.8)	(79.3)
Gains and losses on derivative instruments not qualifying for hedge accounting (foreign exchange and interest rate hedges)	0.0	0.8
Impact of discounting assets and liabilities	(2.1)	(2.1)
Other finance costs	(31.5)	(18.9)
TOTAL	**(207.3)**	**(220.2)**

(1) Net finance costs for PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

Note 12 – Income taxes

12.1 Analysis of income tax expense

12.1.1 Income tax expense and effective tax rate

(in € millions)	2018	2017 [1]
Income before tax	**3,514.1**	**2,306.3**
Current tax expense	(1,062.4)	(744.1)
Deferred tax income (expense)	194.7	193.3
Income tax expense	**(867.7)**	**(550.8)**
Effective tax rate	**24.7%**	**23.9%**
Other non-recurring operating income and expenses	(222.4)	(164.2)
Recurring income before tax	**3,736.5**	**2,470.5**
Tax income on other non-recurring operating income and expenses	**36.3**	**6.3**
Tax expense on recurring income	**(904.0)**	**(557.1)**
Effective tax rate on recurring income	**24.2%**	**22.6%**

(1) The data shown for 2017 are restated for PUMA, Stella McCartney, Volcom and Christopher Kane, which have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

The increase in the effective tax rate on recurring income is broadly the result of significantly 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 and the reduction in lead times for designing and manufacturing products.

In future periods, this operational reorganization is expected to lead to a gradual increase in the effective tax rate on recurring income.

In connection with the tax investigation opened in Milan in 2017, an audit unit of the Italian tax authorities completed a tax audit and delivered a report on January 25, 2019 alleging that Luxury Goods International (LGI), a Swiss subsidiary of Kering, had conducted business activities in Italy that should have resulted in payment of Italian income tax, an assertion that Kering contests.

The audit report covers earnings for the years 2011 through 2017 and the estimated claimable tax represents approximately €1,400 million. The audit report will now be reviewed by the tax authority unit in charge of assessing the report's findings, which will make its final determination. Kering contests the findings of the audit report in terms of both substance and amount. The Group is confident about the proceedings currently underway and will continue to fully cooperate with the Italian tax authorities in complete transparency in order to defend all of its rights.

At this stage of the proceedings, Kering does not have the necessary information to record a specific accounting provision based on a reliable estimate of the tax exposure. The Group strictly monitors its tax positions and adopts a prudent approach to assessing its tax exposure, particularly regarding its transfer pricing policy.

12.1.2 Reconciliation of the tax rate

(as a % of pre-tax income)	2018	2017 (1)
Tax rate applicable in France	**34.4%**	**34.4%**
Impact of taxation of foreign subsidiaries	-20.4%	-21.6%
Theoretical tax rate	**14.0%**	**12.8%**
Effect of items taxed at reduced rates	0.0%	0.0%
Effect of permanent differences	0.0%	1.1%
Effect of unrecognized temporary differences	0.4%	0.4%
Effect of unrecognized tax losses carried forward	-1.9%	0.0%
Effect of changes in tax rates	-0.4%	-1.6%
Other	12.6%	11.2%
Effective tax rate	**24.7%**	**23.9%**

(1) The data shown for 2017 are restated for PUMA, Stella McCartney, Volcom and Christopher Kane, which have been reclassified to "Net income from discontinued operations", in accordance with IFRS 5.

In 2018, 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 2018 and 2017, "Other" relates mainly to the CVAE tax on value-added in France, the IRAP regional production tax in Italy, and tax reassessments.

12.2 Tax assets and liabilities

12.2.1 Current tax receivables/liabilities

(in € millions)	Dec. 31, 2017	Income tax expense	Cash outflows relating to operating activities	Cash flow relating to discontinued operations (1)	Assets held for sale (2)	Other (3)	Dec. 31, 2018
Current tax receivables	78.6						90.6
Current tax liabilities	(815.4)						(1,303.3)
Net current tax liabilities	**(736.8)**	**(1,062.4)**	**562.0**	**(14.3)**	**30.5**	**8.3**	**(1,212.7)**

(1) Corresponding to cash flow items relating to PUMA, Stella McCartney, Volcom and Christopher Kane until their respective dates of classification as discontinued operations.
(2) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).
(3) "Other" includes changes in Group structure and exchange rates, and reclassifications of statement of financial position items.

12.2.2 Deferred tax assets and liabilities

(in € millions)	Dec. 31, 2017	Income tax expense	Assets held for sale (1)	Other (2)	Other items recognized in equity	Dec. 31, 2018
Brands	(2,625.4)	7.2	1,097.8	(0.5)		(1,520.9)
Other intangible assets	24.7	(12.9)	(8.3)	(8.5)		(5.0)
Property, plant and equipment	30.2	(8.9)	1.4	1.3		24.0
Other non-current assets	58.3	7.2	(24.6)	(28.0)		12.9
Other current assets	467.6	100.3	(45.8)	3.9		526.0
Equity	(0.4)					(0.4)
Borrowings	(12.3)	1.0	12.4	(4.2)		(3.1)
Provisions for pensions and other post-employment benefits	105.0	43.7	(1.6)	(5.2)	(2.4)	139.5
Other provisions	9.1	4.1	(12.9)	25.3		25.6
Other current liabilities	107.8	5.7	(133.1)	(1.7)	6.8	(14.5)
Recognized tax losses and tax credits	87.8	47.3	(63.1)	(4.6)		67.4
Net deferred tax assets (liabilities)	**(1,747.6)**	**194.7**	**822.2**	**(22.2)**	**4.4**	**(748.5)**
Deferred tax assets	964.6					830.1
Deferred tax liabilities	(2,712.2)					(1,578.6)

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).
(2) "Other" includes changes in Group structure and exchange rates, and deferred tax item reclassifications.

12.3 Unrecognized deferred tax assets

Changes in and maturities of tax losses and tax credits in respect of continuing operations for which no deferred tax assets were recognized in the statement of financial position can be analyzed as follows:

(in € millions)

As of January 1, 2017	**2,240.9**
Losses generated during the year	497.0
Losses utilized 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**
Losses generated during the year	212.4
Losses utilized and time-barred during the year	(279.8)
Assets held for sale	(380.5)
Effect of changes in Group structure and exchange rates	(56.7)
As of December 31, 2018	**2,006.5**
Ordinary tax loss carry-forwards expiring in	**617.4**
Less than five years	423.9
More than five years	193.5
Indefinite tax loss carry-forwards	**1,389.1**
TOTAL	**2,006.5**

There are no unrecognized deferred taxes in respect of temporary differences relating to investments in subsidiaries, associates and joint ventures.

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 8 – Share-based payment). Earnings are adjusted for the theoretical interest charge, net of tax, on convertible and exchangeable instruments.

13.1 Earnings per share

2018

(in € millions)	Consolidated Group	Continuing operations	Discontinued operations
Net income attributable to ordinary shareholders	**3,714.9**	**2,630.6**	**1,084.3**
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226	126,332,226
Weighted average number of treasury shares	(376,188)	(376,188)	(376,188)
Weighted average number of ordinary shares	**125,956,038**	**125,956,038**	**125,956,038**
Basic earnings per share *(in €)*	**29.49**	**20.88**	**8.61**
Net income attributable to ordinary shareholders	**3,714.9**	**2,630.6**	**1,084.3**
Convertible and exchangeable instruments	-	-	-
Diluted net income attributable to owners of the parent	**3,714.9**	**2,630.6**	**1,084.3**
Weighted average number of ordinary shares	125,956,038	125,956,038	125,956,038
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	**125,956,038**	**125,956,038**	**125,956,038**
Fully diluted earnings per share *(in €)*	**29.49**	**20.88**	**8.61**

2017

(in € millions)	Consolidated Group	Continuing operations	Discontinued operations [(1)]
Net income attributable to ordinary shareholders	**1,785.6**	**1,728.7**	**56.9**
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 per share *(in €)*	**14.17**	**13.72**	**0.45**
Net income attributable to ordinary shareholders	**1,785.6**	**1,728.7**	**56.9**
Convertible and exchangeable instruments	-	-	-
Diluted net income attributable to owners of the parent	**1,785.6**	**1,728.7**	**56.9**
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 per share *(in €)*	**14.17**	**13.72**	**0.45**

(1) Income and expense items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Discontinued operations", in accordance with IFRS 5.

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 10 – Other non-recurring operating income and expenses), reported net of tax and non-controlling interests.

(in € millions)	2018	2017 (1)
Net income attributable to ordinary shareholders	**2,630.6**	**1,728.7**
Other non-recurring operating income and expenses	(222.4)	(164.2)
Income tax on other non-recurring operating income and expenses	36.3	6.3
Net income excluding non-recurring items	**2,816.7**	**1,886.6**
Weighted average number of ordinary shares outstanding	126,332,266	126,332,226
Weighted average number of treasury shares	(376,188)	(332,715)
Weighted average number of ordinary shares	**125,956,038**	**125,999,511**
Basic earnings per share excluding non-recurring items *(in €)*	**22.36**	**14.97**
Net income excluding non-recurring items	**2,816.7**	**1,886.6**
Convertible and exchangeable instruments	-	-
Diluted net income attributable to owners of the parent	**2,816.7**	**1,886.6**
Weighted average number of ordinary shares	125,956,038	125,999,511
Potentially dilutive ordinary shares	-	-
Weighted average number of diluted ordinary shares	**125,956,038**	**125,999,511**
Fully diluted earnings per share *(in €)*	**22.36**	**14.97**

(1) Income and expense items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Discontinued operations", in accordance with IFRS 5.

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;
- gains and losses on cash flow hedging instruments;
- gains and losses on the remeasurement and disposal of financial assets at fair value;
- components relating to the measurement of employee benefit obligations: unrecognized 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	(70.6)		(70.6)
Cash flow hedges	(148.8)	6.8	(142.0)
– change in fair value	*(53.3)*		
– gains and losses reclassified to income	*(95.5)*		
Financial assets at fair value (IFRS 9)	(13.3)		(13.3)
– change in fair value	*(13.7)*		
– gains (losses) on financial assets at fair value (IFRS 9)	*0.4*		
Share in other comprehensive income of equity-accounted companies	12.0		12.0
Actuarial gains and losses	12.0	(2.4)	9.6
Other comprehensive income (loss) for 2018	**(208.7)**	**4.4**	**(204.3)**

(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 (IAS 39)	3.9		3.9
– change in fair value	*3.9*		
– gains and losses reclassified to income (IAS 39)	-		
Actuarial gains and losses	22.6	(2.5)	20.1
Other comprehensive income (loss) for 2017	**(173.6)**	**(6.7)**	**(180.3)**

A negative amount on the "Gains and losses reclassified to income" line item corresponds to a gain recognized in the income statement. Conversely, a positive amount on the "Gains and losses reclassified to income" line item corresponds to a loss recognized in the income statement.

Gains and losses on cash flow hedging instruments reclassified to income are recognized under gross margin.

Note 15 – Non-controlling interests

15.1 Net income attributable to non-controlling interests

(in € millions)	2018	2017
Continuing operations	**27.7**	**23.2**
Luxury Houses	27.7	25.9
Corporate and other	-	(2.7)
Discontinued operations[(1)]	**10.9**	**56.3**
TOTAL	**38.6**	**79.5**

(1) Net income and expense items attributable to the non-controlling interests in PUMA, Stella McCartney and Christopher Kane have been reclassified to "Discontinued operations", in accordance with IFRS 5.

15.2 Non-controlling interests in equity

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Luxury Houses	130.2	129.8
Sport & Lifestyle	-	523.4
Corporate and other	25.5	25.0
TOTAL	**155.7**	**678.2**

Note 16 – Goodwill

16.1 Changes in goodwill

(in € millions)	Gross	Impairment losses	Net
Goodwill as of January 1, 2017	**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**
Assets held for sale[1]	(1,612.9)	628.7	(984.2)
Acquisitions	16.4		16.4
Impairment losses		(60.6)	(60.6)
Translation adjustments	13.5	(5.9)	7.6
Other movements	(21.3)	20.1	(1.2)
Goodwill as of December 31, 2018	**2,803.6**	**(404.4)**	**2,399.2**

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

The Group did not carry out any material acquisitions in 2018 or 2017. Note 19.2 – Impairment losses recognized during the period provides details of goodwill impairment recognized in 2018 and 2017.

16.2 Goodwill by activity

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Luxury Houses	2,394.5	2,439.3
Sport & Lifestyle	-	977.2
Corporate and other	4.7	4.7
TOTAL	**2,399.2**	**3,421.2**

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, 2018	**10,626.0**	**63.2**	**469.8**	**11,159.0**
Assets held for sale[1]	(3,813.2)		(57.4)	(3,870.6)
Acquisitions		58.1	189.4	247.5
Amortization			(121.2)	(121.2)
Impairment losses	(31.2)			(31.2)
Translation adjustments	8.1		2.9	11.0
Other movements	0.1	0.5	(1.5)	(0.9)
Carrying amount as of December 31, 2018	**6,789.8**	**121.8**	**482.0**	**7,393.6**
Gross value as of December 31, 2018	6,934.8	121.8	1,138.2	8,194.8
Accumulated amortization and impairment as of December 31, 2018	(145.0)		(656.2)	(801.2)

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

(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)
Amortization			(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 amortization and impairment as of December 31, 2017	(172.9)		(629.0)	(801.9)

Note 19.2 – Impairment losses recognized during the period provides details of goodwill impairment recognized in 2018 and 2017.

17.2 Brands by activity

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Luxury Houses	6,789.8	6,812.9
Sport & Lifestyle	-	3,813.1
TOTAL	**6,789.8**	**10,626.0**

Note 18 – Property, plant and equipment

(in € millions)	Land and buildings	Plant and equipment	Other PP&E	Total
Carrying amount as of January 1, 2018	**771.5**	**1,205.0**	**291.1**	**2,267.6**
Assets held for sale[1]	(104.6)	(124.3)	(98.2)	(327.1)
Changes in Group structure	-	1.6	0.6	2.2
Acquisitions	18.4	484.9	115.8	619.1
Disposals	(3.2)	(4.8)	(0.5)	(8.5)
Depreciation	(26.4)	(354.0)	(1.4)	(381.8)
Translation adjustments	17.4	22.8	1.9	42.1
Other movements	40.2	160.7	(186.0)	14.9
Carrying amount as of December 31, 2018	**713.3**	**1,391.9**	**123.3**	**2,228.5**
o/w gross value	942.6	3,117.3	126.4	4,186.3
o/w depreciation and impairment	(229.3)	(1,725.4)	(3.1)	(1,957.8)
Carrying amount as of December 31, 2018	**713.3**	**1,391.9**	**123.3**	**2,228.5**
o/w assets owned outright	647.9	1,392.9	123.3	2,164.1
o/w assets held under finance leases	65.4	(1.0)		64.4

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

(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

Charges to depreciation are recognized 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 Impairment tests and main assumptions adopted

	Goodwill		Brands			
2018	Net carrying amount *(in € millions)*	Discount rate (before tax)	Net carrying amount *(in € millions)*	Discount rate (before tax)	Perpetual growth rate	Business plan time frame
Gucci	1,593.9	9.3%	4,800.0	9.3%	3.0%	5 years
Other Houses	800.6	8.8%-10.9%	1,989.8	8.6%-11.1%	3.0%	5 or 10 years
Corporate and other	4.7	N/A	N/A	N/A	N/A	N/A
TOTAL	**2,399.2**		**6,789.8**			

	Goodwill		Brands			
2017	Net carrying amount *(in € millions)*	Discount rate (before tax)	Net carrying amount *(in € millions)*	Discount rate (before tax)	Perpetual growth rate	Business plan time frame
Gucci	1,590.5	8.3%	4,800.0	8.1%	3.0%	5 years
Other Houses	848.8	7.3%-11.4%	2,012.9	8.8%-11.7%	3.0%	5 or 10 years
Sport & Lifestyle	977.2	12.5%-12.9%	3,813.1	12.2%-13.2%	2.25%	5 or 10 years
Corporate and other	4.7	N/A	N/A	N/A	N/A	N/A
TOTAL	**3,421.2**		**10,626.0**			

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 a longer time frame, namely ten years. These CGUs currently being repositioned are Boucheron, Brioni, Pomellato, Sowind, Qeelin and Ulysse Nardin.

In the case of the Gucci brand, the value based on future royalty revenue receivable on the assumption that the brand will be operated under license by a third party was calculated using a royalty rate of 15.0%.

Sensitivity to changes in key assumptions is shown below:

(in € millions)		Impairment loss due to:		
	Value of net assets tested	10 basis-point increase in post-tax discount rate	10 basis-point decrease in perpetual growth rate	10 basis-point decrease in cash flows
Total Houses (including Gucci)	11,117	(12)	(8)	-
Gucci brand	4,800	-	-	N/A

19.2 Impairment losses recognized during the period

Based on the impairment tests carried out by the Group in 2018, an impairment loss amounting to €88.3 million was recognized against a brand and an item of goodwill within Other Houses.

Despite improved performances from the Group's watchmaking brands, the write-down was taken against Ulysse Nardin 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.

Asset impairment tests carried out in 2017 had already led the Group to recognize an impairment loss against Sowind, Ulysse Nardin and Brioni in a total amount of €115.0 million. In Sport & Lifestyle activities, the Group had also recognized a €60.0 million impairment loss against the Volcom brand.

This expense is recognized in the income statement under "Other non-recurring operating income and expenses" (see Note 10 – 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, 2018	Dec. 31, 2017
PUMA (15.85%)	1,044.7	-
Other investments in equity-accounted companies	30.0	48.6
TOTAL	**1,074.7**	**48.6**

The market value of the Group's interest in PUMA amounts to €1,011.4 million, based on a closing share price of €427 as of December 28, 2018.

As of December 31, 2018, other investments in equity-accounted companies mainly comprised shares in Altuzarra, WG Alligator Farm and Wall's Gator Farm.

Note 21 – Non-current financial assets

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Non-consolidated investments	67.0	84.1
Derivative financial instruments	1.5	0.7
Financial assets at fair value	-	30.0
Loans and receivables due from non-consolidated investments	11.4	10.8
Deposits and guarantees	175.5	171.9
Other	80.9	66.8
TOTAL	**336.3**	**364.3**

Note 22 – Inventories

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Commercial inventories	3,142.4	3,269.4
Industrial inventories	687.4	585.1
Gross amount	**3,829.8**	**3,854.5**
Allowances	(1,415.1)	(1,155.4)
Carrying amount	**2,414.7**	**2,699.1**

Movements in allowances	2018	2017
As of January 1	**(1,155.4)**	**(942.1)**
Additions	(360.4)	(388.4)
Reversals	38.6	124.2
Assets held for sale(1)	79.7	-
Changes in Group structure	0.2	(0.5)
Translation adjustments	(16.1)	51.4
Other movements	(1.7)	-
As of December 31	**(1,415.1)**	**(1,155.4)**

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

No inventories were pledged to secure liabilities as of December 31, 2018 or December 31, 2017.

Changes in gross inventories recognized during the period under "Cost of sales" represented an increase of €845.3 million (increase of €553.4 million in 2017).

Note 23 – Trade receivables

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Trade receivables	877.4	1,442.9
Allowances	(27.9)	(76.4)
Carrying amount	**849.5**	**1,366.5**

Movements in allowances	2018	2017
As of January 1	**(76.4)**	**(82.3)**
Net (additions)/reversals	2.2	1.9
Assets held for sale(1)	46.7	-
Changes in Group structure	-	-
Translation adjustments	(0.4)	4.0
Other movements	-	-
As of December 31	**(27.9)**	**(76.4)**

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

Allowances are calculated based on the probability of recovering the receivables concerned. Trade receivables break down by age as follows:

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Not past due	719.4	1,183.5
Less than one month past due	115.7	142.6
One to six months past due	23.0	59.8
More than six months past due	19.3	57.0
Allowance for doubtful receivables	(27.9)	(76.4)
Carrying amount	**849.5**	**1,366.5**

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, 2017	Working capital cash flows	Other cash flows	Cash flows relating to discontinued operations (1)	Assets held for sale (2)	Changes in Group structure	Translation adjustments and other	Dec. 31, 2018
Inventories	2,699.1	526.2		(3.7)	(846.5)	5.0	34.6	2,414.7
Trade receivables	1,366.5	5.1		(17.4)	(560.0)		55.3	849.5
Other financial assets and liabilities	(212.0)		(192.2)		50.8		(138.9)	(492.3)
Current tax receivables/payables	(736.8)		(500.4)	(14.3)	30.5	(0.1)	8.4	(1,212.7)
Trade payables	(1,240.7)	(191.5)		13.2	673.1	(0.1)	0.2	(745.8)
Other	(1,325.8)	(292.8)	(81.9)	(26.3)	112.3	(0.3)	(84.6)	(1,699.4)
Other current assets and liabilities	**550.3**	**47.0**	**(774.5)**	**(48.5)**	**(539.8)**	**4.5**	**(125.0)**	**(886.0)**

(1) Corresponding to cash flow items relating to PUMA, Stella McCartney, Volcom and Christopher Kane until their respective dates of classification as discontinued operations.
(2) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

Note 25 – Equity

As of December 31, 2018, 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, 2017).

25.1 Kering treasury shares

Liquidity agreement

In 2018, the Group purchased 209,253 shares and sold 209,253 shares under the liquidity agreement. Accordingly, it held no treasury shares under this liquidity agreement as of December 31, 2018 or December 31, 2017.

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 financial broker.

Moreover, given the limit set by AMF declaration 2018-01 of July 2, 2018, effective as of January 1, 2019, the funds allocated to the liquidity agreement were reduced to €50.0 million as of January 1, 2019.

Stock repurchase program

Within the scope of the stock repurchase program authorized at the Annual General Meeting of April 26, 2018, the Group set up a stock repurchase agreement with an investment services provider on October 29, 2018. The agreement concerns a first tranche of up to 631,000 shares, representing approximately 0.5% of the share capital, up to an amount of €300 million and at a price not exceeding €480 per share. These purchases will be carried out over a maximum period of four months, and the purchased shares will subsequently be canceled.

In 2018, the Group purchased 429,017 shares, which it still held in treasury as of December 31, 2018.

25.2 Appropriation of 2018 net income and distribution of dividend

At its February 11, 2019 meeting, Kering's Board of Directors decided that it would ask shareholders to approve a €10.50 per-share cash dividend for 2018 at the Annual General Meeting to be held on April 24, 2019 to approve the financial statements for the year ended December 31, 2018.

An interim cash dividend of €3.50 per share was paid on January 17, 2019 pursuant to a decision by the Board of Directors on December 14, 2018.

If the final dividend is approved, the total cash dividend payout in 2019 with respect to 2018 will amount to €1,322.0 million, taking into account Kering shares held in treasury for the stock repurchase program.

The cash dividend paid for 2017 amounted to €6.00 per share (€757.7 million). The dividend payout for 2017 also included an exceptional stock dividend in the form of PUMA shares amounting to €4,514.5 million, corresponding to the number of PUMA shares distributed (10,523,276) valued at the opening share price on May 16, 2018 (€429.00).

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, 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 that 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.

- **Statutory dismissal compensation (TFR) – Italy**

The TFR (*Trattamento di Fine Rapporto*) plans in Italy were created by Law 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 or 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)	2018			Change of the period	
	Present value of obligation	Fair value of plan assets	Financial position	Other comprehensive income	Income statement
As of January 1	**292.0**	**155.6**	**136.4**	**53.7**	
Assets held for sale[(1)]	**(83.8)**	**(52.6)**	**(31.2)**		
Current service cost	12.5		12.5		(12.5)
Interest cost	2.0		2.0		(2.0)
Interest income on plan assets		0.8	(0.8)		0.8
Past service cost	(2.4)		(2.4)		2.4
Actuarial gains and losses	(12.6)	(0.6)	(12.0)	(12.0)	
Impact of changes in demographic assumptions	*(3.4)*		*(3.4)*	*(3.4)*	
Impact of changes in financial assumptions	*(6.1)*		*(6.1)*	*(6.1)*	
Impact of experience adjustments	*(3.1)*		*(3.1)*	*(3.1)*	
Return on plan assets (excluding interest income)		*(0.6)*	*0.6*	*0.6*	
Benefits paid	(10.0)	(6.9)	(3.1)		
Contributions paid by beneficiaries	5.0	5.0			
Contributions paid by employer		5.4	(5.4)		
Changes in Group structure	0.1		0.1		
Insurance contract	(0.9)	(0.9)			
Administrative expense		(0.4)	0.4		(0.4)
Translation adjustments	4.9	4.8	0.1		
As of December 31	**206.8**	**110.2**	**96.6**	**41.7**	**(11.7)**

(1) All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).

As of December 31, 2018, the present value of the benefit obligation amounted to €206.8 million, (end-2017: €292.0 million), breaking down as:

- €54.0 million in respect of wholly unfunded plans (€64.3 million as of end-2017);
- €152.8 million in respect of fully or partially funded plans (€227.7 million as of end-2017).

(in € millions)	2017				
				Change of the period	
	Present value of obligation	Fair value of plan assets	Financial position	Other comprehensive income	Income statement
As of January 1	**304.9**	**154.1**	**150.8**	**76.3**	
Current service cost	17.5		17.5		(17.5)
Curtailments and settlements	0.1		0.1		
Interest cost	2.9		2.9		(2.9)
Interest income on plan assets		1.5	(1.5)		1.5
Past service cost	(0.1)		(0.1)		0.1
Actuarial gains and losses	(18.0)	4.6	(22.6)	(22.6)	
Impact of changes in demographic assumptions	*0.2*		*0.2*	*0.2*	
Impact of changes in financial assumptions	*(12.6)*		*(12.6)*	*(12.6)*	
Impact of experience adjustments	*(5.6)*		*(5.6)*	*(5.6)*	
Return on plan assets (excluding interest income)		*4.6*	*(4.6)*	*(4.6)*	
Benefits paid	(14.1)	(8.9)	(5.2)		
Contributions paid by beneficiaries	5.1	5.1			
Contributions paid by employer		8.3	(8.3)		
Changes in Group structure	6.9	2.2	4.7		
Insurance contract	(1.1)	(1.1)			
Administrative expense		(0.5)	0.5		(0.5)
Translation adjustments	(12.1)	(9.7)	(2.4)		
As of December 31	**292.0**	**155.6**	**136.4**	**53.7**	**(19.3)**

26.3 Breakdown of the present value of the benefit obligation by country

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Supplementary pension plans (LPP) – Switzerland	148.2	152.2
Supplementary pension plans – United Kingdom	-	41.5
Statutory dismissal compensation (TFR) – Italy	31.8	31.8
Retirement termination benefits – France	21.5	23.3
Other	5.3	43.2
Present value of benefit obligations as of December 31	**206.8**	**292.0**

26.4 Contributions payable in 2019 by country

(in € millions)	Total	Switzerland	Italy	France	Other
Contributions for 2019	6.0	5.6	-	0.4	-

26.5 Fair value of plan assets by type of financial instrument

(in € millions)	Dec. 31, 2018	%	Dec. 31, 2017	%
Debt instruments	41.1	37.3%	40.7	26.2%
Equity instruments	28.9	26.2%	27.1	17.4%
Real estate	21.5	19.5%	21.7	13.9%
Investment funds	-	-	18.5	11.9%
Insurance contracts	0.4	0.4%	17.2	11.1%
Derivatives	8.2	7.4%	15.6	10.0%
Cash and cash equivalents	2.6	2.4%	3.1	2.0%
Other assets	7.5	6.8%	11.7	7.5%
Fair value of plan assets as of December 31	**110.2**		**155.6**	

26.6 Actuarial assumptions

	France		Switzerland		Italy		United Kingdom	
	2018	2017	2018	2017	2018	2017	2018	2017
Average maturity of plans	12.0	13.8	13.4	17.4	12.5	12.8	-	24.6
Discount rate	1.75%	1.75%	1.00%	0.70%	1.75%	1.75%	-	2.60%
Expected rate of increase in salaries	2.40%	3.17%	1.28%	1.14%	3.00%	3.00%	-	1.00%
Inflation rate	1.75%	1.75%	0.70%	0.70%	1.75%	1.75%	-	2.40%

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, 2017	Assets held for sale [(1)]	Charge	Reversal (utilized provision)	Reversal (surplus provision)	Translation adjustments	Other	Dec. 31, 2018
Provision for claims and litigation	8.9	(4.2)	0.6	(0.9)	(0.3)	-	0.1	4.2
Other provisions	46.6	(36.0)	3.2	(2.2)	(0.1)	(0.4)	(1.1)	10.0
Other non-current provisions	**55.5**	**(40.2)**	**3.8**	**(3.1)**	**(0.4)**	**(0.4)**	**(1.0)**	**14.2**
Provision for restructuring costs	21.5	(5.5)	52.3	(8.0)	(0.6)	0.4	0.5	60.6
Provision for claims and litigation	54.9	(13.8)	19.6	(6.1)	(6.8)	0.1	9.0	56.9
Other provisions	106.0	(8.4)	60.2	(14.9)	(3.1)	0.1	(1.7)	138.2
Other current provisions	**182.4**	**(27.7)**	**132.1**	**(29.0)**	**(10.5)**	**0.6**	**7.8**	**255.7**
Total	**237.9**	**(67.9)**	**135.9**	**(32.1)**	**(10.9)**	**0.2**	**6.8**	**269.9**
Impact on income	**(81.7)**	N/A	**(135.9)**	N/A	**10.9**	N/A	N/A	**(125.0)**
– on recurring operating income	(60.2)		(29.5)		7.3			(22.2)
– on other non-recurring operating income and expenses	(21.3)		(55.0)		1.5			(53.5)
– on net finance costs	(0.1)		-		-			-
– on income taxes	1.4		-		-			-
– on earnings (losses) of equity-accounted companies	-		(1.5)		-			(1.5)
– on income from discontinued operations	(1.5)		(49.9)		2.1			(47.8)

(1) *All of the assets and liabilities of PUMA, Stella McCartney, Volcom and Christopher Kane were reclassified to "Assets held for sale" and "Liabilities associated with assets held for sale" at their respective classification dates, in accordance with IFRS 5 (see Note 3.1 – Strategic redeployment and discontinued operations, to the consolidated financial statements).*

"Other provisions" mainly corresponds to vendor warranties granted within the scope of disposals.

Note 28 – Cash and cash equivalents

28.1 Breakdown by category

Cash and cash equivalents break down as follows:

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Cash	1,686.6	1,588.8
Cash equivalents	530.0	547.8
TOTAL	**2,216.6**	**2,136.6**

As of December 31, 2018, cash equivalents include UCITS, 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, 2018, no reclassifications were made as a result of these reviews.

28.2 Breakdown by currency

(in € millions)	Dec. 31, 2018	%	Dec. 31, 2017	%
EUR	969.2	43.7%	1,065.4	49.9%
CNY	344.7	15.6%	274.0	12.8%
USD	134.5	6.1%	142.8	6.7%
HKD	131.8	5.9%	72.4	3.4%
GBP	91.0	4.1%	63.2	2.9%
AUD	89.8	4.0%	47.4	2.2%
KRW	44.2	2.0%	118.7	5.6%
Other currencies	411.4	18.6%	352.7	16.5%
TOTAL	**2,216.6**		**2,136.6**	

Note 29 – Borrowings

29.1 Breakdown of borrowings by maturity

(in € millions)	Dec. 31, 2018	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond
Non-current borrowings	**3,171.6**		**713.1**	**563.7**	**282.4**	**5.2**	**1,607.2**
Bonds	2,592.1		490.5	474.9	273.7	-	1,353.0
Other bank borrowings	160.0		117.9	30.5	1.1	1.0	9.5
Obligations under finance leases	42.8		5.4	5.5	7.6	4.2	20.1
Other borrowings	376.7		99.3	52.8	-	-	224.6
Current borrowings	**756.4**	**756.4**					
Bonds	244.1	244.1					
Drawdowns on unconfirmed lines of credit	7.6	7.6					
Other bank borrowings	40.0	40.0					
Obligations under finance leases	35.9	35.9					
Bank overdrafts	380.3	380.3					
Commercial paper	-						
Other borrowings	48.5	48.5					
TOTAL	**3,928.0**	**756.4**	**713.1**	**563.7**	**282.4**	**5.2**	**1,607.2**
%		**19.3%**	**18.2%**	**14.3%**	**7.2%**	**0.1%**	**40.9%**

(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%**

All gross borrowings as of December 31, 2018 are recognized 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 72.2% of gross borrowings as of December 31, 2018 versus 79.0% as of end-2017.

Borrowings with a maturity of more than one year represented 80.7% of total gross borrowings as of December 31, 2018 and 81.9% as of December 31, 2017.

The total amount of confirmed lines of credit was €3,135.0 million at the end of the reporting period, all of which was undrawn as of December 31, 2018.

Short-term drawdowns on facilities backed by confirmed lines of credit maturing in more than one year are included in non-current borrowings.

As of December 31, 2018, the Group's other borrowings also included €393.4 million concerning put options granted to non-controlling interests (compared with €386.3 million as of December 31, 2017), and accrued interest.

29.2 Breakdown by repayment currency

(in € millions)	Dec. 31, 2018	Non-current borrowings	Current borrowings	%	Dec. 31, 2017	%
EUR	3,188.3	2,714.5	473.8	81.2%	4,403.3	84.9%
JPY	362.8	146.3	216.5	9.2%	377.3	7.3%
USD	315.8	296.8	19.0	8.0%	303.0	5.9%
CHF	29.5	13.8	15.7	0.8%	31.2	0.6%
TWD	9.8		9.8	0.2%	9.6	0.2%
Other currencies	21.8	0.2	21.6	0.6%	60.8	1.1%
TOTAL	**3,928.0**	**3,171.6**	**756.4**		**5,185.2**	

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, 2018	Dec. 31, 2017
Bonds	2,836.2	4,096.1
Other bank borrowings	200.0	318.5
Drawdowns on unconfirmed lines of credit	7.6	20.5
Commercial paper	-	-
Obligations under finance leases	78.7	83.9
Bank overdrafts	380.3	237.3
Other borrowings	425.2	428.9
TOTAL	**3,928.0**	**5,185.2**

Group borrowings primarily consist of bonds and bank borrowings, which accounted for 88.1% of gross borrowings as of December 31, 2018 (93.4% as of December 31, 2017).

As of December 31, 2018, the Group's other borrowings included €393.4 million in respect of put options granted to non-controlling interests, mainly concerning the Eyewear activity (€386.3 million as of December 31, 2017) (see Note 2.3.2 – Use of estimates and judgment).

29.4 Description of the main bond issues

Kering bond issues

The Group has a Euro Medium Term Notes (EMTN) program capped at €6,000 million as of December 31, 2018.

This program was signed and approved by the French financial markets authority (AMF) on December 10, 2018. The program existing as of December 31, 2018 expires on December 10, 2019.

As of December 31, 2018, the bonds issued under this program totaled €2,837.0 million, of which €262.0 million issued in US dollars (€4,100.2 million as of December 31, 2017, of which €250.2 million 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, 2018	Dec. 31, 2017
245.0(1)	3.125% fixed	3.31%	04/23/2012	-	04/23/2019	244.1	498.7
360.0(2)	2.50% fixed	2.58%	07/15/2013	-	07/15/2020	359.6	499.0
500.0(3)	1.875% fixed	2.01%	10/08/2013	-	10/08/2018	-	499.5
500.0(4)	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	509.4	511.0
345.0(5)	1.375% fixed	1.47%	10/01/2014	-	10/01/2021	344.0	498.2
275.0(6)	0.875% fixed	1.02%	03/27/2015	-	03/28/2022	273.7	497.0
50.0(7)	1.60% fixed	1.66%	04/16/2015	-	04/16/2035	49.6	49.6
500.0(8)	1.25% fixed	1.35%	05/10/2016	-	05/10/2026	496.5	496.1
300.0(9)	1.50% fixed	1.61%	04/05/2017	-	04/05/2027	297.5	297.2

(1) *Issue price: bond issue, comprising 245,000 bonds with a par value of €1,000 each under the EMTN program, with 500,000 bonds issued on April 23, 2012. A total of 200,000 of these bonds were redeemed on April 9, 2018 and a further 55,000 on October 9, 2018.*
Redemption: in full on April 23, 2019.
(2) *Issue price: bond issue, comprising 3,600 bonds with a par value of €100,000 each under the EMTN program, with 5,000 bonds issued on July 15, 2013. A total of 1,400 of these bonds were redeemed on October 9, 2018.*
Redemption: in full on July 15, 2020.
(3) *Issue price: bond issue on October 8, 2013, comprising 5,000 bonds with a par value of €100,000 each under the EMTN program.*
Redemption: in full on October 8, 2018.
(4) *Issue price: bond issue on April 8, 2014, comprising 1,000 bonds with a par value of €100,000 each under the EMTN program, with 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.
(5) *Issue price: bond issue, comprising 3,450 bonds with a par value of €100,000 each under the EMTN program, with 5,000 bonds issued on October 1, 2014. A total of 1,000 of these bonds were redeemed on April 9, 2018 and a further 550 on October 9, 2018.*
Redemption: in full on October 1, 2021.
(6) *Issue price: bond issue, comprising 2,750 bonds with a par value of €100,000 each under the EMTN program, with 5,000 bonds issued on March 27, 2015. A total of 1,052 of these bonds were redeemed on April 9, 2018 and a further 1,198 on October 9, 2018.*
Redemption: in full on March 28, 2022.
(7) *Issue price: bond issue on April 16, 2015, comprising 500 bonds with a par value of €100,000 each under the EMTN program.*
Redemption: in full on April 16, 2035.
(8) *Issue price: bond issue on May 10, 2016, comprising 5,000 bonds with a par value of €100,000 each under the EMTN program.*
Redemption: in full on May 10, 2026.
(9) *Issue price: bond issue on April 5, 2017, comprising 3,000 bonds with a par value of €100,000 each under the EMTN program.*
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, 2018	Dec. 31, 2017
131.0(1)	Floating 3-month USD Libor +0.73%	2.32%	03/09/2015	2.589% fixed-rate swap for the full amount Documented under IFRS	03/09/2020	**130.9**	124.9
131.0(2)	2.887% fixed	2.94%	06/09/2015	-	06/09/2021	**130.9**	124.9

(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 program, 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 program, i.e., representing a total of USD 150 million.
Redemption: in full on June 9, 2021.

The bonds issued between 2012 and 2017 within the scope of the EMTN program 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 recognized in the statement of financial position at amortized cost based on the effective interest rate, taking account of the fair value adjustment resulting from the hedging relationship documented in accordance with IFRS 9.

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

(in € millions)

Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	Dec. 31, 2018	Dec. 31, 2017
31.8(1)	Floating JPY Tibor +0.40%	-	12/14/2014	-	12/14/2018		29.6
39.7(2)	Floating JPY Tibor +0.40%	-	04/15/2015	-	04/15/2020	**39.7**	37.0
15.9(3)	Floating JPY Tibor +0.35%	-	03/31/2016	-	03/31/2020	**15.9**	14.8
15.9(4)	Floating JPY Tibor +0.25%	-	03/31/2016	-	03/31/2021	**7.9**	10.4
30.0(5)	Floating JPY Tibor +0.29%	-	09/30/2016	-	09/30/2019	**17.4**	21.2
23.8(6)	Floating JPY Tibor +0.27%	-	03/31/2017	-	03/31/2020	**23.8**	22.2
24.8(7)	Floating JPY Tibor +0.29%	-	04/17/2017	-	04/15/2020	**15.8**	19.7
23.8(8)	Floating JPY Tibor +0.29%	-	11/27/2017	-	11/27/2020	**23.8**	22.2
15.9(9)	Floating JPY Tibor +0.20%	-	09/28/2018	-	09/30/2021	**15.9**	

(1) Loan contracted in December 2014 for JPY 4,000 million (€31.8 million).
(2) Loan contracted in April 2015 for JPY 5,000 million (€39.7 million).
(3) Loan contracted in March 2016 for JPY 2,000 million (€15.9 million).
(4) Redeemable loan contracted in March 2016 for JPY 2,000 million (€15.9 million). The outstanding balance on this loan was JPY 1,000 million (€7.9 million) as of December 31, 2018.
(5) Redeemable loan contracted in September 2016 for JPY 3,771 million (€30.0 million). The outstanding balance on this loan was JPY 2,184 million (€17.4 million) as of December 31, 2018.
(6) Loan contracted in March 2017 for JPY 3,000 million (€23.8 million).
(7) Redeemable loan contracted in April 2017 for JPY 3,120 million (€24.8 million). The outstanding balance on this loan was JPY 1,986 million (€15.8 million) as of December 31, 2018.
(8) Loan contracted in November 2017 for JPY 3,000 million (€23.8 million).
(9) Loan contracted in September 2018 for JPY 2,000 million (€15.9 million).

29.5.2 Confirmed lines of credit available to the Group

As of December 31, 2018, the Group had access to €3,135.0 million in confirmed lines of credit versus €3,747.1 million as of December 31, 2017.

Confirmed lines of credit as of December 31, 2017 included PUMA lines of credit totaling €297.1 million, of which €56.8 million had been drawn down.

29.5.3 Breakdown of confirmed lines of credit

Kering and Kering Finance SNC: €3,135.0 million breaking down by maturity as follows:

(in € millions)	Dec. 31, 2018	Less than one year	One to five years	More than five years	Dec. 31, 2017
Confirmed lines of credit	**3,135.0**		3,135.0		3,450.0

The confirmed lines of credit include a syndicated facility for €2,385 million signed on December 20, 2018 and initially maturing in December 2023. This facility provides for two one-year loan extension options.

This December 2018 syndicated loan with an initial five-year term had not been drawn by the Group as of December 31, 2018. Total confirmed undrawn credit lines available to Kering and Kering Finance SNC as of December 31, 2018 amount to €3,135.0 million.

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.

The Group was in compliance with all of these covenants as of December 31, 2018 and there is no foreseeable risk of breach.

The undrawn balance on these confirmed lines of credit as of December 31, 2018 was €3,135.5 million (€3,690.3 million as of December 31, 2017).

The undrawn confirmed lines of credit guarantee the Group's liquidity and mainly back the commercial paper issue program, which remained undrawn as of December 31, 2018 and December 31, 2017.

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.

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, 2018	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond	Dec. 31, 2017
Swaps: fixed-rate lender								400.0
Swaps: fixed-rate borrower	138.9		131.0		7.9			134.3
Other interest rate instruments								
TOTAL	**138.9**		**131.0**		**7.9**			**534.3**

In accordance with the interest rate risk hedging policy, these instruments are typically designed to convert fixed interest rates on negotiable debt securities, fixed-rate borrowings and credit line drawdowns into floating rates.

These instruments also convert floating-rate bonds into fixed-rate debt.

As of December 31, 2018, fixed-rate borrower swaps for a notional amount of USD 150 million convert all USD bond debt initially issued at floating rates into fixed-rate debt.

In accordance with IFRS 9, these financial instruments were analyzed with respect to hedge accounting eligibility criteria.

As of December 31, 2018, documented and non-documented financial instruments can be analyzed as follows:

(in € millions)	Dec. 31, 2018	Fair value hedges	Cash flow hedges	Non-documented hedges
Swaps: fixed-rate lender				
Swaps: fixed-rate borrower	138.9		138.9	
TOTAL	**138.9**		**138.9**	

These interest rate derivatives are recognized 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 recognized 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 recognized 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 recognized directly in income, with an impact on net finance costs for the year.

The Group's exposure to interest rate risk **before the impact** of hedging is presented below, with a distinction made between:

- fixed-rate financial assets and liabilities, exposed to a price risk before hedging:

(in € millions)	Dec. 31, 2018	2018 maturities Less than one year	One to five years	More than five years	Dec. 31, 2017
Fixed-rate financial assets	**48.8**	**16.6**	**32.2**		**55.3**
Bonds	2,705.2	244.1	1,108.1	1,353.0	3,971.1
Commercial paper	-				-
Other borrowings	21.1	9.1	11.8	0.3	13.5
Fixed-rate financial liabilities	**2,726.4**	**253.2**	**1,119.9**	**1,353.3**	**3,984.6**

- floating-rate financial assets and liabilities, exposed to a cash flow risk before hedging:

(in € millions)	Dec. 31, 2018	2018 maturities Less than one year	One to five years	More than five years	Dec. 31, 2017
Floating-rate financial assets	**2,263.9**	**2,226.6**	**6.2**	**31.1**	**2,198.0**
Bonds	131.0		131.0		125.0
Commercial paper	-				-
Other borrowings	1,070.6	503.2	313.5	253.9	1,075.6
Floating-rate financial liabilities	**1,201.6**	**503.2**	**444.5**	**253.9**	**1,200.6**

The Group's exposure to interest rate risk **after the impact** of hedging is presented below, with a distinction made between:

- fixed-rate financial assets and liabilities, exposed to a price risk after hedging:

(in € millions)	Dec. 31, 2018	2018 maturities Less than one year	One to five years	More than five years	Dec. 31, 2017
Fixed-rate financial assets	**48.8**	**16.6**	**32.2**		**55.3**
Bonds	2,836.2	244.1	1,239.1	1,353.0	3,696.1
Commercial paper	-				-
Other borrowings	29.1	10.5	18.3	0.3	22.7
Fixed-rate financial liabilities	**2,865.3**	**254.6**	**1,257.4**	**1,353.3**	**3,718.8**

- floating-rate financial assets and liabilities, exposed to a cash flow risk after hedging:

(in € millions)	Dec. 31, 2018	2018 maturities Less than one year	One to five years	More than five years	Dec. 31, 2017
Floating-rate financial assets	**2,263.9**	**2,226.6**	**6.2**	**31.1**	**2,198.0**
Bonds	-				400.0
Commercial paper	-				-
Other borrowings	1,062.7	501.8	307.0	253.9	1,066.4
Floating-rate financial liabilities	**1,062.7**	**501.8**	**307.0**	**253.9**	**1,466.4**

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, 2018	Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
Gross borrowings	**3,928.0**	**2,726.4**	**1,201.6**	**2,865.3**	**1,062.7**
%		69.4%	30.6%	72.9%	27.1%

		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%

Analysis of sensitivity to interest rate risk

Based on the fixed/floating rate mix after hedging, a sudden 50 basis-point increase or decrease in interest rates would have a full-year impact of €4.8 million on pre-tax consolidated net income. As of December 31, 2017, the impact of a sudden 50 basis-point increase or decrease in interest rates was estimated at €3.2 million (assumption consistent with relative interest rate levels observed as of December 31, 2018).

Based on market data as of December 31, 2018, 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, 2018.

(in € millions)	Impact on remeasurement of financial instruments	Impact on net finance costs
As of December 31, 2018		
Increase of 50 basis points	0.7	
Decrease of 50 basis points	(0.7)	
As of December 31, 2017		
Increase of 50 basis points	1.3	(0.4)
Decrease of 50 basis points	(1.4)	0.4

All other market variables were assumed to remain unchanged for the purpose of the sensitivity analysis.

The impact on remeasurement of financial instruments in equity is generated by interest rate instruments eligible for cash flow hedge accounting.

The impact on net finance costs in the income statement 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, 2018	Dec. 31, 2017
Currency forwards	(5,036.4)	(2,800.4)
Cross currency swaps	(105.7)	(98.5)
Currency options – export tunnels	(160.7)	(406.7)
Currency options – purchases	(92.1)	(13.5)
TOTAL	**(5,394.9)**	**(3,319.1)**

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 analyzed with respect to IFRS 9 hedge accounting eligibility criteria. The Group has no derivatives eligible for net investment hedge accounting.

As of December 31, 2018, documented and non-documented derivative instruments were as follows:

(in € millions)	Dec. 31, 2018	USD	JPY	GBP
Cash flow hedges				
Forward purchases and forward purchase swaps	28.3	27.5	0.8	
Forward sales and forward sale swaps	(3,302.0)	(1,224.9)	(439.8)	(322.5)
Currency options – purchases of export tunnels	(160.7)	(49.8)	(33.8)	(62.0)
Currency options – purchases	(92.1)			
Fair value hedges				
Forward purchases and forward purchase swaps	514.0	167.1	54.9	42.4
Forward sales and forward sale swaps	(1,600.6)	(316.2)	(121.2)	(224.9)
Not documented				
Forward purchases and forward purchase swaps	937.2	615.8	77.9	76.6
Forward sales and forward sale swaps	(1,613.3)	(843.1)	(149.6)	(140.2)
Cross currency swaps	(105.7)		(105.7)	
Maturity				
Less than one year				
Forward purchases and forward purchase swaps	1,479.5	810.4	133.6	119.0
Forward sales and forward sale swaps	(6,491.2)	(2,379.4)	(690.7)	(687.6)
Cross currency swaps				
Currency options – purchases of export tunnels	(160.7)	(49.8)	(33.8)	(62.0)
Currency options – purchases	(92.1)			
More than one year				
Forward purchases and forward purchase swaps				
Forward sales and forward sale swaps	(24.7)	(4.8)	(19.9)	
Cross currency swaps	(105.7)		(105.7)	

Foreign exchange derivatives are recognized in the statement of financial position at their market value at the end of the reporting period.

Derivatives qualifying as cash flow hedges are used to hedge highly probable future cash flows (not yet recognized) based on a budget for the current budget period (season, quarter, half-year, etc.) or certain future cash flows not yet recognized (firm orders).

As of December 31, 2018, 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 realized and recognized in the coming reporting period.

Derivatives qualifying as fair value hedges are used to hedge items recognized in the consolidated statement of financial position at the end of the reporting period, or certain future cash flows not yet recognized (firm orders).

Certain foreign exchange derivatives treated as hedges for management purposes are not documented in accordance with IFRS 9 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 that do not satisfy the “highly probable” criteria required by IFRS 9.

	CHF	HKD	CNY	SGD	TWD	KRW	Other	Dec. 31, 2017
								1,347.0
		(321.7)	(393.0)	(50.0)	(42.2)	(306.4)	(201.5)	(2,930.4)
		(15.1)						(406.7)
			(92.1)					(13.5)
	21.4	43.5	62.3	7.3	6.4	42.6	66.1	675.9
	(21.1)	(189.9)	(257.3)	(35.1)	(26.5)	(73.3)	(335.1)	(1,271.4)
	2.2	11.5	37.6	3.9	6.1	16.0	89.6	118.8
	(315.7)	(11.5)	(37.6)	(3.9)	(6.1)	(16.0)	(89.6)	(740.3)
								(98.5)
	23.6	55.0	99.9	11.2	12.5	58.6	155.7	1,896.7
	(336.8)	(523.1)	(687.9)	(89.0)	(74.8)	(395.7)	(626.2)	(4,795.2)
								(98.5)
		(15.1)						(406.7)
			(92.1)					(13.5)
								245.0
								(146.9)

As of December 31, 2018, the exposure to foreign exchange risk on the statement of financial position was as follows:

(in € millions)	Dec. 31, 2018	USD	JPY	GBP
Monetary assets	3,494.7	883.2	281.0	337.3
Monetary liabilities	988.4	438.4	396.6	9.5
Gross exposure in the statement of financial position	2,506.3	444.8	(88.6)	327.8
Forecast exposure	3,559.4	1,247.2	472.8	384.5
Gross exposure before hedging	**6,065.7**	**1,692.0**	**384.2**	**712.3**
Hedging instruments	(5,394.9)	(1,623.6)	(716.5)	(630.6)
Gross exposure after hedging	**670.8**	**68.4**	**(332.3)**	**81.7**

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, 2018, 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, 2018	Impact on remeasurement of financial instruments		Impact on net finance costs	
(in € millions)	10% increase	10% decrease	10% increase	10% decrease
USD	111.4	(136.2)	0.6	(0.7)
JPY	42.0	(51.9)		
CNY	42.4	(44.9)		

As of December 31, 2017	Impact on remeasurement of financial instruments		Impact on net finance costs	
(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

All other market variables were assumed to remain unchanged for the purpose of the sensitivity analysis.

The impact on remeasurement of financial instruments in equity is generated by interest rate instruments eligible for cash flow hedge accounting.

The impact on net finance costs in the income statement is generated by 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, 2017
386.5	256.2	485.1	54.1	29.9	81.4	700.0	3,419.3
48.9	17.4	58.3		12.4	7.6	26.3	1,650.8
337.6	238.8	426.8	54.1	17.5	73.8	673.7	1,768.5
	336.8	485.1	50.0	42.2	306.3	234.5	2,001.2
337.6	**575.6**	**911.9**	**104.1**	**59.7**	**380.1**	**908.2**	**3,769.6**
(313.2)	(483.2)	(680.1)	(77.8)	(62.3)	(337.1)	(470.5)	(3,319.1)
24.4	**92.4**	**231.8**	**26.3**	**(2.6)**	**43.0**	**437.7**	**450.5**

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.

Naturally, the value of Kering's investment in PUMA, which is treated as an equity-accounted investment as of December 31, 2018, could vary depending on changes in PUMA's share price.

Shares held in connection with non-consolidated investments represent a low exposure risk for the Group and are not hedged.

As of December 31, 2018, no equity risk hedging transaction had been recognized as a derivative instrument in accordance with IFRS 9.

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, 2018, these hedging transactions with a residual maturity of less than one year are treated as forward purchases for a notional amount of €12.2 million. Their market value is not material (notional amount of €10.4 million as of December 31, 2017).

A sudden 1% increase or decrease in precious metals prices would have an impact of €0.1 million, excluding the tax impact on remeasurement of financial instruments in equity.

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 organized markets or over the counter with leading firms.

As the Group has a large number of customers in a wide range of business segments and realizes a significant portion of its sales directly with the end customer, direct sales do not expose the Group to any credit risk. For sales through wholesalers, there is no strong dependency or concentration whereby the loss of one or more wholesalers might have a significant impact on the Group's earnings. Credit risk with respect to wholesalers is also minimized by appropriate credit insurance coverage.

30.6 Derivative instruments at market value

As of December 31, 2018, and in accordance with IFRS 9, the market value of derivative financial instruments is recognized in the statement of financial position, 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 recognized 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 recognized in other current financial assets or liabilities.

The fair value of derivatives hedging the foreign exchange risk on financial transactions is recognized in non-current financial assets or liabilities if their term exceeds one year.

(in € millions)	Dec. 31, 2018	Interest rate risk	Foreign exchange risk	Other market risks	Dec. 31, 2017
Derivative assets	**54.1**	**1.5**	**52.0**	**0.6**	**149.2**
Non-current	**1.5**	**1.5**			**0.7**
At fair value through income					
Cash flow hedges	1.5	1.5			0.7
Fair value hedges					
Current	**52.6**		**52.0**	**0.6**	**148.5**
At fair value through income	31.7		31.7		7.0
Cash flow hedges	16.8		16.2	0.6	127.6
Fair value hedges	4.1		4.1		13.9
Derivative liabilities	**114.1**	**0.5**	**113.6**		**111.8**
Non-current	**3.0**	**0.5**	**2.5**		**0.7**
At fair value through income	2.5		2.5		
Cash flow hedges	0.5	0.5			0.7
Fair value hedges					
Current	**111.1**		**111.1**		**111.1**
At fair value through income	33.7		33.7		10.0
Cash flow hedges	73.0		73.0		84.0
Fair value hedges	4.4		4.4		17.1
TOTAL	**(60.0)**	**1.0**	**(61.6)**	**0.6**	**37.4**

The effective portion of derivatives hedging future cash flows is recorded against equity, in "Remeasurement of financial instruments". Changes in this line item are presented in Note 14 – Other comprehensive income.

In accordance with IFRS 13, derivatives were measured as of December 31, 2018 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 totaling €3,135.0 million. As of December 31, 2018, this includes an amount of €3,135.0 million not yet drawn and available cash of €2,216.6 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 in the statement of financial position.

Projected 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 €2,216.6 million and €849.5 million, respectively, as of December 31, 2018.

(in € millions)	Dec. 31, 2018 Carrying amount	Dec. 31, 2018 Cash flow	Less than one year	One to five years	More than five years
Non-derivative financial instruments					
Bonds	2,836.2	(2,837.0)	(245.0)	(1,242.0)	(1,350.0)
Commercial paper					
Other borrowings	1,091.8	(1,335.6)	(544.4)	(471.0)	(320.2)
Trade payables	745.8	(745.8)	(745.8)		
Derivative financial instruments					
Interest rate hedges	**(1.0)**				
Interest rate swaps		1.1	1.1		
Other interest rate instruments					
Foreign exchange hedges	**61.6**				
Currency forwards and currency swaps					
Outflows		(7,325.9)	(7,301.2)	(24.7)	
Inflows		7,210.2	7,186.0	24.2	
Other foreign exchange instruments					
Outflows		(220.8)	(114.6)	(106.2)	
Inflows		218.2	114.7	103.5	
TOTAL	**4,734.4**	**(5,035.6)**	**(1,649.2)**	**(1,716.2)**	**(1,670.2)**

(in € millions)	Dec. 31, 2017 Carrying amount	Dec. 31, 2017 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)**

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, 2018 are presented below:

(in € millions)	Dec. 31, 2018		Breakdown by accounting classification					
	Carrying amount	Market value	Fair value through income	Fair value through OCI	Loans and receivables	Amortized cost	Derivatives qualifying for hedge accounting	Derivatives not qualifying for hedge accounting
Non-current assets								
Non-current financial assets	336.3	336.3		67.0	267.8		1.5	
Current assets								
Trade receivables	849.5	849.5				849.5		
Other current financial assets	60.9	60.9			8.3		20.9	31.7
Cash and cash equivalents	2,216.6	2,216.6	530.0			1,686.6		
Non-current liabilities								
Non-current borrowings	3,171.6	3,261.3				3,171.6		
Other non-current financial liabilities	3.0	3.0					0.5	2.5
Current liabilities								
Current borrowings	756.4	759.7				756.4		
Other current financial liabilities	553.2	553.2				442.1	77.4	33.7
Trade payables	745.8	745.8				745.8		

(in € millions)	Dec. 31, 2017		Breakdown by accounting classification					
	Carrying amount	Market value	Fair value through income	Available-for-sale financial assets	Loans and receivables	Amortized 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		

As of December 31, 2018, the following methods were used to price financial instruments:

- Financial instruments other than derivatives recorded in assets in the statement of financial position:

  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, 2018 for listed securities.

- Financial instruments other than derivatives recorded in liabilities in the statement of financial position:

  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 IFRS, this classification is used as a basis for presenting the characteristics of financial instruments recognized in the statement of financial position at fair value through income as of the end of the reporting period:

Level 1 category: financial instruments quoted on an active market;

Level 2 category: financial instruments whose fair value is determined using valuation techniques drawing on observable market inputs;

Level 3 category: financial instruments whose fair value is determined using valuation techniques drawing on non-observable inputs (inputs whose value does not result from the price of observable market transactions for the same instrument or from observable market data available as of the end of the reporting period) or inputs which are only partly observable.

The table below shows the fair value hierarchy by financial instrument category as of December 31, 2018:

(in € millions)	Fair value hierarchy			Dec. 31, 2018
	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		1.5	334.8	336.3
Current assets				
Trade receivables			849.5	849.5
Other current financial assets		52.6	8.3	60.9
Cash and cash equivalents		530.0	1,686.6	2,216.6
Non-current liabilities				
Non-current borrowings			3,171.6	3,171.6
Other non-current financial liabilities		3.0		3.0
Current liabilities				
Current borrowings			756.4	756.4
Other current financial liabilities		111.1	442.1	553.2
Trade payables			745.8	745.8

(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

Note 32 – Net debt

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Gross borrowings	3,928.0	5,185.2
Cash and cash equivalents	(2,216.6)	(2,136.6)
Net debt	**1,711.4**	**3,048.6**

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, 2018	Dec. 31, 2017
Cash and cash equivalents as reported in the statement of financial position	2,216.6	2,136.6
Bank overdrafts	(380.3)	(237.3)
Cash and cash equivalents as reported in the statement of cash flows	**1,836.3**	**1,899.3**

33.2 Breakdown of cash flow from operating activities

(in € millions)	2018	2017 [(1)]
Net income from continuing operations	**2,658.3**	**1,751.9**
Net recurring charges to depreciation, amortization and provisions on non-current operating assets	491.9	432.1
Other non-cash income and expenses:	(6.6)	10.3
o/w:		
Recurring operating income and expenses (Note 5):	(68.8)	(24.6)
– *Fair value of operating foreign exchange rate hedges*	*(93.2)*	*(72.2)*
– *Other*	*24.4*	*47.6*
Other income and expenses:	62.2	34.9
– *Asset impairment*	*140.4*	*148.5*
– *Fair value of foreign exchange rate hedges in net finance costs*	*98.5*	*61.5*
– *Deferred tax expense (income)*	*(194.8)*	*(193.3)*
– *Share in earnings (losses) of equity-accounted companies*	*(11.9)*	*3.6*
– *Other*	*30.0*	*14.6*
Cash flow from operating activities	**3,143.6**	**2,194.3**

(1) Operating cash flow items relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

33.3 Debt issues and redemptions/repayments

(in € millions)	Dec. 31, 2018	Dec. 31, 2017 [(1)]
Debt issues	73.1	299.4
Debt redemptions/repayments	(1,404.5)	(410.1)
Increase/decrease in other borrowings	(27.9)	(364.4)
TOTAL	**(1,359.3)**	**(475.1)**

(1) Debt issues and redemptions/repayments relating to PUMA, Stella McCartney, Volcom and Christopher Kane for 2017 have been reclassified to "Net cash from (used in) discontinued operations", in accordance with IFRS 5.

Bond redemptions reflect partial redemptions in the total amount of €775 million of four bond issues carried out in April and October 2018, each with an initial nominal value of €500 million.

Following the first offer, three partial redemptions were carried out on April 9, 2018. The Group redeemed a total of €405.2 million, comprising: (i) €200 million relating to the issue maturing in April 2019; (ii) €100 million relating to the issue maturing in October 2021; and (iii) €105.2 million relating to the issue maturing in March 2022.

Following the second offer, four partial redemptions were carried out on October 9, 2018. The Group redeemed a total of €369.8 million, comprising: (i) €55 million relating to the issue maturing in April 2019; (ii) €140 million relating to the issue maturing in July 2020; (iii) €55 million relating to the issue maturing in October 2021; and (iv) €119.8 million relating to the issue maturing in March 2022.

Bond redemptions also include the redemption on October 8, 2018 of the €500 million worth of five-year bonds issued in October 2013 with an annual coupon of 1.875%.

Changes in other borrowings chiefly reflect issues and redemptions of borrowings denominated in Japanese yen.

33.4 Reconciliation of changes in borrowings with net cash flows from (used in) financing activities

(in € millions)

	Bonds	Other bank borrowings	Confirmed lines of credit	Drawdowns on unconfirmed lines of credit
As of January 1, 2018	**4,096.1**	**318.5**	-	**20.5**
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	15.2	57.9		
Debt redemptions/repayments	(1,275.1)	(129.4)		
Increase/decrease in other borrowings		(3.6)		(2.8)
Interest paid and equivalent				
Net cash from (used in) financing activities	(1,259.9)	(75.1)	-	(2.8)
Changes in Group structure				
Translation adjustments		15.2		0.2
Changes in put options granted to non-controlling interests				
Changes related to discontinued operations		(58.6)		
Other movements				
As of December 31, 2018	**2,836.2**	**200.0**	-	**17.9**

(in € millions)

	Bonds	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)
Changes in put options granted to non-controlling interests				
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	Finance lease liabilities	Bank overdrafts	Other borrowings		Equity attributable to owners of the parent	Non-controlling interests	
-	**83.9**	**237.3**	**428.9**				
					(2.7)		(2.7)
					(167.9)		(167.9)
					(757.6)		(757.6)
						(22.8)	(22.8)
							73.1
							(1,404.5)
			(21.5)				(27.9)
	(3.0)	(1.2)	(188.2)				(192.4)
-	(3.0)	(1.2)	(209.7)		(928.2)	(22.8)	(2,502.7)
		0.3					
	1.8	11.4	0.5				
			11.4				
			4.8				
	(4.0)	132.5	179.0				
-	**78.7**	**380.3**	**414.9**				

			Borrowings			Equity	Total
Commercial paper	Finance lease liabilities	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)				
			292.2				
	(3.9)	(12.5)	185.7				
-	**83.9**	**237.3**	**428.9**				

Note 34 – Contingent liabilities, contractual commitments not recognized 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 summarized below as of December 31, 2018:

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 organization, title ownership, and 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 an identified tax-related claim, expiring when the period becomes time-barred.
March 2013 Sale of the Children and Family Division	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 capitalization), 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.
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 organization, capitalization, 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 organization, capitalization and authority. The vendor warranties are limited to the seller's knowledge of insurance, litigation and tax-related matters. These warranties 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, 2018	Dec. 31, 2017 (1)
Borrowings (Note 29)	756.4	1,564.4	1,607.2	3,928.0	5,185.2
Operating lease agreements	621.6	1,945.7	1,581.6	4,148.9	3,232.3
Binding purchase commitments	103.0	66.6	5.2	174.8	252.1
Total commitments given	**1,481.0**	**3,576.7**	**3,194.0**	**8,251.7**	**8,670.2**

(1) *For comparison purposes, contractual obligations as of December 31, 2017 have been restated for discontinued operations, i.e., PUMA, Stella McCartney, Volcom and Christopher Kane.*

Operating leases

The amount of contractual obligations presented on the "Operating lease agreements" line represents future minimum lease payments under operating lease agreements for the year, which cannot be canceled by the lessee. These mainly include non-cancelable rental payments in respect of stores, logistics hubs and other buildings (headquarters and administrative offices).

As of December 31, 2018, total future minimum lease payments which the Group expects to receive under non-cancelable sub-lease agreements amounted to €113.2 million (€14.5 million as of December 31, 2017).

The rental expense for 2018 corresponding to minimum lease payments amounts to €701.2 million (€635.5 million in 2017). The contingent consideration expense, calculated on the basis of actual revenue, was €855.2 million (€675.5 million in 2017).

Sub-lease revenue totaled €3.1 million in 2018 and €3.3 million in 2017.

Finance leases

The present value of future lease payments included in "Borrowings" and relating to capitalized assets meeting the definition of a finance lease set out in IAS 17 is as follows:

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Less than one year	40.7	9.3
One to five years	34.0	61.4
More than five years	26.2	27.0
	101.0	**97.7**
Finance costs included	(22.2)	(13.8)
Present value of future minimum lease payments	**78.7**	**83.9**

As of December 31, 2018, the Group does not expect to receive future minimum lease payments under non-cancelable 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, 2018	Statement of financial position total (carrying amount)	Corresponding %	Amount of assets pledged as of Dec. 31, 2017
Intangible assets			-	7,393.6	-	-
Property, plant and equipment	06/08/2001	03/31/2028	32.2	2,228.5	1.4%	31.1
Non-current financial assets			-	336.3	-	-
Total non-current assets pledged as collateral			**32.2**	**9,958.4**	**0.3%**	**31.1**

34.2.3 Other commitments

(in € millions)	Payments due by period: Less than one year	One to five years	More than five years	Dec. 31, 2018	Dec. 31, 2017 [(1)]
Confirmed lines of credit (see Note 29)	-	3,135.0	-	3,135.0	3,450.0
Letters of credit	14.0	-	-	14.0	13.5
Other guarantees received	4.8	1.6	2.0	8.4	19.9
Total commitments received	**18.8**	**3,136.6**	**2.0**	**3,157.4**	**3,483.4**
Guarantees given to banks responsible for cash pooling arrangements	1.9	0.6	3.5	6.0	4.5
Rent guarantees, property guarantees	0.2	5.2	1.8	7.2	14.2
Other commitments	27.8	7.8	1.5	37.1	37.8
Total commitments given	**29.9**	**13.6**	**6.8**	**50.3**	**56.5**

(1) For comparison purposes, commitments as of December 31, 2017 have been restated for discontinued operations, i.e., PUMA, Stella McCartney, Volcom and Christopher Kane.

Other commitments given primarily include customs warranties and operating guarantees.

34.3 Contingent liabilities

To the best of the Group's knowledge, there are no significant contingent liabilities other than the tax risk described in Note 12.1.1 – Income tax expense and effective tax rate.

34.4 Dependence on patents, licenses and supply contracts

The Group is not significantly dependent on any patents, licenses or supply contracts.

34.5 Litigation and disputes

Group companies are involved in a number of lawsuits or disputes arising in the normal course of business, including with various 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 disputes currently in progress are 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 are no known disputes likely to have a potential material impact on its net assets, earnings or financial position that are 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, 2018, the Artémis group held 40.9% of Kering's share capital (40.9% as of end-2017) and 57.8% of its voting rights (57.6% as of December 31, 2017).

The main transactions carried out between Kering's consolidated companies and Artémis in 2018 are described below:

- payment on January 17, 2019 of an interim dividend in respect of 2018 totaling €180.8 million, approved on December 14, 2018;
- payment of the balance of the cash dividend for 2017 of €206.5 million, further to the payment of an interim dividend of €103.2 million in January 2018 (€237.6 million for the full 2016 dividend);
- payment of an exceptional stock dividend for 2017 in the form of PUMA shares amounting to €1,845.3 million;
- recognition of fees totaling €5.1 million in 2018 (€4.0 million in 2017) 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)	2018	2017
Short-term benefits	37.7	69.8
Payroll taxes	5.0	4.3
Termination indemnities	-	1.9
Post-employment benefits	2.0	2.0
Other long-term benefits	103.3	40.0
Share-based payment	85.5	53.9
TOTAL	**233.5**	**171.9**

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 amounts recognized as expenses in the period.

Note 36 – List of consolidated subsidiaries as of December 31, 2018

Consolidation method:
Full consolidation: C
Equity method: E

Company	% interest			
	Dec. 31, 2018		Dec. 31, 2017	
Kering SA	**Parent company**			
CONTINUING OPERATIONS				
LUXURY HOUSES				
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
DODO PARIS SAS	C	99.99	C	99.99
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
LES BOUTIQUES BOUCHERON SAS	C	100.00	C	100.00
POMELLATO PARIS SA	C	99.99	C	99.99
QEELIN FRANCE SARL	C	100.00	C	100.00
SOWIND FRANCE SAS	C	100.00	C	100.00
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	100.00
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	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	Liquidation		C	100.00
PROPERTY4LIFE INVESTMENTS Ltd	Liquidation		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	100.00
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	C	100.00
YVES SAINT LAURENT SPAIN SA	C	100.00	C	100.00
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

Company	% interest	
	Dec. 31, 2018	Dec. 31, 2017
DODO (UK) Ltd	C 100.00	C 100.00
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 100.00
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		
ACCADEMICA DELLA PELLETTERIA SRL	C 51.00	Formation
ALEXANDER McQUEEN ITALIA SRL	C 100.00	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	Merger	C 100.00
BRIONI GERMANICS HOLDING SRL	C 100.00	C 100.00
BRIONI ITALIA SRL	C 100.00	C 100.00
BRIONI SERVIZI SRL	C 100.00	Formation
B.V. LUXURY SRL	C 100.00	Formation
B.V. ITALIA SRL	C 100.00	C 100.00
B.V. SERVIZI SRL	C 100.00	C 100.00
BOTTEGA VENETA SRL	C 100.00	C 100.00
CALZATURIFICIO FLORA SRL	C 100.00	C 100.00
CARAVEL PELLI PREGIATE SpA	C 100.00	C 100.00
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

Company	% interest	
	Dec. 31, 2018	Dec. 31, 2017
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
K RETAIL ROMA SRL	C 100.00	-
LECCIO SRL	C 100.00	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 100.00
POMELLATO EUROPA SpA	C 100.00	C 100.00
ROMAN STYLE SpA	C 100.00	C 100.00
SAMMEZZANO OUTLET SRL	C 100.00	C 100.00
SOWIND ITALIA SRL	C 100.00	C 100.00
SL LUXURY RETAIL SRL	C 100.00	C 100.00
THE MALL SRL	Merger	C 100.00
TIGER FLEX SRL	C 100.00	C 100.00
TOMAS MAIER ITALIA SRL	E 51.00	E 51.00
TRAMOR SRL	C 100.00	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
CASTERA SARL	C 100.00	C 100.00
GUCCI GULF INVESTMENTS SARL	C 100.00	C 100.00
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 99.79
YVES SAINT LAURENT OF MONACO SAM	C 100.00	C 100.00

Company	% interest Dec. 31, 2018		% interest Dec. 31, 2017	
Netherlands				
BOTTEGA VENETA NETHERLANDS BV	C	100.00	C	100.00
G DISTRIBUTION BV	C	100.00	C	100.00
GG MIDDLE EAST BV	C	51.00	C	51.00
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	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
Romania				
SIFA INTERNATIONAL SRL	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				
BALENCIAGA SWITZERLAND SA	C	100.00	Formation	
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	100.00
GT SILK SA	C	100.00	C	100.00
GUCCI SWISS RETAIL SA	C	100.00	Formation	
LUXURY GOODS INTERNATIONAL SA	C	100.00	C	100.00
LUXURY GOODS OUTLETS EUROPE SAGL	C	100.00	C	100.00
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	C	100.00

Company	% interest Dec. 31, 2018		% interest Dec. 31, 2017	
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				
BALENCIAGA CANADA Inc.	C	100.00	Formation	
BOTTEGA VENETA CANADA Ltd	C	100.00	C	100.00
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	100.00
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
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	40.54
LUXURY HOLDINGS Inc.	C	100.00	C	100.00
LUXURY TIMEPIECES AND JEWELRY USA, Inc.	C	100.00	Formation	
POMELLATO USA Inc.	C	100.00	C	100.00
TOMAS MAIER LLC	E	51.00	E	51.00
TOMAS MAIER DISTRIBUTION LLC	E	51.00	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

Company	% interest Dec. 31, 2018	% interest Dec. 31, 2017
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 100.00
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		
BALENCIAGA AUSTRALIA PTY Ltd	C 100.00	Formation
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 (SHANGAI) 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
KERING (SHANGHAI) WATCHES AND JEWELRY Ltd	C 100.00	C 100.00
BRIONI (SHANGAI) 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

Company	% interest Dec. 31, 2018	% interest Dec. 31, 2017
POMELLATO SHANGHAI Co. Ltd	C 100.00	C 100.00
QEELIN TRADING (SHANGHAI) Co. Ltd	C 100.00	C 100.00
YVES SAINT LAURENT (SHANGHAI) TRADING Ltd	C 100.00	C 100.00
Korea		
ALEXANDER McQUEEN KOREA Ltd	C 100.00	C 100.00
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 100.00
POMELLATO PACIFIC Ltd	C 100.00	C 100.00
QEELIN Ltd	C 100.00	C 100.00
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	Liquidation	C 100.00
LUXURY GOODS RETAIL PRIVATE Ltd 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

Company	% interest Dec. 31, 2018	Dec. 31, 2017
LUXURY TIMEPIECES JAPAN Ltd	C 100.00	C 100.00
POMELLATO JAPAN Co. Ltd	C 100.00	C 100.00
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	C 100.00
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
FASHION LUXURY MIDDLE EAST	C 49.00	Acquisition
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 26.01
YSL KUWAIT FOR READYMADE CLOTHES AND ACCESSORIES WLL	C 49.00	Formation
Qatar		
SAINT LAURENT PARIS LLC	C 24.00	C 24.00
LUXURY GOODS QATAR LLC	C 25.50	C 25.50
Malaysia		
AUTUMNPAPER MALAYSIA SDN BHD	C 100.00	Formation
BALENCIAGA SEA MALAYSIA SDN BHD	C 100.00	Formation
BOTTEGA VENETA MALAYSIA SDN BHD	C 100.00	C 100.00
GUCCI (MALAYSIA) SDN BHD	C 100.00	C 100.00
KERING WATCHES AND JEWELRY (MALAYSIA) SDN BHD	C 100.00	Formation
SAINT LAURENT (MALAYSIA) SDN BHD	C 100.00	C 100.00

Company	% interest Dec. 31, 2018	Dec. 31, 2017
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	C 100.00
BOTTEGA VENETA SINGAPORE PTE 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 Ltd SIRKETI	C 100.00	C 100.00
Thailand		
ALEXANDER McQUEEN (THAILAND) Ltd	C 100.00	Formation
BALENCIAGA THAILAND Ltd	C 100.00	Formation
BOTTEGA VENETA (THAILAND) Ltd	C 75.00	C 75.00
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	
GUCCI SERVICES (THAILAND) Co. Ltd	C 100.00	Formation
LUXURY GOODS (THAILAND) Ltd	C 75.00	C 75.00
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
CORPORATE 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 63.00

Company	% interest Dec. 31, 2018		% interest Dec. 31, 2017	
KERING FINANCE SNC	C	100.00	C	100.00
KERING SIGNATURE	C	100.00	C	100.00
MANUFACTURE CARTIER LUNETTES SAS	C	63.00	C	63.00
SAPARDIS	Merger		C	100.00
SAPRODIS SERVICES SAS	C	100.00	C	100.00
Germany				
KERING EYEWEAR DACH GmbH	C	63.00	C	63.00
Spain				
KERING EYEWEAR ESPAÑA SA	C	63.00	C	63.00
KERING SPAIN SL	C	100.00	C	100.00
United Kingdom				
KERING EYEWEAR UK Ltd	C	63.00	C	63.00
KERING INTERNATIONAL Ltd	C	100.00	C	100.00
KERING UK SERVICES Ltd	C	100.00	C	100.00
Italy				
KERING EYEWEAR SpA	C	63.00	C	63.00
KERING ITALIA SpA	C	100.00	C	100.00
ALEXANDER McQUEEN LOGISTICA SRL	C	100.00	C	100.00
KERING SERVICE ITALIA SpA	C	100.00	C	100.00
Luxembourg				
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	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 INVESTMENTS EUROPE BV	C	100.00	C	100.00
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	63.00
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	C	63.00
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	63.00
KGS GLOBAL MANAGEMENT SERVICES Ltd	C	100.00	C	100.00
KGS SOURCING Ltd	C	100.00	C	100.00
India				
KERING EYEWEAR INDIA Ltd	C	63.00	Formation	
KGS SOURCING INDIA PTE 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	63.00
KERING JAPAN Ltd	C	100.00	C	100.00
KERING TOKYO INVESTMENT Ltd	C	100.00	C	100.00
Malaysia				
KERING EYEWEAR MALAYSIA SDN BHD	C	63.00	Formation	
KERING SERVICES MALAYSIA SDN BHD	C	100.00	Formation	
Singapore				
KERING EYEWEAR SINGAPORE PTE Ltd	C	63.00	C	63.00
KERING SOUTH EAST ASIA PTE Ltd	C	100.00	C	100.00
Taiwan				
KERING EYEWEAR TAIWAN Ltd	C	63.00	C	63.00
Turkey				
KGS SOURCING TURKEY Ltd	C	100.00	C	100.00
United Arab Emirates				
KERING SERVICES MIDDLE EAST	C	100.00	Formation	
Australia				
KERING AUSTRALIA PTY Ltd	C	100.00	Formation	
KERING EYEWEAR AUSTRALIA PTY Ltd	C	63.00	Formation	

Company	% interest	
	Dec. 31, 2018	Dec. 31, 2017
United States		
KERING AMERICAS Inc.	C 100.00	C 100.00
KERING EYEWEAR USA Inc.	C 63.00	C 63.00
Mexico		
KERING MEXICO S. DE R.L. DE C.V.	C 100.00	C 100.00
DISCONTINUED OPERATIONS		
PUMA		
PUMA SE (GERMANY)	E 15.85	C 86.25
Volcom		
VOLCOM LLC	C 100.00	C 100.00
LS&S RETAIL 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
VOLCOM LUXEMBOURG HOLDING SA	C 100.00	C 100.00
VOLCOM INTERNATIONAL SARL	C 100.00	C 100.00
WELCOM DISTRIBUTION SARL	C 100.00	C 100.00
VOLCOM DISTRIBUTION SPAIN SL	C 100.00	C 100.00
VOLCOM SAS	C 100.00	C 100.00
VOLCOM DISTRIBUTION (UK) Ltd	C 100.00	C 100.00
VOLCOM RETAIL (UK) Ltd	C 100.00	C 100.00
VOLCOM AUSTRALIA HOLDING COMPANY PTY Ltd	C 100.00	C 100.00
VOLCOM AUSTRALIA PTY Ltd	C 100.00	C 100.00

Company	% interest	
	Dec. 31, 2018	Dec. 31, 2017
VOLCOM CANADA Inc.	C 100.00	C 100.00
VOLCOM NEW ZEALAND Ltd	C 100.00	C 100.00
VOLCOM JAPAN GODOGAISHIYA	C 100.00	C 100.00
VOLCOM ASIA PACIFIC Ltd	C 100.00	C 100.00
Stella McCartney		
STELLA McCARTNEY FRANCE SAS	C 50.00	C 50.00
STELLA McCARTNEY Ltd	C 50.00	C 50.00
STELLA McCARTNEY SPAIN SL	C 50.00	C 50.00
STELLA McCARTNEY ITALIA SRL	C 50.00	C 50.00
LUXURY FASHION SA	C 50.00	C 50.00
LUXURY FASHION LUXEMBOURG SA	C 50.00	C 50.00
STELLA McCARTNEY AMERICA Inc.	C 50.00	C 50.00
STELLA McCARTNEY (SHANGHAI) TRADING Ltd	C 50.00	C 50.00
STELLA McCARTNEY HONG KONG Ltd	C 50.00	C 50.00
STELLA McCARTNEY JAPAN Ltd	C 50.00	C 50.00
STELLA McCARTNEY TAIWAN Ltd	C 50.00	Formation
Christopher Kane		
CHRISTOPHER KANE FRANCE SA	C 51.00	C 80.00
CHRISTOPHER KANE Ltd	C 51.00	C 80.00
CHRISTOPHER KANE SRL	C 51.00	C 80.00
CHRISTOPHER KANE Inc.	C 51.00	C 80.00

Note 37 – Statutory Auditors' remuneration

Fees for fiscal year 2018	KPMG				Deloitte			
	Statutory Auditor: KPMG SA		Network		Statutory Auditor: Deloitte & Associés		Network	
(in € thousands)	Amount	%	Amount	%	Amount	%	Amount	%
Statutory audit and interim review of the parent company and consolidated financial statements								
– Issuer	327.8	20%	N/A	N/A	300.2	57%	N/A	N/A
– Fully-consolidated subsidiaries	1,109.6	69%	3,071.5	81%	167.3	31%	1,700.0	81%
Sub-total	**1,437.4**	**89%**	**3,071.5**	**81%**	**467.5**	**88%**	**1,700.0**	**81%**
Non-audit services								
– Issuer	143.0	9%	-	-	62.0	12%	-	-
– Fully-consolidated subsidiaries	39.8	2%	736.3	19%	-	-	391.4	19%
Sub-total(1)	**182.8**	**11%**	**736.3**	**19%**	**62.0**	**12%**	**391.4**	**19%**
TOTAL	**1,620.2**	**100%**	**3,807.8**	**100%**	**529.5**	**100%**	**2,091.4**	**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

No significant events occurred between December 31, 2018 and February 11, 2019 – the date on which the Board of Directors authorized the consolidated financial statements for issue.

At its meeting on February 11, 2019, the Board of Directors of Kering appointed Ms. Sophie L'Hélias as independent lead director, with a standard role of, among others, speaking on behalf of the Board on ESG (Environmental, Societal, Governance) matters, in coordination with the Chairman of the Board.

4. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

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 Kering General Shareholders' Meeting,

Opinion

In compliance with the engagement entrusted to us by the Shareholders' Meetings, we have audited the accompanying consolidated financial statements of Kering SA for the year ended December 31, 2018.

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, 2018 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, 2018 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.

Emphasis of matter

We draw attention to Note 2.2.1 to the consolidated financial statements, "Standards, amendments and interpretations adopted by the European Union and effective as of January 1, 2018", setting out the adoption as of January 1, 2018 of IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from contracts with customers*. Our opinion is not modified in respect of this matter.

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.

Tax risks

Notes 12.1.1 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 audits by the tax authorities in each of the countries in which the Group's different subsidiaries operate. These tax audits can result in revised assessments and litigation with the tax authorities concerning income tax, other taxes and duties and similar payments. The estimate of the impacts of these tax risks and any related provisions recorded, 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 with the assistance of our international tax specialist: • conducted interviews with the Group's tax management and local management to assess, if necessary, the current state of investigations carried out and revised assessments notified by the local tax authorities and monitor developments in current litigation; • consulted the recent decisions and correspondence of Group companies with the tax authorities, and familiarized ourselves with the correspondence between the companies concerned and their tax advisors; • analyzed the responses of these tax advisors to our requests for information or the analyses that these advisors produced as part of current litigation; • 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 recognized in the balance sheet. We have examined the procedural elements and/or the legal or technical opinions provided by law firms chosen by Management concerning the ongoing procedure in Italy involving Luxury Goods International (LGI), to assess the merits of an absence of a provision.

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, 2018, goodwill and brands are recorded on the balance sheet for a net carrying amount of €2,399.2 million and €6,789.8 million, respectively, or 11% and 32% of the total consolidated assets as at December 31, 2018. The CGUs or groups of CGU 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 a CGU is the higher of its fair value less disposal costs and value in use. Value in use is determined based on expected future cash flow projections and taking account of the time value of money and risks specific to the asset, CGU or CGU group. During each period, Management confirms 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 unfavorable 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 the consolidated financial statement as at 31 December 2018 consolidated assets and uncertainties inherent in certain assumptions and notably, the probability of achieving forecasts used to calculate the recoverable amount, we considered the valuation of goodwill and intangible assets with indefinite lives to be a key audit matter.	We have examined the compliance of the impairment testing methodology adopted by the company with prevailing accounting standards. We have also carried out a critical review of the implementation of this methodology. Our procedures consisted in: • examining the items comprising the carrying amount of the CGUs to which the goodwill and brands have been allocated by the Group; • reviewing the consistency of cash flow projections with 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, verifying notably that the different parameters comprising the weighted average cost of capital (WAAC) of each CGU enable the return expected by market participants for similar activities to be reached; • assessing Management analyses of the sensitivity of the value in use to a change in the main assumptions; • assessing the royalty rates applied to brands in the calculation of future revenue; • compare the projected cash flows of previous business plans with the actual cash flows to assess the reason bless of the assumptions; • confirming that Note 19 to the consolidated financial statements provides appropriate disclosures on sensitivity analyses performed on 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, 2018, inventories appear on the consolidated balance sheet for a net amount of €2,414.7 million and represent 11% of consolidated assets. As disclosed in Note 2.9 to the consolidated financial statements, inventories are valued at the lower of cost and net realizable value: • cost is determined according to the retail method or weighted average cost, depending on the Group business; • net realizable value is the estimated sale price in the normal course of operations, net of costs incurred to complete the sale. The Group may recognize 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 Houses, determined by the frequency of collections and turnover of inventory, depends heavily on the commercial success of product portfolios within each brand of the Group. Given the significant amount of inventories in the consolidated assets land the degree of judgment inherent in certain assumptions underlying the valuation of provisions for inventory allowances, we considered this topic to be a key audit matter.	Our procedures consisted in: • assessing the methods used to value inventories and confirming the consistency of accounting methods; • testing the effectiveness of the controls set up by Management to prevent or detect possible errors in the valuation of inventories; • assessing the data and assumptions adopted by Management to determine the prospects for inventory turnover and the resulting provisions; • assessing forecast and budget figures which may impact the depreciation; • assessing the retained assumptions and the implementing measures to determine the specific provisions.

Application of IFRS 5 following the distribution of PUMA shares to Kering shareholders on May 16, 2018

Notes 3.1 and 4 to the consolidated financial statements

Risk identified	Our response
The distribution of the majority of PUMA shares to Kering shareholders, approved by the General Shareholders' Meeting of April 25, 2018, took effect on May 16, 2018, the payment date for the dividend in kind. This distribution led to a loss of control of PUMA and generated a net capital gain recorded in the Consolidated Income Statement in "Net income from discontinued operations" in the amount of €1,181 million. It also led to the transfer to "Net income from discontinued operations" in the Consolidated Income Statement of PUMA's activity up to May 16, 2018, in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. Given that the distribution of PUMA shares to Group shareholders led to a significant change in the consolidation scope in 2018 and had a material impact on Group net income, we considered the accounting recognition of this transaction and the resulting loss of control to be a key audit matter.	Our procedures consisted in: • assessing the compliance of the accounting treatment of this distribution and the resulting loss of control in accordance with the IFRS standards as adopted by the European Union; • substantiating the date of deconsolidation of PUMA's assets and liabilities with the effective date of loss of control; • verifying the arithmetical accuracy of the net capital gains calculation, both for the PUMA shares distributed and for the share capital retained; • verifying that the PUMA net income from discontinued operations presented on a separate line of the Consolidated Income Statement, correctly includes the following components: - the net capital gain on the PUMA shares sold and retained, - the net income from PUMA's activities for the period January 1 to the date of loss of control, for fiscal year 2018 and fiscal year 2017 comparative figures; • confirming that Notes 3.1 and 4 to the consolidated financial statements contain the appropriate disclosures.

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 its fair presentation and its consistency with the consolidated financial statements.

We hereby attest that the consolidated Non-Financial Information Statement required by Article L. 225-102-1 of the French Commercial Code (*Code de commerce*) is included in the Group information presented in the Management Report. Pursuant to Article L. 823-10 of this Code, we have not verified the fair presentation or consistency of the information contained in this statement with the consolidated financial statements. A report will be issued on this information by an independent third-party.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Kering SA by the Shareholders' Meeting of June 18, 1992 for KPMG S.A. and May 18, 1994 for Deloitte & Associés.

As of December 31, 2018, KPMG S.A. was in its 27th year of uninterrupted engagement and Deloitte & Associés in its 25th 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 (*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 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:

- identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains 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 Ccompany'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 consolidated 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 pursuant to the rules applicable in France as defined in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code (*Code de commerce*) 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, February 12, 2019

The Statutory Auditors

KPMG Audit Division of KPMG S.A.		Deloitte & Associés	
Isabelle Allen	Grégoire Menou	Frédéric Moulin	Stéphane Rimbeuf

5. KERING SA FINANCIAL STATEMENTS

5.1 Balance sheet – Assets

as of December 31, 2018 and 2017

ASSETS				Dec. 31, 2018	Dec. 31, 2017
(in € millions)	Notes	Gross	Depreciation, amortization and provisions	Carrying amount	Carrying amount
Non-current assets					
Investments		9,934.3	(1,750.7)	8,183.6	9,417.9
Other long-term investments (1)		450.6		450.6	270.5
	3	10,384.9	(1,750.7)	8,634.2	9,688.4
Property, plant and equipment and intangible assets	4	258.6	(49.1)	209.4	135.1
Non-current assets		**10,643.5**	**(1,799.8)**	**8,843.6**	**9,823.5**
Current assets					
Receivables (2) (3)	5	223.8	(4.1)	219.7	244.0
Cash (3)	6	1,032.3		1,032.3	4,859.4
Current assets		**1,256.0**	**(4.1)**	**1,252.0**	**5,103.4**
TOTAL ASSETS		**11,899.5**	**(1,803.9)**	**10,095.6**	**14,926.9**
(1) o/w due in less than one year:				*187.9*	*19.6*
(2) o/w due in more than one year:				*6.3*	*0.0*
(3) o/w concerning associates:				*1,215.5*	*5,024.1*

5.2 Balance sheet – shareholders' equity and liabilities as of December 31, 2018 and 2017

SHAREHOLDERS' EQUITY AND LIABILITIES *(in € millions)*	Notes	Dec. 31, 2018	Dec. 31, 2017
Shareholders' equity			
Share capital		505.1	505.1
Additional paid-in capital		2,052.4	2,052.4
Reserves	7	1,585.6	1,585.5
Retained earnings		613.4	2,160.0
Net income for the year		1,656.6	3,915.0
Shareholders' equity		**6,413.0**	**10,218.0**
Provisions	8	**129.1**	**109.1**
Liabilities			
Bonds [(1)]	9.1	2,837.0	4,100.1
Other borrowings [(1)] [(3)]	9.1	31.1	42.6
Other liabilities [(2)] [(3)]	10	685.4	457.1
		3,553.5	**4,599.8**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**10,095.6**	**14,926.9**
(1) o/w due in more than one year:		*2,592.0*	*3,600.2*
(2) o/w due in more than one year:		*0.0*	*0.0*
(3) o/w concerning associates:		*116.2*	*83.1*

5.3 Income statement

For the years ended December 31, 2018 and 2017

(in € millions)	Notes	2018	2017
Operating income		366.4	299.3
Operating expenses		(401.6)	(320.8)
Net operating loss	**12**	**(35.3)**	**(21.5)**
Dividends		1,010.3	3,839.4
Other financial income and expenses		(73.2)	(95.6)
Net financial income	**13**	**937.1**	**3,743.8**
Recurring income before tax		**901.8**	**3,722.3**
Net non-recurring income	14	725.7	67.4
Employee profit-sharing		(7.3)	(3.9)
Income tax	15	36.3	129.2
Net income for the year		**1,656.6**	**3,915.0**

5.4 Statement of cash flows

For the years ended December 31, 2018 and 2017

(in € millions)	2018	2017
Dividends received	1,010.3	3,839.4
Interest on borrowings	(71.5)	(95.0)
Income tax paid/received	44.8	105.1
Other	2.9	(63.2)
Change in cash resulting from operating activities	**986.5**	**3,786.3**
(Acquisitions)/disposals of operating assets	(118.0)	(69.5)
Change in long-term investments	(2,647.4)	(0.1)
Change in cash resulting from investing activities	**(2,765.4)**	**(69.6)**
Net change in borrowings	(1,290.5)	(55.6)
Share capital increases	-	-
Dividends paid by Kering	(757.7)	(580.9)
Change in cash resulting from financing activities	**(2,048.2)**	**(636.5)**
Change in cash and cash equivalents	**(3,827.1)**	**3,080.2**
Cash and cash equivalents at beginning of year	**4,859.4**	**1,779.2**
Cash and cash equivalents at end of year	**1,032.3**	**4,859.4**

5.5 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	Share-holders' equity
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**
Appropriation of 2017 net income				3,915.0	(3,915.0)	-
Dividends paid				(505.1)		(505.1)
PUMA stock dividends				(4,514.5)		(4,514.5)
Interim dividend				(442.0)		(442.0)
2018 net income					1,656.6	1,656.6
As of December 31, 2018	**126,279,322**	**505.1**	**2,052.4**	**2,198.9**	**1,656.6**	**6,413.0**

As of December 31, 2018, Kering's share capital comprised 126,279,322 shares with a par value of €4.00 each.

5.6 Notes to the annual financial statements

Note 1 2018 highlights

At the Annual General Meeting held on April 26, 2018, acting further to the proposal made by the Board of Directors on January 11, 2018, Kering's shareholders approved the payment of an exceptional stock dividend in the form of PUMA SE shares, in addition to the annual ordinary dividend of €6.00 per share. The distribution was made on May 16, 2018, at a ratio of 1 PUMA share for 12 Kering shares held.

Following the transaction, Kering retains 2,368,558 PUMA shares, or 15.70% of PUMA's share capital and 15.85% of its shares outstanding and voting rights.

The relinquishment of control of PUMA following the distribution of the stock dividend gave rise to a net gain of €797.5 million in 2018.

Following this exceptional distribution, all of the assets and liabilities of Sapardis SE were transferred to Kering SA.

In 2018, Kering carried out two bond redemptions at par value (excluding accrued interest):

- on April 9, 2018, the Group redeemed a total of €405 million;
- on October 9, 2018, the Group redeemed a total of €369.8 million.

Kering also redeemed a bond issue of €500 million maturing on October 8, 2018.

On October 29, 2018, Kering announced the launch of a stock repurchase program, pursuant to the authorization granted at the April 26, 2018 Annual General Meeting.

The purchased shares will subsequently be canceled.

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 amortization 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, now known as ANC) on June 15, 2007, the Company elected to recognize 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 recognized 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 option and free share plans are recorded under "Marketable securities". No impairment is recognized on treasury shares to reflect the share price.

Other shares

Shares are recorded at their acquisition cost. An impairment loss is recognized 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 unrealized capital losses. No unrealized capital gains are recognized.

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 recognized 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 unrealized losses, while unrealized gains are not recognized.

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 2018.

The accounting principles are as follows:

- the principle of symmetrically offsetting the realized and unrealized 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 recognized 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 unrealized losses for all derivatives not recognized 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 unrealized losses and as a liability for unrealized gains. A contingency provision is recorded to cover any unhedged unrealized 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 recognized 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 amortized over the term of the bond.

For convertible bonds, the redemption premium is recognized 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 recognized 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 recognizes 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 Long-term investments

(in € millions)	As of Dec. 31, 2017	Increase	Decrease	Reclassification	As of Dec. 31, 2018
Gross value					
Investments	**11,169.4**	**6.5**	**(268.0)**	**(973.7)**	**9,934.3**
Kering Holland NV	6,804.2				6,804.2
Marothi merger loss (1)	344.0				344.0
Redcats	1,776.6				1,776.6
Sapardis	1,804.0			(1,804.0)	0.0
PUMA				506.1	506.1
Sapardis merger loss (1)			(264.7)	324.4	59.7
Discodis	299.7				299.7
Yves Saint Laurent SAS	81.8				81.9
Other	59.1	6.5	(3.3)	(0.2)	62.2
Other long-term investments	**270.5**	**273.5**	**(93.4)**	**0.0**	**450.6**
Treasury shares (liquidity agreement) (2)	0.0	93.4	(93.4)		0.0
Treasury shares (for cancellation) (2)	0.0	168.3			168.3
Other investment securities	0.0				0.0
Loans and accrued interest on loans (3)	269.8	11.8			281.6
Deposits and guarantees	0.7				0.7
Gross value	**11,439.9**	**280.0**	**(361.4)**	**(973.7)**	**10,384.9**
Impairment losses					
Investments	**(1,751.5)**	**(6.3)**	**7.0**	**0.0**	**(1,750.8)**
Redcats	(1,735.7)		7.0		(1,728.7)
Other	(15.8)	(6.3)	0.0		(22.1)
Other long-term investments					
Impairment losses	**(1,751.5)**	**(6.3)**	**7.0**	**0.0**	**(1,750.8)**
Carrying amount	**9,688.4**				**8,634.1**

(1) *The Financière Marothi merger loss was allocated to the Kering Holland NV (KHNV) shares. Changes in the underlying assets did not give rise to recognition of an impairment as of December 31, 2018.*
All of the assets and liabilities of Sapardis SE were transferred to Kering SA in 2018, resulting in a merger loss of €59.7 million, which was allocated to the investment in PUMA.
(2) *The amount corresponding to treasury shares is unavailable in tax-driven reserves.*
(3) *Loans mainly include a €262 million (USD 300 million) loan with Kering Finance.*

Treasury share transactions

In 2018, the Group purchased 209,253 shares and sold 209,253 shares under the liquidity agreement.

As no stock subscription options were exercised in 2018, the share capital as of December 31, 2018 remained unchanged from December 31, 2017, 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 €5.0 million in the liquidity account with the financial broker.

As of December 31, 2018 and December 31, 2017, Kering held no shares in treasury under the liquidity agreement.

Stock repurchase program

Within the scope of the stock repurchase program authorized at the Annual General Meeting of April 26, 2018, the Group set up a stock repurchase agreement with an investment services provider on October 29, 2018. The agreement concerns a first tranche covering a maximum volume of 631,000 shares (corresponding to approximately 0.5% of the share capital), up to an amount of €300 million and with a maximum price per share of €480. The purchases will be carried out over a period not exceeding four months, and the purchased shares will subsequently be canceled.

In 2018, the Group purchased 429,017 shares, which it still held in treasury as of December 31, 2018.

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, 2017	126.5	44.0	170.5
Acquisitions	81.9	6.2	88.1
Reclassification			
Other movements			
Disposals		(0.1)	(0.1)
December 31, 2018	**208.4**	**50.1**	**258.5**
Depreciation, amortization and provisions			
December 31, 2017	(23.9)	(11.5)	(35.4)
Additions	(10.3)	(3.4)	(13.7)
Reversals on disposals			
December 31, 2018	**(34.2)**	**(14.9)**	**(49.1)**
Carrying amount			
December 31, 2017	102.6	32.5	135.1
December 31, 2018	**174.2**	**35.2**	**209.4**

Note 5 Receivables

These line items break down as follows:

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Tax consolidation current accounts	28.8	14.9
Income tax benefit	10.1	25.1
Group customers	161.3	154.9
Bond issue premiums	(4.1)	(2.8)
Other (1)	17.3	41.7
Prepaid expenses (2)	6.3	10.2
TOTAL	**219.7**	**244.0**
o/w concerning associates:	190.2	169.9

(1) o/w €6.6 million in non-Group customer receivables and €9.8 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, 2018	Dec. 31, 2017
Treasury shares pending employee grants	-	-
Listed securities	-	-
Marketable securities	**0.0**	**0.0**
Bank deposits and fund transfers	7.0	5.2
Cash current accounts	1,025.3	4,854.2
Cash	**1,032.3**	**4,859.4**
CASH AND CASH EQUIVALENTS	**1,032.3**	**4,859.4**
o/w concerning associates:	1,025.3	4,854.2

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, 2018	Dec. 31, 2017
Legal reserve	51.4	51.4
Tax-driven reserves	1,293.5	1,293.5
Other reserves	240.3	240.3
Reserves	**1,585.2**	**1,585.2**
Tax-driven provisions	0.4	0.3
TOTAL	**1,585.6**	**1,585.5**

Note 8 Provisions

(in € millions)	Dec. 31, 2017	Additions	Reversals (utilized provisions)	Reversals (surplus provisions)	Dec. 31, 2018
Disputes	9.0		3.2	2.0	3.8
Risks relating to subsidiaries	80.1	27.9	2.9		105.1
Pensions and other employee benefit obligations	8.7	0.4			9.1
Other contingencies	11.2		0.3		10.9
Foreign exchange risk	0.1	0.1	0.1		0.1
TOTAL	**109.1**	**28.5**	**6.5**	**2.0**	**129.1**
o/w:					
operating items		0.3			
financing items		0.2	3.1		
non-recurring items		27.9	3.4	2.0	

The main actuarial assumptions used to determine pensions and other employee benefit obligations are:

- discount rate of 1.75% (unchanged from 2017);
- salary increase rate of 3.00% (unchanged from 2017).

Note 9 Borrowings

Bond issues

Euro-denominated bond issues

(in € millions)	Interest rate	Issue date	Hedge	Maturity	Dec. 31, 2018	Dec. 31, 2017
Bond issue (1)	3.125% fixed	04/23/2012	-	04/23/2019	**245.0**	500.0
Bond issue (2)	2.50% fixed	07/15/2013	-	07/15/2020	**360.0**	500.0
Bond issue (3)	1.875% fixed	10/08/2013	-	10/08/2018	-	500.0
Bond issue (4)	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 (5)	1.375% fixed	10/01/2014	-	10/01/2021	**345.0**	500.0
Bond issue (6)	0.875% fixed	03/27/2015	-	03/28/2022	**275.0**	500.0
Bond issue (7)	1.60% fixed	04/16/2015	-	04/16/2035	**50.0**	50.0
Bond issue (8)	1.25% fixed	05/10/2016	-	05/10/2026	**500.0**	500.0
Bond issue (9)	1.50% fixed	04/05/2017	-	04/05/2027	**300.0**	300.0

*(1) Issue price: bond issue, comprising 245,000 bonds with a par value of €1,000 each under the EMTN program, with 500,000 bonds issued on April 23, 2012. A total of 200,000 of these bonds were redeemed on April 9, 2018 and a further 55,000 on October 9, 2018.
Redemption: in full on April 23, 2019.*

*(2) Issue price: bond issue, comprising 3,600 bonds with a par value of €100,000 each under the EMTN program, with 5,000 bonds issued on July 15, 2013. A total of 1,400 of these bonds were redeemed on October 9, 2018.
Redemption: in full on July 15, 2020.*

*(3) Issue price: bond issue on October 8, 2013, comprising 5,000 bonds with a par value of €100,000 each under the EMTN program.
Redemption: in full on October 8, 2018.*

*(4) Issue price: bond issue on April 8, 2014, comprising 1,000 bonds with a par value of €100,000 each under the EMTN program, with 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.*

*(5) Issue price: bond issue, comprising 3,450 bonds with a par value of €100,000 each under the EMTN program, with 5,000 bonds issued on October 1, 2014. A total of 1,000 of these bonds were redeemed on April 9, 2018 and a further 550 on October 9, 2018.
Redemption: in full on October 1, 2021.*

*(6) Issue price: bond issue, comprising 2,750 bonds with a par value of €100,000 each under the EMTN program, with 5,000 bonds issued on March 27, 2015. A total of 1,052 of these bonds were redeemed on April 9, 2018 and a further 1,198 on October 9, 2018.
Redemption: in full on March 28, 2022.*

*(7) Issue price: bond issue on April 16, 2015, comprising 500 bonds with a par value of €100,000 each under the EMTN program.
Redemption: in full on April 16, 2035.*

*(8) Issue price: bond issue on May 10, 2016, comprising 5,000 bonds with a par value of €100,000 each under the EMTN program.
Redemption: in full on May 10, 2026.*

*(9) Issue price: bond issue on April 5, 2017, comprising 3,000 bonds with a par value of €100,000 each under the EMTN program.
Redemption: in full on April 5, 2027.*

USD-denominated bond issues

(in € millions)	Interest rate	Issue date	Hedge	Maturity	Dec. 31, 2018	Dec. 31, 2017
Bond issue [1]	Floating 3-month USD Libor +0.73%	03/09/2015	-	03/09/2020	**131.0**	125.1
Bond issue [2]	2.887% fixed	06/09/2015	-	06/09/2021	**131.0**	125.1

(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 under the EMTN program, 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 program, 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 program 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, 2018	Dec. 31, 2017
Bonds	**2,837.0**	**4,100.1**
Interest on bond issues	31.1	42.4
Bank overdrafts	0.0	0.2
Cash current accounts	-	-
Other borrowings	**31.1**	**42.6**
TOTAL	**2,868.1**	**4,142.7**
o/w concerning associates:	-	-

As of December 31, 2018 and 2017, no borrowings were secured by collateral.

9.2 Breakdown by maturity

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Less than one year	276.1	542.5
One to five years	1,242.0	2,250.2
More than five years	1,350.0	1,350.0
TOTAL	**2,868.1**	**4,142.7**

9.3 Net debt

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Borrowings	2,868.1	4,142.7
Marketable securities	-	-
Cash	(1,032.3)	(4,859.4)
NET DEBT	**1,835.9**	**(716.7)**

9.4 Information on interest rates

	Dec. 31, 2018	Dec. 31, 2017
Average gross interest rate over the year	1.98%	2.22%
% average gross debt at fixed rates	96.50%	96.90%
% average gross debt at floating rates	3.50%	3.10%

Note 10 Other liabilities

These line items break down as follows:

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Tax consolidation current accounts	15.6	6.3
Dividends payable	442.0	252.6
Tax and employee-related liabilities	90.8	57.2
Other (1)	136.9	141.0
TOTAL	**685.4**	**457.1**
o/w concerning associates:	116.2	83.1

(1) "Other" includes accrued expenses of €97 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, 2018.

11.2 Other off-balance sheet commitments

(in € millions)	Dec. 31, 2018	Dec. 31, 2017
Endorsements and guarantees in favor of:		
associates	-	-
third parties outside the Group	9.1	5.5
Endorsements and guarantees	**9.1**	**5.5**
Collateral: in favor of subsidiaries	-	-
in favor of third parties	-	-

Note 12 Net operating loss

Net operating loss breaks down as follows:

(in € millions)	2018	2017
Group management fees	218.3	172.5
Revenue from investments	7.7	7.5
Other income (1)	140.3	119.3
Rent and related charges	(16.5)	(14.4)
Payroll expenses and taxes (3)	(122.9)	(79.3)
Management fees	(71.8)	(60.5)
Other external expenses (2)	(181.7)	(160.0)
Income tax and other levies	(8.7)	(6.6)
TOTAL	**(35.3)**	**(21.5)**
o/w Directors' fees:	(0.9)	(0.9)

(1) Other income mainly comprises IT services.
(2) Other external expenses mainly comprise IT services.
(3) Payroll expenses and taxes rose by €43.7 million, due mainly to an increase in headcount.

Note 13 Net financial income

Net financial income breaks down as follows:

(in € millions)	2018	2017
Net interest expense	**(73.2)**	**(95.6)**
Expenses and interest on non-Group debt	(73.2)	(95.6)
Dividends	**1,010.2**	**3,839.4**
Kering Netherlands BV	-	450.0
Kering Holland NV	800.0	3,335.4
PUMA	161.1	-
Kering Finance	49.0	53.9
Other	0.1	0.1
TOTAL	**937.0**	**3,743.8**
o/w concerning associates:		
Dividends	1,010.2	3,839.4

Note 14 Net non-recurring income

Net non-recurring income breaks down as follows:

(in € millions)	2018	2017
Net proceeds from disposals of operating assets	(0.0)	(3.9)
Net proceeds from disposals of securities, impairment losses and related transactions	729.5	75.6
Cost of disputes, litigation and restructuring	(2.4)	(6.5)
Other non-recurring income/(expense)	(1.4)	2.2
TOTAL	**725.7**	**67.4**

In 2018, net non-recurring income mainly reflects the gain on the sale of PUMA's shares for €797.5 million.

Note 15 Income tax

Income tax breaks down as follows:

(in € millions)	2018	2017
Tax consolidation benefit	36.5	45.7
Income tax on dividends	-	(11.7)
Surtax on dividends and interest on arrears	-	96.5
Other	(0.2)	(1.3)
TOTAL	**36.3**	**129.2**

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 fulfills all relevant tax obligations.

The tax consolidation group comprised 41 companies in 2018 and 39 in 2017.

If no tax consolidation arrangement had existed, the Company would have paid income tax in the amount of €5.5 million.

As of December 31, 2018, ordinary tax loss carry-forwards amounted to €1,370.4 million.

Note 16 Deferred tax assets and liabilities (32.02% rate)

(in € millions)	
Deferred tax assets	
Retirement termination benefits	1.4
Employee profit-sharing	2.2
Other	0.0

Note 17 Other information

17.1 Average headcount

The Company had an average of 346 employees (323 managerial-grade employees (*cadres*) and 23 other employees) in 2018 compared to 279 in 2017.

17.2 Fees paid to Statutory Auditors

Statutory Auditors' fees recorded in the income statement are shown below:

	KPMG Audit		Deloitte & Associés	
(in € thousands)	2018	2017	2018	2017
Statutory audit and interim review of the parent company and consolidated financial statements	328	328	300	300
Non-audit services	123	66	62	138
TOTAL	**451**	**394**	**362**	**438**

17.3 Executive compensation

In 2018, total compensation of €49.6 million was awarded to members of the governance and management bodies, versus €32.2 million in 2017.

17.4 Consolidating company

Kering SA is controlled by Artémis, which holds 40.90% 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 €5.1 million in 2018 compared with an expense of €4.0 million in 2017.

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") recognized by the Company amounted to €119,016 as of December 31, 2018.

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

At its February 11, 2019 meeting, Kering's Board of Directors decided to ask shareholders to approve a €10.50 per-share cash dividend for 2018 at the Annual General Meeting to be held on April 24, 2019 to approve the financial statements for the year ended December 31, 2018.

An interim cash dividend of €3.50 per share was paid on January 17, 2019 pursuant to a decision made by the Board of Directors on December 14, 2018.

Subject to shareholders' approval, the cash dividend will have an ex-dividend date of May 2, 2019 (before market opening), and will be paid on May 6, 2019 based on the positions established as of the evening of May 3, 2019.

Subsidiaries and investments as of December 31, 2018

(in € thousands)		Share capital	Shareholders' equity excl. share capital and net income	% of capital held
I - DETAILED INFORMATION				
A – Subsidiaries (more than 50%-owned and representing over 1% of the share capital)				
Conseil et Assistance	France	2,010	2,211	90.00
Discodis	France	153,567	152,675	100.00
Kering Holland NV	Netherlands	108 (1)	1,260 (1)	100.00
Christopher Kane Limited (2)	United Kingdom	1 (1)	(22,921) (1)	51.00
Kering International (2)	United Kingdom	14,089 (1)	1,111 (1)	100.00
Kering Standards	France	1,020	(713)	100.00
Redcats	France	401	9,020	100.00
Trémi 2	France	20,710	(6,349)	100.00
	Sub-total			
B – Investments (less than 50%-owned and representing over 1% of the share capital)				
Yves Saint Laurent	France	123,811 (1)	18,002 (1)	1.97
PUMA	Germany	38,263 (1)	498,732 (1)	15.70
	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, 2017.
(2) GBP exchange rate as of December 31, 2017.
(3) Including the Financière Marothi merger loss of €344,066,000.
(4) Including the Sapardis merger loss of €59,591,000.

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					
7,724	3,870				79	
299,736	299,736				(621)	
7,148,219 [3]	7,148,219 [3]				650 [1]	800,000
12,174	328			4,822 [1]	(11,822) [1]	
14,773	14,773			10,221 [1]	530 [1]	
6,510	307					
1,776,636	47,938				30,028	
20,475	20,475				11,022	
9,286,247	**7,535,645**					
81,873	81,873			261,940 [1]	20,274 [1]	
565,710 [4]	565,710 [4]			629,200 [1]	128,679 [1]	161,148
647,583	**647,583**					
552	413					
31	0					
0	0					
0	0					
9,934,414	**8,183,641**					

5.7 Other information

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)

	Article D.441 (I.) (1°): 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	24					366
Total amount of invoices (excl. VAT)	324,157.36	12,261,050.75	756,871.88	736,764.76	1,045,682.40	14,800,369.79
As a % of total purchases for the reporting period (excl. VAT)	0.12%	4.54%	0.28%	0.27%	0.39%	5.60%
As a % of revenue for the year (excl. VAT)						
(B) Invoices excluded from (A) – relating to contested or unrecognized 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.
Parties may make exceptions to this principle. However, the term agreed by the parties may not exceed 60 days or, as 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.

Article D.441 (I.) (2°): 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)
3					287
40,000.00	3,702,248.01	364,953.59	11,899,770.42	5,837,982.17	21,804,954.19
0.01%	1.01%	0.10%	3.25%	1.59%	5.96%
N/A					
N/A					
Contractual terms: 30 days from date of invoice					

5.8 Five-year financial summary

	2018	2017	2016	2015	2014
Share capital at year-end					
Share capital *(in €)*	505,117,288	505,117,288	505,117,288	505,117,288	505,065,960
Number of ordinary shares outstanding	126,279,322	126,279,322	126,279,322	126,279,322	126,266,490
Maximum number of potential shares to be issued	0	0	0	0	14,146
by conversion of bonds					
by exercise of stock subscription options	0	0	0	0	14,146
Operations and results for the year *(in € thousands)*					
Income from operating activities	224,867	178,416	92,248	80,383	70,811
Net income before tax, employee profit-sharing, depreciation, amortization and provisions	1,661,867	3,717,240	618,657	481,459	968,460
Income tax (expense)/benefit	36,297	129,219	27,436	23,500	22,320
Employee profit-sharing for the year	7,264	3,889	2,809	2,071	2,406
Net income after tax, employee profit-sharing, depreciation, amortization and provisions	1,656,574	3,914,991	682,887	527,399	817,551
Dividend distribution	1,325,933 (1)	757,676	580,885	505,117	505,066
Per share data *(in €)*					
Net income after tax, employee profit-sharing, but before depreciation, amortization and provisions	13.39	30.43	5.09	3.98	7.83
Net income after tax, employee profit-sharing, depreciation, amortization and provisions	13.12	31.00	5.41	4.18	6.47
Dividend:					
Net dividend per share (2)	10.50 (1)	6.00	4.60	4.00	4.00
Employee data					
Average number of employees during the year	346	279	259	240	194
Total annual payroll *(in € thousands)*	79,737	52,852	36,964	32,114	27,124
Total employee benefits paid during the year (social security, social works, etc.) *(in € thousands)*	27,437	17,317	14,648	12,617	11,169

(1) *Subject to the approval of the Annual General Meeting to be held on April 24, 2019. Including an interim dividend of €3.50 per share paid on January 17, 2019.*

(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.*

6. STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

Year ended December 31, 2018

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 Kering's Shareholder's General Meeting,

Opinion

In compliance with the engagement entrusted to us by the Shareholders' Meetings, we have audited the accompanying annual financial statements of Kering SA for the year ended December 31, 2018.

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, 2018 and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

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, 2018 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

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, 2018 for a gross amount of €9,934.3 and a net amount of €8,183.5 million, represent one of the most significant balance sheet items. They are recognized at their date of entry at acquisition cost, including acquisition expenses. 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 and the share of consolidated or revalued shareholders' equity. Other methods are used when necessary. An impairment loss is recorded when this value falls below the gross value. Given the materiality of 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 matter.	To assess the reasonableness of the estimated values in use of long-term investments, based on the information communicated to us, our work mainly consisted in: • verifying that the estimated values in use determined by Management are 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, taking into account the share of consolidated or revalued shareholders' equity and the profitability outlook; • verifying the calculation of revalued shareholders' equity; • verifying the correct valuation of PUMA securities based on the stock market price at the reporting date.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law and regulations.

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.

We attest to the fair presentation and consistency with the financial statements of the payment term disclosures required by Article D. 441-4 of the French Commercial Code.

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.

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code relating to remuneration and benefits received by the corporate officers and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from controlling and controlled companies. Based on this work, we attest to the accuracy and fair presentation of this information.

Concerning the information relating to the items that your Company considered liable 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 its consistency with the underlying documents communicated to us. Based on our work, we have no matters to report with regard to 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 SA by the Shareholders' Meeting of June 18, 1992 for KPMG and May 18, 1994 for Deloitte & Associés.

As of December 31, 2018, KPMG was in its 27th year of uninterrupted engagement and Deloitte & Associés in its 25th 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 for 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 expects to liquidate the Company or to cease 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, 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 judgment throughout the audit and furthermore:

- 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;
- evaluates 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 pursuant to 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, February 12, 2019

The Statutory Auditors

KPMG Audit
Division of KPMG SA

Isabelle Allen   Grégoire Menou

Deloitte & Associés

Frédéric Moulin   Stéphane Rimbeuf

7. STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED-PARTY AGREEMENTS AND COMMITMENTS WITH THIRD PARTIES

Shareholders' Meeting held to approve the financial statements for the year ended December 31, 2018

*This is a free translation into English of the Statutory Auditors' special report on regulated-party 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-party 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 Kering's Shareholder's General Meeting,

In our capacity as Statutory Auditors of your Company, we hereby report to you on regulated-party 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 authorized by the Shareholders' Meeting and having continuing effect during the year, if any.

We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French Institute of Statutory Auditors (*Compagnie nationale des commissaires aux comptes*) relating to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

Agreements and commitments submitted to the approval of the Shareholders' Meeting

Agreements and commitments authorized during the year

We inform you that we have not been advised of any agreement or commitment authorized during the year subject to the approval of the Shareholders' Meeting pursuant to Article L. 225-38 of the French Commercial Code.

Agreements and commitments previously approved by the Shareholders' Meeting

Agreements and commitments authorized in previous years and having continuing effect during the year

Pursuant to Article R. 225-30 of the French Commercial Code, we have been advised that the following agreements and commitments authorized in previous years by the Shareholders' Meeting have had continuing effect during the year.

• Support agreement for services provided by Artémis SAS

Pursuant to the terms of a support agreement signed on September 27, 1993 between Kering SA and Artémis SAS, it being specified that this company was converted from a public limited liability company (*société anonyme*) into a simplified limited liability company (*société par actions simplifiée*) on July 23, 2018 Artémis SAS carries out research and advisory work for Kering SA in the following areas:

- strategy and development of the Kering SA 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 SA Supervisory Board authorized payment for these services amounting to 0.037% of consolidated net revenue (excluding VAT).

In line with the appropriate modifications to Kering SA'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 SA Audit Committee would perform, in addition to the usual annual review of the substance of the support provided by Artémis SAS to Kering SA, an annual assessment of the services and their fair price given the facilities provided and the cost savings realized in the common interest.

The methods for assessing the contractually agreed amount were reviewed by the Audit Committee which, at its meeting of February 7, 2019, noted that Kering SA had continued to benefit, during 2018, from the advice and assistance of Artémis SAS on recurring issues including communications, public and institutional relations, as well as the development strategy and its implementation and access to a luxury environment (loans of artwork; access to premises).

At its February 11, 2019 meeting, your Board of Directors re-examined this agreement, and duly noted the payment of €5,077,000 (excluding VAT) under this agreement in respect of 2018, it being specified that the revenue from Kering Eyewear and of discontinued operations were excluded from the calculation of this fee, as was the case in previous years.

Persons involved:

- Artémis SAS, a shareholder of Kering SA with more than 10% of the voting rights;
- François-Henri Pinault, Chairman and Chief Executive Officer of Kering SA, Deputy Managing Director of Artémis SA and subsequently Chairman of Artémis SAS;
- Patricia Barbizet, Director of Kering SA until December 14, 2018 and of Artémis SA until July 23, 2018;
- Jean-François Palus, Director and Group Managing Director of Kering SA, Deputy Managing Director of Artémis SA and subsequently of Artémis SAS.

Paris La Défense, March 20, 2019

The Statutory Auditors

KPMG Audit *Division of KPMG SA*		Deloitte & Associés	
Isabelle Allen	Grégoire Menou	Frédéric Moulin	Stéphane Rimbeuf

CHAPTER 6
Risk management

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 Group's risk management and internal control system 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, which were analyzed in depth when the risk management policy was drafted. This policy is set out in the section entitled "Components of risk management".

1.1 Scope and principles of organization

Kering is the parent company of the Kering group, whose entities operate in the Luxury industry. The following report aims to describe the internal control procedures in the Group and especially those 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, organizing 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 organization of the Group. It is both:

- decentralized 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 Asia-Pacific and Kering Americas.

The section dedicated to internal control procedures covers the Group's activities.

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 and compliance risks. 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 other 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 2018, 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 organizational framework, a three-step risk management process and continuous monitoring of the system.

1.3.1 Organizational framework

This organizational framework includes:

- an organization 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, analyze 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 Chief Audit Executive, the Head of the Security Department and the Risk Manager. 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, reputation and compliance risks that could have an impact on the Group's business operations. Internal rules determine how the Committee is managed, 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, reputation 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 minutes of 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 Group's activities analyze the main risks within their scope of business, and provide the members of the Risk Committee, prior to each meeting, with the information and documents necessary for their work and their discussions.

Risk management policy

After reviewing in particular the COSO internal control framework, the Group implemented a risk management policy that was sent to 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 centralize the main risks. A risk is characterized by an event, one or more internal or external sources, and one or more consequences. Risk identification within the Group is an ongoing process;
- **analyzing risks:** this step involves reviewing the potential consequences of the main risks (for example, financial, human, legal or reputation-related 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 once 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 that guarantees a common methodology across all 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 analyze the main risks and to learn from risks that have materialized.

The Risk Committee meets in principle at least twice a year to review the risk maps drawn up by the Group Internal Audit Department, 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 2018, and the Audit Committee and Board of Directors were apprised of its work in October 2018.

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 analyze the main risks. Risks are dealt with and addressed in action plans that can be adapted to the organization, 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 structure combining resources, 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, reputation 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 among multiple 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 intended to remedy.

Furthermore, in pursuing the objectives indicated above, it is understood that 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 organization, 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 organization that clearly defines responsibilities and has adequate resources and skills;
- a system to identify, analyze 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 decentralized organization 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 Charter several years ago, which was updated in 2012 and provides the framework for the decentralization of the organization and the responsibility of senior executives. The Charter defines the guiding principles governing the relations between Kering and its 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 time frames, and (iii) those requiring Kering's prior authorization.

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 in environmental protection. It also presents new developments in the Group's ethics organization (setting up regional Asia-Pacific and Americas Ethics Committees, on top of the Group Ethics Committee, created in 2005, and an ethics hotline available to all Group employees worldwide) and the steps to take in cases of suspected non-compliance with Kering ethics commitments.

The Code of Ethics 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 particular, it contains 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 annual online training program in ethics and Code compliance was rolled out for all Kering employees worldwide in 2014. It is based on case studies that show ethics in the light of daily professional life, and is updated annually.

The Ethics Committees are composed of representatives of the Group's brands and Kering staff. This entire structure is managed by Kering's Chief Sustainability Officer and Head of International Affairs.

The Ethics Committees have three main functions:

- supervising the circulation and application of the Code of Ethics and the principles that it defends;
- responding to any issues raised by a Group employee, be it a simple request for clarification or a question relating to the interpretation of the Code and its application, or a claim submitted to the Committee due to alleged non-compliance with one of the Group's ethical principles;
- generating initiatives for developing the Group's sustainable development policy and activities.

The changes made to the Code and the organization of ethics within the Group are examined in detail in Chapter 3 "Sustainability" of this Reference Document.

Finally, it should be noted that Kering's Code of Ethics was again updated in 2018 and will be circulated to all Group employees worldwide in 2019.

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 Group's activities. The survey was conducted again in 2015. The Group develops cross-functional training programs and conducts annual reviews of its managerial resources. Kering thus ensures that there is a good match both now and in future between the managerial resources and the challenges facing the 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 Organization and resources

The organization 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 Management and Risk Management Departments and the Statutory Auditors.

Executive Committee

The Kering group Executive Committee, which is an Executive Management body, comprises 12 members, as described in Chapter 4, section 2.5 of this Reference Document (see page 185).

The Executive Committee meets regularly 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 brands;
- propose acquisitions and disposals to the Board of Directors;
- ensure proper implementation of the policies and projects defined within the framework of Kering Sustainability.

Kering group strategies and goals are discussed each year via the medium-term plans and the budgets of the business units of each of its activities.

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 organization.

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 need 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 follow the principles and rules of control and can 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.

The duties of the Board of Directors are presented in section 2.2.1 of Chapter 4 of this Reference Document, on page 175.

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 an Internal Audit Department that is 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.

The composition of the Audit Committee and its duties are presented in section 2.3.3 of Chapter 4 of this Reference Document, on page 182.

Internal Audit and Risk Management Department

Kering group's Internal Audit Department ensures that the audit teams are provided with full coverage of the Group.

Through its work, the Internal Audit Department helps assess the internal control system and recommends improvements.

It is also in charge of coordinating risk management, in particular through risk mapping and action plan monitoring. The Chief Audit Executive reports the main results of his assessments to Executive Management and the Audit Committee.

At the level of Kering, the Internal Audit Department reports to the Chairman. It coordinates, harmonizes and optimizes 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 Internal Audit Department centrally administers and analyzes 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 Internal Audit Department also performs active intelligence monitoring with regard to best internal control practices. It checks the control procedures implemented by other Departments and conducts operational and financial audits within its remit. In 2018, the Internal Audit teams together conducted thirty-two audit assignments, excluding audits in stores.

The Internal Audit Department draws up the audit plan based, in particular, on the Group's process guidelines and on the major risks identified for the brands. It takes account of special requests from senior management and other operational departments. These projects are discussed with the main persons in charge. The Audit Committee reviews and approves the final audit plan.

The main issues identified by the Internal Audit Department are reported to the Audit Committee. In this way, the Audit Committee is 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 2018, the Internal Audit Department of the Kering group consisted of 19 employees, versus 19 in 2017 and 20 in 2016. Their rules of conduct are described in their Audit Charter, of which a new version was published in 2018. The Charter stipulates that:

- at the end of each audit, the findings and recommendations are presented to the managers of the area or areas concerned;
- any agreements or disagreements made known by the audited parties concerning the proposed recommendations are included in the final report, which 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 Committee and the results of the work performed by the Statutory Auditors.

The Internal Audit Department updates the Audit Committee on progress made on the audit plan and the follow-up of the action plans at least once a year.

In 2013, Kering's Internal Audit Department published charters that establish the methodology shared by all Group activities: the audit manual and the audit approach document.

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 presented 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 150 to 152 and 359 to 364.

1.6.3 Risk management

The risk management system is described in Chapter 6, section 2 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 on three levels: 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 the activities 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 Department or the Audit Committee; it is also a system that allows the Executive Management teams 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 analyze internal control is based on the following principles:

- a self-assessment, using questionnaires, conducted with the key operational staff members in the Group's activities following the breakdown of operations into key processes. The overhaul of the self-assessment questionnaires was continued in 2018 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 harmonize 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 some 60 questions on the Group's mandatory key controls. It is circulated among the largest subsidiaries in the Group's activities. There was no change in the scope of processes covered in 2018.

Since 2013, the Internal Audit Department has extended its self-assessment procedures to stores throughout the Group's Houses. These half-yearly 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

1.7.1 Organization of the accounting and management function

Financial and accounting information is prepared by the Group 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 finalizes 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 Group's 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 association with their financial controllers, an analytical review by comparison with the budget and the previous year;
- monthly meetings of Kering's Executive Management and the senior executives of the Group's activities to assess business trends on the basis of financial and operational data provided by meeting 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.

1.7.2 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 and the specific points to be taken into account.

1.7.3 Financial Communications Department

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 various channels (periodic publications, press releases) and via all means of communication, including press, internet, direct telephone contact and individual meetings.

1.7.4 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 analyzed on a case-by-case basis according to specific opportunities or constraints and require Kering's agreement.

Internal control is strengthened by the centralization 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 brands 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 establishes and manages the Group's policy on insurance. 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.

2. PRESENTATION OF RISKS

2.1 Risk ranking

The risks identified by the Group have been ranked according to their level of criticality, which is based on their likelihood and the severity of their impacts, as presented in the table below:

	Risk	Page
1	Commercial appeal	382
2	Fraud and corruption	394
3	Intellectual property	395
4	Product quality and safety, consumer health	383
5	Raw materials and biodiversity	384
6	Respect for human rights and fundamental freedoms	396
7	Compliance with laws and regulations	397
8	Image and reputation, respect for ethical rules and integrity	385
9	Macro-economic instability	386
10	Foreign exchange risk	378
11	Dependence on patents, licenses and supply contracts	387
12	Climate change	388
13	Compliance with national tax laws and international standards	398
14	Crisis management and business continuity	389
15	Real estate	390
16	Talent management and know-how	391
17	Information systems	392
18	Data protection	393
19	Equity risk	379
20	Interest rate risk	379
20	Credit risk	380
21	Counterparty risk	380
21	Liquidity risk	381

The following risks present the same level of criticality:

- interest rate risk and credit risk;
- counterparty risk and liquidity risk.

They have therefore been given the same ranking.

The Group's risks have also been classified by type:

- financial risks;
- strategic and operational risks;
- compliance risks.

The tables below present the risks ranked by type:

Financial risks

1	Foreign exchange risk
2	Equity risk
3	Interest rate risk
3	Credit risk
4	Counterparty risk
4	Liquidity risk

Strategic and operational risks

1	Commercial appeal
2	Product quality and safety/Consumer health
3	Raw materials and biodiversity
4	Image and reputation/Respect for ethical rules and integrity
5	Macro-economic instability
6	Dependence on patents, licenses and supply contracts
7	Climate change
8	Crisis management and business continuity
9	Real estate
10	Talent management and know-how
11	Information systems
12	Data protection

Compliance risks

1	Fraud and corruption
2	Intellectual property
3	Respect for human rights and fundamental freedoms
4	Compliance with laws and regulations
5	Compliance with national tax laws and international standards

Descriptions of the risks identified and the actions taken by the Group to manage them are provided in sections 2.2, 2.3 and 2.4. The pictograms presented on the next page have been used to indicate the likelihood and impacts of the risks identified by the Group.

Likelihood

- Very unlikely
- Unlikely
- Likely
- Very likely

Impacts	**Low**	**Medium**	**Significant**	**High**
Compliance/Legal				
Finance				
Health & Safety				
Human Capital				
Operational				
Projects				
Reputation				
Strategic				

2.2 Financial risks

The Group's main financial risks are market risk (foreign exchange risk, interest rate risk, equity risk), liquidity risk, counterparty risk and credit risk.

A centralized structure has been established at Group level for monitoring and managing liquidity, foreign exchange and interest rate risks. The Group's Financing and Treasury Department, which reports to the Finance Department, is responsible for this organization and has the necessary expertise, resources (particularly technical) and information systems. 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.

Foreign exchange risk

Likelihood: **Impacts:**

Description of the risk

In light of its global reach, the Group is naturally exposed to currency fluctuations. These changes can have an impact on Kering's results and equity expressed in euros, particularly on translation of non-eurozone subsidiaries' financial statements. This makes it difficult to compare performances from one year to the next.

In addition, the majority of the Group's sales are carried out in currencies other than its functional currency, primarily in US dollars and in Asian currencies such as the Japanese yen and the Chinese yuan. Purchases and other expenses related to production are primarily denominated in euros.

Group actions

The Group has adopted a hedging strategy to minimize the impact of currency fluctuations on its results. This means that it uses derivative hedging instruments to reduce its exposure to currency risk based on the specific requirements of each business.

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.

The Group does not apply foreign exchange hedges to the foreign currency net assets of consolidated entities.

Foreign exchange risk hedging by the Luxury activities' entities mainly covers sales made to their retail subsidiaries, and, to a lesser extent, purchase 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.

Note 30.2 to the annual consolidated financial statements sets out the nature of the hedging instruments held by the Group and its exposure to foreign exchange risk (see page 309, "Exposure to foreign exchange risk").

Kering Finance SNC processes, controls and provides administrative support for foreign exchange transactions on behalf of Group companies. Front-office, middle-office, back-office and accounting tasks are separated for security reasons, as well as to ensure that derivatives contracted internally are unwound on the market. Kering Finance SNC uses market-standard techniques and information systems to price currency instruments.

Equity risk

Likelihood: **Impacts:**

Description of the risk

In the normal course of its business, the Group is exposed to equity risk through its shares in consolidated companies and the shares issued by Kering.

Group actions

The Group trades in its own securities either directly or through derivatives as part of its stock repurchase program 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).

As of December 31, 2018, Kering held 429,017 treasury shares, representing just 0.34% of its share capital and confirming its low level of exposure in this regard.

Naturally, the value of Kering's investment in PUMA, which is treated as an equity-accounted investment as of December 31, 2018, could vary depending on changes in PUMA's share price.

Shares held in connection with non-consolidated investments represent a low exposure risk for the Group and are not hedged.

Additional information on equity risk is provided in Note 30.3 to the annual consolidated financial statements (page 313).

Interest rate risk

Likelihood: **Impacts:**

Description of the risk

The Group's exposure to interest rate risk can be estimated via its consolidated net debt, which is primarily denominated in euros (€1,711.4 million as of December 31, 2018).

The Group is therefore affected by interest rate changes in its functional currency and, to a lesser extent, by interest rate changes in the other currencies that contribute to its consolidated net debt.

Group actions

The prudent management of interest rate risk falls within Kering's remit, and is carried out 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 uses (i) interest rate swaps to convert floating-rate bonds to a fixed 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 annual consolidated financial statements sets out the nature of the hedging instruments held by the Group and its exposure to interest rate risk (see page 306, "Exposure to interest rate risk").

Credit risk

Likelihood: **Impacts:**

Description of the risk

Because of the nature of the Group's business, the majority of sales made directly to end customers are not exposed to credit risk.

For the Group, credit risk is associated with intermediaries such as wholesalers and may take the form of non-payment of trade receivables, particularly in the event of default or closure.

Group actions

The Group takes a prudent approach and has implemented a robust credit management process. Credit risk is also minimized through appropriate credit insurance coverage that provides the usual guarantees.

In addition, given the number and variety of its distribution channels, material damage at the Group level is considered unlikely (see Note 30.5 to the annual consolidated financial statements, on page 313).

The amount considered non-recoverable is indicated in Note 23 to the consolidated financial statements, relating to trade receivables (page 294).

Counterparty risk

Likelihood: **Impacts:**

Description of the risk

The Group is exposed to counterparty risk via the financial institutions, primarily banks, that it deals with in relation to its financing, securities and financial investment operations and more generally in relation to risk management.

Group actions

Kering minimizes 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.

When Kering sets up financial investments in the form of mutual funds (Sicav), UCITS or equivalent funds, it systematically uses liquid monetary instruments with maturities of less than three months in order to mitigate risk, and does not make short-term investments in equity instruments.

Consequently, the price risk borne by Kering on short-term investments is deemed non-material.

Liquidity risk

Likelihood: **Impacts:**

Description of the risk

The Group's liquidity risk corresponds to the risk that it will be unable to use its financial resources to meet its financial commitments in order to ensure business continuity.

This depends on the Group's level of exposure to market trends that may result in a higher cost of credit or to a temporary restriction in access to external sources of funding.

Group actions

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 optimizing its maturity schedule and cost of debt. It therefore carried out partial redemptions of four bond issues for a total amount of €775.0 million, in April and October 2018.

The Group's active risk management policy also seeks to diversify sources of funding and limit reliance on individual lenders.

The Group had confirmed lines of credit totaling €3,153.0 million as of December 31, 2018 compared to €3,747.1 million as of December 31, 2017 (see Note 29.5.3 to the annual consolidated financial statements, page 305).

The main syndicated facility was renegotiated on December 20, 2018 for €2,385 million, with an initial term of five years and two one-year loan extension options.

As of December 31, 2018, Kering and Kering Finance SNC had not drawn down any of the confirmed lines of credit. Total undrawn credit lines available therefore amounted to €3,135.0 million.

Kering has a Euro Medium Term Notes (EMTN) program filed with the AMF for its bond issues, representing €6 billion. As of December 31, 2018, €2,837.0 million of this amount had been used, of which €262.0 million issued in US dollars. The EMTN program was extended on December 10, 2018 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 program 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.

Bond issues under the EMTN program and the Group's confirmed lines of credit are not subject to any financial ratio covenants.

The Group was in compliance with all of these covenants as of December 31, 2018 and there is no foreseeable risk of default.

In addition, as of December 31, 2018, the Group had not issued any securities under its NEU CP program (formerly commercial paper program) filed with the Banque de France.

As of December 31, 2018, the Group had cash and cash equivalents totaling €2,216.6 million.

Information relating to liquidity risk is presented in Note 30.7 to the annual consolidated financial statements (page 314).

2.3 Strategic and operational risks

Commercial appeal

Likelihood: **Impacts:**

Description of the risk

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 are all factors that could cause Kering's brands to lose commercial appeal.

Example case(s)

The inability to anticipate changes in consumer expectations represents a major risk to the Group's business development.

Group actions

The creative leadership of each brand 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.

To anticipate changes in consumer expectations, Kering endeavors to streamline the supply cycle, cutting lead times between product design and launch phases.

Kering also encourages its businesses to stay ahead of consumer trends by keeping a constant watch over market shifts (attending trade fairs, working with trend forecasting agencies, running consumer surveys, etc.).

Consequently, as well as investments in communication, advertising and R&D spending, operating investments concern store improvements, developments and refurbishments (see also section 2.2 "Operating investments", page 250).

Product quality and safety, consumer health

Likelihood:

Impacts:

Description of the risk

Non-compliance of the products sold with quality and safety standards, resulting in product returns and reputational risk.

Example case(s)

- A defect that leads to a product return by the consumer could harm the Group's image and reputation.
- A defect that could affect consumer health or safety (e.g., allergies) would result in a product recall, which would harm the Group's image and reputation.

Group actions

Ensuring the quality of goods and compliance with stringent safety standards are among the Group's main priorities. To protect the Group's reputation, the products sold by its Houses must offer distinctive appeal and flawless quality, while also guaranteeing absolutely safety for clients. 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. Product quality and safety controls are carried out at all stages of the production process by quality engineers and accredited laboratories.

In addition, Product Compliance teams provide assistance to the Houses so that they can develop and distribute products that meet the legal requirements of each market.

All Kering businesses have a "product" crisis management unit. 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 insurance to cover bodily harm or property damage to third parties caused by products considered defective (see section 2.5 "Main existing insurance programs", page 399).

All of the policies, projects and actions implemented, the outcomes obtained and the associated performance indicators relating to product quality and safety are presented in detail in Chapter 3 "Sustainability" of this Reference Document, which includes the Group's duty of care plan.

Raw materials and biodiversity

Likelihood:

Impacts:

Description of the risk

Unavailability of the raw materials necessary to manufacture the Group's products, which must comply with the Group's quality criteria and be obtained in accordance with the Group's standards.

Example case(s)

- Sourcing leather and skins from suppliers using subcontractors who do not comply with the Group Suppliers' Charter or its standards on working conditions, environmental impact, animal welfare, use of chemicals or traceability.
- Volatility in the prices of raw materials, such as leather, skins and precious stones. Supply instability.
- Increasing scarcity of resources associated with growing demand, impacting the production, availability, quality and cost of raw materials.
- Illegal mining carried out by subcontractors who do not comply with international standards or the Group's standards of ethics on working conditions.
- Loss of biodiversity caused by intensive livestock farming, which threatens, or may threaten, the production of high quality raw materials. More generally, soil degradation and depletion and the destruction of biotopes represent a significant risk to the maintenance of high quality livestock and crop farming.

Group actions

To meet its customers' expectations, the Group requires unhindered availability of raw materials that comply with its quality criteria. Kering works with suppliers and subcontractors across the supply chain to secure long-term access to these raw materials.

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.

The Group also ensures that its suppliers and subcontractors comply with its standards in terms of ethics and responsible business conduct and in particular with its Group Suppliers' Charter, which is included in the Kering Code of Ethics. The Group ensures that its suppliers comply with the applicable laws and regulations and that its supplies comply with international standards.

In addition, the Group has defined standards for the supply of all its key raw materials, published in January 2018. The standards focus on five areas: social impact, environmental impact, traceability, use of chemicals and animal welfare. They serve as a guide for assessing the compliance of raw materials suppliers and present two levels of expectations: minimum requirements and best practices to be achieved by 2025 at the latest, in line with the Group's Sustainability strategy and its 2025 targets.

To align its practices with its commitments and drive industry-wide progress toward treatment of animals that is safer, more just and more humane, Kering believes that it has a duty to apply the highest standards in the area of animal welfare. In the Sustainability strategy adopted by the Group, the welfare of animals, and particularly of livestock, is associated with environmental stewardship, safer working conditions and, more generally, a higher level of supplier performance.

The quality, safety and stability of the Group's supplies of animal and plant-based raw materials depend on strict compliance with the standards in this regard, and first and foremost with the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) for the trade of precious skins. They also depend on the preservation of well-balanced ecosystems, some of which have already been damaged.

All of the policies, projects and actions implemented, the outcomes obtained and the associated performance indicators relating to the Group's raw materials and the protection of biodiversity are presented in detail in Chapter 3 "Sustainability" of this Reference Document, which includes the Group's duty of care plan.

Image and reputation, respect for ethical rules and integrity

Likelihood:

Impacts:

Description of the risk

Damage to the Group's image or reputation, giving stakeholders (e.g., clients, consumers, suppliers, employees, etc.) a misleading perception of the Group and ultimately affecting its results.

Example case(s)

- Failure to meet the Group's rules of ethics or fulfill its commitment to being a socially responsible company could jeopardize Kering's success and sustainability, which require the trust of all its stakeholders, including clients, employees, shareholders and business partners.
- Unfavorable or erroneous media coverage of the Group's products or practices, or negative discussions on social networks could damage its image and reputation as well as give clients and consumers a misleading perception of the Group's performance, potentially leading to a slowdown in sales.
- Incident arising due to unethical conduct on the part of entities or individuals under Group control, or those with which it has business dealings.

Group actions

The Group seeks to ensure that no incident arises due to unethical conduct on the part of entities or individuals under its control, or those with which it has business dealings. To this end, each of Kering's Houses has a crisis management policy and unit that liaises with headquarters.

The Group also monitors adherence by personnel to the Kering group Charter, which defines the framework for the decentralization of the organization, and to the Code of Ethics, which is available in 12 languages. A Group Ethics Committee has been established and is supported by two regional counterparts, the Asia-Pacific (APAC) Ethics Committee and the Americas Ethics Committee. Together, they ensure compliance with the Code of Ethics and respond to all inquiries, from simple ethics-related questions to the management of complaints about alleged non-compliance with the Code. The Compliance team also assists and guides employees to ensure compliance with prevailing legal requirements, including those relating to corruption and competition law. A global hotline is also available to all Group employees and those working for partner companies with which the Group has a contractual relationship. The Group regularly examines ways to adapt these documents to its organization.

Each year, an e-learning program is provided for all Group employees to remind them about the fundamentals of ethics and their obligations in this regard. It presents real-world examples of ethical dilemmas, enabling employees to test their ability to question, discern and judge different situations. It also provides an opportunity to remind employees about the Group's whistleblowing procedure.

The Group also ensures that its suppliers adhere to the Group Suppliers' Charter, which they are required to promote within their production units and with respect to their own subcontractors. Compliance is further measured by means of social audits at production sites.

All of the Group's Houses 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 programs are examples of the actions and programs that the Houses have put in place in their day-to-day operations.

All of the policies, projects and actions implemented, the outcomes obtained and the associated performance indicators relating to integrity in the broadest sense are presented in detail in Chapter 3 "Sustainability" of this Reference Document, which includes the Group's duty of care plan.

Macro-economic instability

Likelihood: **Impacts:**

Description of the risk

The Group is present in many markets and exposed to changes in the economic, regulatory, social or political environment that may affect consumer demand, disrupt its operations or dampen its profitability.

Example case(s)

- Lower tourist numbers influenced by factors such as political instability, security threats, exchange rate volatility, and changes in customs or tax policies.
- Failure to take into account the changes driven by macro-economic trends and uncertainties about the future of the luxury industry, on a global level or among certain key categories of consumers, such as Chinese consumers.
- Economic consequences relating to Brexit.

Group actions

In 2018, Kering continued to benefit from a generally favorable business environment, with strong growth in its main regions driven primarily by demand from Chinese consumers. Europe performed very well, but was affected by a decline in tourist numbers. North America was boosted by a particularly high level of domestic spending, notably online or in stores managed directly by the brands. Very 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. This trend also had a particularly favorable impact on Japan's performance. Without affecting the Group's overall performance in 2018, macro-economic and geopolitical instability and currency fluctuations (particularly in the first half) did have an impact on regional trends.

The balanced geographical coverage of its 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. Despite the discontinuation of the Sport and Lifestyle activities, the Group's distribution network remains balanced across the regions: sales of luxury products are made through a network of 1,439 directly operated stores, including 833 stores in mature markets and 606 in emerging countries. 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 pages 8 to 13 for more details) help limit the impacts of macro-economic cycles and uncertainty on its activities.

As explained in the overview of the personal luxury goods market and the eyewear market (pages 16 and 42), 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.

Dependence on patents, licenses and supply contracts

Likelihood: **Impacts:**

Description of the risk

Group dependence on patents, licenses and supply contracts, resulting in financial losses.

Example case(s)

- Loss of strategic suppliers with specific skills, due to insolvency or a takeover by competitors, leading to a production shutdown.
- Dependence of a supplier on one or more of the Group's brands, resulting in the supplier becoming insolvent on termination of the contractual relationship with the brand(s) in question.
- Loss of strategic sales outlets, which could lead to a decline in revenue.
- Failure to register a trademark or design in a timely manner.

Group actions

The Group is not significantly dependent on any patents, licenses or third-party supply sources. The Group owns or has license rights to the trademarks, patents and intellectual property rights that it exploits, free of any restrictions as to right of priority or use (and of rights likely to restrict such exploitation) in all relevant markets. The same applies to the corporate names and domain names of the subsidiaries or entities, to the names of the Group's stores and points of sale and to the trademarks and signs of the goods and products manufactured and marketed by the various Group entities. This situation does not preclude any of the trademarks belonging to the Group being licensed to third parties for the sale of goods or services under its trademark enhancement policy, as has been the case in fragrances and cosmetics. In all cases, any 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 2018 consolidated financial statements, on pages 323 and 324.

Climate change

Likelihood:

Impacts:

Description of the risk

A negative impact on the Group's activities due to the effects of climate change. Lack of resilience or Group initiatives in response to the effects of climate change.

Example case(s)

- 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, and thus affect the production and distribution of finished products.
- The economic environment and even the social stability of certain regions (such as coastal regions in Asia) could be severely impacted by the effects of climate change, which would further increase pressure on the Group's supply chain.
- Manufacturing disruptions caused by the unavailability or decreased quality of raw materials, due to climate change and its impact on biodiversity and on the destruction of land and ecosystems.
- The implementation of stricter environmental regulations and standards to meet the challenges associated with climate change could have an impact on the Group's activities by increasing production costs and reducing operational flexibility.

Group actions

In the global economic and political outlook, climate change has become a key issue that demands an effective response.

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. 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, analyzes exposure to climate risk. Entitled *Climate Change: Implications and Strategies for the Luxury Fashion Sector*, it analyzes 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 has defined a climate strategy and is acting to make its supply chain more resilient, starting with the Environmental Profit & Loss account (EP&L). The EP&L allows Kering to measure its environmental impacts, including its carbon footprint, throughout the value chain and to monetize 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.

The Group has set very ambitious targets for reducing its carbon footprint by 2025 and has had its own Science Based Target in this respect since 2017.

All of the policies, projects and actions implemented, the outcomes obtained and the associated performance indicators relating to climate change and the Group's climate strategy are presented in detail in Chapter 3 "Sustainability" of this Reference Document, which includes the Group's duty of care plan.

Crisis management and business continuity

Likelihood:

Impacts:

Description of the risk

Inability to respond effectively to an event that could affect the safety of the Group's employees, the continuity of its operations and/or its image and reputation.

Example case(s)

- natural disaster;
- terrorism;
- contamination, pandemic;
- serious leak of confidential information;
- cyber attack;
- widespread industrial action and/or protests;
- boycott of a brand;
- insolvency of a service provider;
- serious fraud.

Group actions

The Group's Security Department has drawn up a crisis management policy in order to:

- provide a shared framework for all Group entities and raise awareness among its management teams of the importance of having a pre-established crisis management procedure;
- ensure a rapid, coordinated response to any major events that could impact the Group.

Every year, the Security Department organizes crisis drills based on probable, realistic scenarios in order to train designated crisis unit members.

Crisis management plans have also been drawn up by the Security Department to prepare for the occurrence of probable risks, such as earthquakes in Japan and hurricanes on the East Coast of the United States.

It also provides support and advice to Group employees during business travel.

Thanks to the implementation of effective protection measures and certified security management audits, the Group's supply chain has obtained ISO 28000:2007 certification (Specification for security management systems for the supply chain). It has also been awarded ISO 22301:2012 certification (Business continuity management systems), thanks to the implementation of processes to identify potential risks that could disrupt the supply chain and the development of specific business continuity plans.

Real estate

Likelihood:

Impacts:

Description of the risk

Inability to negotiate lease agreements under the best conditions in certain locations for the Group's brands due to the competitive market, the term of contractual commitments, the involvement of third-party intermediaries, or the lack of control over economic factors.

Inability to deliver construction/renovation projects on time and on budget.

Example case(s)

- Loss of sales outlets that are strategic for the Group's brands.
- Loss of negotiating power during negotiations for a new lease or the renegotiation of existing agreements.
- Non-compliance with real estate laws and regulations.
- Inadequate assessment of a real estate project, resulting in a budget overrun.
- Delay in the delivery of a real estate project (e.g. a new store or store renovation).
- Construction site accident.
- Insolvency of a contractor, resulting in delays.

Group actions

The Group has two separate teams in charge of real estate: one is responsible for finding the best locations, while the other is in charge of supervising construction/renovation projects. These teams manage the following tasks: (i) providing assistance to brands in connection with site openings, closures and relocations, (ii) acquiring real estate, (iii) managing work in stores, warehouses and offices, and (iv) managing owned or leased sites for Kering Corporate. The management of outlets is handled by a Group subsidiary.

The Group has set up various measures to limit real estate-related risk, 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 uses various strategies to limit construction-related risk, such as (i) the implementation of a procedure for executing and monitoring construction projects, (ii) the use of standard contracts across regions, and (iii) calls for tender that include verification of the financial and technical viability of the contractors consulted.

To ensure that new partners comply with the applicable laws and regulations, the Compliance Department carries out compliance audits. A regulatory intelligence system is also being introduced by the Construction and Project Management Department.

The Group has set up a network of real estate experts, present in key countries, so that it can leverage the expertise of employees who know the market's specific characteristics and local laws and regulations, and also have the necessary negotiating skills.

Talent management and know-how

Likelihood:

Impacts:

Description of the risk

Inability to identify, attract, motivate and retain staff and nurture their skills. Loss of know-how among the Group's teams or among the manufacturers or craftspeople within the supply chain who contribute to the creation of its products or the communities from which the Group sources key and/or specific raw materials.

Example case(s)

- Loss of senior executives: inability to find, in a timely manner, a suitable successor for an Executive Management position (Chairman/Chief Executive Officer, Group Managing Director, Executive Committee member), as the result of departure or incapacity.
- Departure of a Creative Director, which 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, any luxury goods company may have to face and manage this risk at some time.
- Loss of technical craftsmanship in transformation, cutting and assembly. Extinction of traditional crafts.
- Talent retention: loss of key employees to competitors.
- Brexit: difficulties in obtaining visas for employees.
- Our industry is supported by numerous agricultural and manufacturing communities worldwide. Not helping them to preserve key skills and create more sustainable livelihoods could give rise to social, economic and operational problems, such as community tensions, disruptions to production and a smaller talent pool.

Group actions

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.

In 2018, Kering developed a single digital platform for all employees worldwide, enabling it to standardize management processes and simplify and speed up the data sharing required to manage talent globally, in a more transparent way.

To further contribute to instilling a shared culture among the Houses, the intranet has been replaced by a digital and mobile platform for information and discussion, radically transforming internal communication and commitment by connecting all employees.

To meet clients' expectations in the luxury industry, production teams' skills must be maintained at the highest level. In fact, to meet the high expectations of their clients, Kering and its Houses offer goods and collections that are iconic, exclusive and innovative, and whose design and creation require strategic know-how and technical craftsmanship in transformation, cutting and assembly.

To maintain the know-how of its Luxury businesses over the long term, Kering runs personnel training and skills preservation initiatives, and internalizes a number of functions that were previously subcontracted.

Kering's human resources policy aims to:
- establish a long-term hiring policy through international partnerships, and thus attract the best talent;
- create a work environment that is motivating, stimulating, inclusive and respectful of each individual;
- encourage commitment to the Group and its values through training programs, talent management and an appropriate remuneration policy;
- promote gender equality and diversity;
- pay attention to working conditions, employee well-being and work-life balance;
- develop employability, internal mobility and opportunities for personal and professional growth.

With Kering Campus, the Group now has a digital training platform for all employees, providing a shared foundation for all Houses as well as the possibility for each to offer personalized content for its own teams.

A talent review is also carried out each year by the Executive Committee.

Particular attention is paid to the Houses' creative and design teams in order to maintain their identity over the long term and nurture the Group's vision of "embracing creativity for a modern, bold vision of Luxury". 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, any luxury goods company may have to face and manage this risk at some time. Kering's brand portfolio nevertheless helps limit the impact of this risk at Group level. A highly talented Creative Director has recently been appointed by the Group (Daniel Lee at Bottega Veneta).

All of the policies, projects and actions implemented, the outcomes obtained and the associated performance indicators relating to talent management and preservation of know-how are presented in detail in Chapter 3 "Sustainability" of this Reference Document, which includes the Group's duty of care plan.

Information systems

Likelihood:

Impacts:

Description of the risk

Failure of information systems (IS), which now play a vital role in the Group's operational processes (such as sourcing, distribution and digital) and support processes (such as finance and HR).

Example case(s)

- The diversity of information systems within the Group, due to the use of different brands.
- Delays in the deployment of new software programs or applications.
- Inadequacy of information systems in meeting clients' needs.
- Failure to keep security patches up to date.
- Inadequate separation of information systems within the Group or the brands, creating a risk of infection in the event of a virus.

Group actions

The Group runs an ongoing investment program 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 its businesses' security departments, the Group is introducing data protection and business continuity plans.

As part of the introduction of data protection governance in compliance with the GDPR, the Group Privacy Officer is involved in these initiatives.

Data protection

Likelihood:

Impacts:

Description of the risk

Loss or theft of data due to a cyber attack or identity fraud, which could affect the Group's key operations, damage its reputation and/or result in financial losses.

Non-compliance with the General Data Protection Regulation (GDPR).

Example case(s)

- Identity fraud can take various forms, including fake president fraud, supplier fraud and ransom demands, and can result in financial losses.
- Cyber attacks, such as phishing (or spear phishing), distributed denial of service (DDoS) attacks and hacking, can lead to the theft of data or the modification of the Group's websites, particularly its home pages, resulting in the dissemination of fake news, unfounded rumors or other misleading information.

Group actions

The Group has increased IT security and stepped up employee awareness initiatives by implementing a large number of control and protection measures, establishing processes and procedures, and developing targeted IT security systems. For example, all employees have been trained to detect malicious emails, including via phishing simulation exercises conducted throughout the year.

The Group also works with peers to reduce exposure to this type of risk.

Plans have been made to introduce an e-learning module on IT security and to disseminate guidelines on the use of internal communication tools.

The Group has taken significant steps to protect client data:

- client data used outside the production environment is anonymized;
- access to client data is restricted to authorized persons;
- risk assessments are carried out on all projects implemented by the Group, in order to identify requirements in terms of data security, confidentiality, integrity, traceability and availability, and thereby define the appropriate security measures;
- non-disclosure agreements are signed with our external service providers and security clauses are included in our contracts with suppliers;
- a client identity management platform has been acquired in order to secure the authentication process.

In addition, in line with the requirements of the GDPR, the Group has initiated a project to automate the management of client requests in relation to the right to be forgotten, the right to data portability and the right of access by the data subject. It has also acquired a tool for managing its personal data protection program that includes the following functions: inventory and mapping of personal data processing, supplier risk management, and inventory of security incidents relating to personal data.

In relation to the management of security incidents that could have an impact on personal data, the Group has set up a Security Operating Center responsible for detecting and resolving security threats and events, such as identity fraud, malware and information leaks.

In addition, the information systems department (Kering Technologies) regularly conducts audits on key applications and information systems.

In 2018, the Group also initiated projects aimed at strengthening:

- workstation and smartphone security, to prevent system intrusions and data theft;
- employee account security, to prevent identity fraud.

The position of Group Privacy Officer was also created during the year, with the aim of implementing an effective data governance structure. All of the policies, projects and actions implemented, the outcomes obtained and the associated performance indicators relating to GDPR compliance are presented in section 3 "Compliance with the General Data Protection Regulation" of Chapter 6 of this Reference Document, on page 401.

2.4 Compliance risks

Fraud and corruption

Likelihood:

Impacts:

Description of the risk

Lack of internal control procedures aimed at limiting the risk of internal and external fraud and combating corruption.

Example case(s)

- Collusion between internal and/or external employees resulting in fraud (e.g., illegal resale of products, false declarations, circumvention of the limits indicated in information systems, falsification of approvals, etc.).
- The acceptance and/or offering of bribes, gifts or invitations that do not comply with Group policy, or other undue advantages to facilitate transactions.
- The Group regularly has dealings with governments around the world in the course of its business, whether to obtain authorizations or during inspections. In such situations, a Group employee could be tempted to accept an offer of undue advantage from a public official. An act of this kind would have significant legal and operational consequences for the Group.
- Group employees are regularly in contact with third parties around the world, whether private individuals or public officials. An employee could take advantage of a conflict of interest situation for his/her own personal gain or for the benefit of the Group.

Group actions

Risks of corruption and influence peddling have been mapped with the help of an external consultancy, under the supervision of the Group Chief Compliance Officer and the Chief Audit Executive. The risk mapping covers all Group activities worldwide and has resulted in the development of appropriate action plans. The results of the risk mapping process and the associated action plans were presented by the Group Chief Compliance Officer to the Board of Directors' Audit Committee at its meeting of June 7, 2017. The risk mapping process shows that virtually all of the Group's corruption and influence peddling risks have been attenuated to a satisfactory degree by the compliance program in place. Only two residual risks have required specific measures to be taken to strengthen the Group's anti-corruption program, namely (i) dealings with public officials and (ii) the management of conflicts of interest.

All of the Group's corruption and influence peddling risks are covered by the compliance program. The program is implemented by a dedicated team, supported by strong input from Executive Management. It is based on an anti-corruption policy and dedicated procedures, particularly in relation to third-party assessment. These anti-corruption guidelines are widely communicated and explained throughout the Group to inform and sensitize employees and instill a culture of integrity. A whistleblowing procedure is also in place to help the Group remain alert to breaches of the anti-corruption program. All of these components are verified during the Group's internal audits.

A compliance manual was circulated in April 2018 to all Group employees to help answer any compliance-related questions, including the prevention of corruption and influence peddling and the prevention of fraud and conflicts of interest.

In July 2017, the Group introduced an anti-corruption e-learning module for all employees worldwide.

A culture of performance and integrity is disseminated throughout the Group through the personal commitment of the two senior executives and through regular communication from them on these issues.

The Group's Board of Directors has approved the adoption of a compliance program structured around three pillars: (i) the creation of a network of Compliance Officers, (ii) the introduction of policies and procedures on various compliance-related topics, and (iii) the deployment of a training program. Since the launch of the compliance program, the Audit Committee of the Board of Directors has monitored its implementation, meeting each year with the Group Chief Compliance Officer, who is responsible for reporting on the program's status and the progress made. These presentations set out the various phases in the creation of a dedicated compliance organization and the deployment of multiple procedures, and report on any regulatory developments relating to the fight against corruption.

To ensure the day-to-day monitoring and efficacy of the anti-corruption program, the Group has created a dedicated compliance structure based on (i) a Group Chief Compliance Officer, (ii) a network of Brand Compliance Officers designated by the brand Chief Executive Officers, and (iii) a network of Local Compliance Officers.

Intellectual property

Likelihood: **Impacts:**

Description of the risk

Recurring breaches of the brands' intellectual property rights or allegations of breaches by the Group's brands. The infringement of registered trademarks and the copying of designs on the market could affect demand for products created by Kering's brands.

Example case(s)

- The infringement of registered trademarks and the copying of designs on the market, as well as parallel trading and copyright breaches, could affect demand for genuine products created by the Group's brands.
- The unauthorized use of registered trademarks and other intellectual property rights, the unauthorized sale of products created by the Group's brands and the distribution of counterfeit goods cause damage to the Group's image.
- Allegations of intellectual property breaches committed by Group brands could lead to sizable claims for damages, as well as financial losses relating to the withdrawal of products, and have a negative impact on the Group's reputation.

Group actions

The Group's Legal Departments manage the trademark 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 and covers all stages in the trademark portfolio management process, including customs operations dealing with counterfeit goods, police raids and legal action. The costs of monitoring markets and tackling counterfeiting, within the brands and at the Group's headquarters, are divided between legal and security functions, or among the stores. These costs are however relatively insignificant at Group level.

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.

The Group has a vast array of trademarks 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.

Aware that some of its employees have access to confidential information, the Group ensures that they receive information on best practices and the Internal Control Charter, which help minimize this risk, particularly with regard to the use of information systems and social media.

Lastly, the Group has formed legal organizations 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.

Respect for human rights and fundamental freedoms

Likelihood:

Impacts:

Description of the risk

Non-compliance with international standards or the Group's standards in the area of respect for human rights and fundamental freedoms.

Example case(s)

Poor working conditions that could lead to the violation of fundamental freedoms and human rights, resulting in employee complaints and harming the Group's image and reputation.

Group actions

The protection of human rights and fundamental freedoms, for Kering employees and all employees in the supply chains used by the Group and its Houses, is a core commitment, supported by management at the highest level.

This commitment is central to Kering's identity and reflects the community of values created by the Group, its Houses and their stakeholders.

As a sustainable, responsible Luxury Group, Kering must identify and manage human rights-related risks in its sphere of influence (operations and supply chain) as quickly and firmly as possible.

By working in partnership with its suppliers and stakeholders and sharing best practices, Kering protects the reputation of the Group and its Houses and maintains the appeal of their creations.

In addition, the Group has adopted a stringent control strategy in the area of the human rights, which includes but is not limited to the social audits conducted each year across thousands of Group suppliers and service providers.

All of the policies, projects and actions implemented, the outcomes obtained and the associated performance indicators relating to respect for human rights and fundamental freedoms are presented in detail in Chapter 3 "Sustainability" of this Reference Document, which includes the Group's duty of care plan.

Compliance with laws and regulations

Likelihood: **Impacts:**

Description of the risk

Non-compliance with the applicable standards and/or national laws and regulations, resulting in legal proceedings and disputes arising out of the normal course of business.

Example case(s)

- Non-compliance with local standards.
- Non-compliance with customs standards.
- Misdeclaration of product origin.
- Inability to sell certain products due to non-compliance with local standards.
- Inaccurate declaration on compliance with the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

Group actions

To guard against risks of non-compliance due to a lack of awareness of legislative change, Kering provides its businesses with a regulatory intelligence service, through headquarters and support centers in the regions in which the Group operates.

Provisions have been set aside for the probable costs of disputes (e.g., complaints or litigation), 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 2018 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 authorized external organizations 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 vendor warranties in connection with disposals of controlling interests in subsidiaries made over the last ten years (see Note 34.1 to the 2018 consolidated financial statements, page 322).

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 the 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.

Compliance with national tax laws and international standards

Likelihood:

Impacts:

Description of the risk

Non-compliance with the national tax laws and international standards applicable to Group entities, leading to tax investigations and disputes arising out of the normal course of business.

Example case(s)

- The calculation of taxes due by Group entities is not in compliance with local regulations.
- The entity's tax team is not sufficiently qualified to understand its tax issues.
- Non-compliance with local transfer pricing requirements on intra-group transactions.
- Documents justifying the tax treatment of a transaction are unavailable or incomplete.

Group actions

As a responsible corporate citizen, Kering is firmly committed to complying with – and ensuring that all Group entities worldwide comply with – the applicable national tax laws and international standards. Kering is also committed to ensuring that all Group entities pay all of the taxes due in each of the countries where they operate.

To this end, in 2016 the Group initiated a comprehensive reorganization of its tax function, significantly enhancing its local and corporate tax teams by investing in highly skilled employees and continuous professional development in order to identify and understand the various tax-related issues that may arise.

The Group's Tax Department, which has been restructured, is notably responsible for:

- consolidating tax information from all Group companies;
- understanding and monitoring tax issues that arise at national or international level and coordinating responses in compliance with the applicable laws and standards;
- ensuring that intra-group transactions are documented as required;
- providing technical support on tax-related matters during the preparation of consolidated financial statements.

The Tax Department has therefore implemented a number of verification and control tools to help it identify and resolve any tax issues that may arise within the Group and to ensure compliance with the applicable national tax laws and international standards. These tools include regular analyses of comparable information to ensure that intra-group transactions are carried out on an arm's length basis; annual reviews of Group entities; and close, detailed monitoring of any tax audits to which Group entities are subject.

In addition, the Tax Department actively ensures that all Group entities apply and uphold the following principles:

- allocate the human and financial resources necessary to conduct their business;
- only have a presence in countries where they actually conduct business;
- comply with the applicable national laws and international standards on transfer pricing. To this end, it develops and updates all of the necessary documentation in this regard and provides the relevant resources, such as analyses of comparable transactions and risk analyses;
- cooperate fully with local tax authorities and government agencies and, where relevant, share their experience and expertise. In 2018, for example, the Group's Tax Department participated in the European Parliament's Special Committee on Financial Crimes, Tax Evasion and Tax Avoidance (TAX3 Committee), during which it presented the key components of Kering's tax governance.

2.5 Risk treatment

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:

- third party 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 programs now in force in the Group, which centralizes most purchases of insurance policies such as property and casualty risks for subsidiaries, were taken out with the assistance of internationally recognized insurance brokers specialized in covering major risks, with reputable insurers in the industrial risk insurance sector.

Main existing insurance programs

- 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 motorized vehicles belonging to the different companies;
- general and environmental liability for "operating risk", "post-delivery risk" and "risk after services rendered", due to damage 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 prepared 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, 2018, were as follows:

- damage, fire, explosions or water damage and the ensuing operating losses: €300 million;
- third party 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 2018: €797,246;
- claims covered by the Group itself through its reinsurance company in 2018: €4.077 million (total estimated at year-end 2018).

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, 2018, the Group's reinsurance company has covered damage and operating losses of up to €3 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 2018 expenses): €11.575 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.

3. COMPLIANCE WITH THE GENERAL DATA PROTECTION REGULATION

As a luxury goods company, Kering collects client data that could potentially have a higher market value than similar data in other industries. Aware of the risk of data misuse, Kering has not only taken steps to comply with the General Data Protection Regulation (GDPR), but has also strengthened its digital and IT strategy to ensure the best possible protection of its clients' data.

3.1 Exposure to risks relating to client data

Kering has put in place and continues to develop technical measures and procedures to mitigate risks relating to the personal data processed by the Group, within the meaning of the GDPR. Nevertheless, technological progress and the international scale of the Group make it impossible to eliminate all potential risks.

To manage these risks as effectively as possible, the following measures have been implemented:

Data mapping

The data map established by the Chief IT Security Officer is updated regularly. A dedicated internal process enables the Group Privacy Officer to approve updates as required.

A licensed software solution has also been purchased from a leading player in GDPR compliance software to enable updating to be carried out in real time.

To keep data mapping up-to-date, the program ensures direct, real-time connection with the personal data included in the records of processing activities kept by the Group in compliance with Article 30 of the GDPR. The same leading provider of GDPR compliance software also provides technical support to the Chief IT Security Officer and the Group Privacy Officer and regularly suggests new functions enabling them to more effectively control data flows and take appropriate action when necessary.

Records of processing activities

The records of processing activities kept by the Group in compliance with Article 30 of the GDPR are constantly evolving, reflecting changes within the Group. Sales of brands have been announced, and new digital tools have been acquired to keep better track of the Group's data.

Thanks again to the dedicated software solution provided by a leading player in GDPR compliance software, Kering is able to track these changes and updates effectively and take a cross-disciplinary approach – involving the legal, IT, data protection, human resources and digital teams – to obtain a view of its data processing activities that is as accurate as possible.

In addition, the Group Privacy Officer, the Chief IT Security Officer, the Digital Marketing Officer and, when necessary, a representative from human resources meet regularly to review ongoing projects and the data protection measures to be implemented to ensure GDPR compliance.

A progress report is sent on a regular basis, and at least once a month, to all of the brand and regional legal teams in order to obtain their questions and feedback on the projects being undertaken, in light of the laws and regulations applicable in their country and the needs of their operating teams.

Data protection and transfer contracts have also been signed with Group brands and subcontractors presenting risks in relation to GDPR compliance, based on standard contractual clauses such as those in Article 28 of the GDPR for subcontractors, in order to ensure an adequate level of protection for clients' personal data.

To supplement existing records, a questionnaire is also being developed with the help of an external law firm for new processing activities or those that only involve certain brands or regions.

Consent management

All client information is requested directly from the clients concerned.

The software used in our brands' stores enables sales associates to let clients enter the data they wish to communicate to the Group themselves. Clients are also asked to indicate whether or not they wish to benefit from special offers and receive the brand's newsletter, and whether they consent to their data being transmitted outside the European Economic Area.

They are also invited to consult the personal data protection policy.

Lastly, in all countries where our brands are present, we check our clients' age in order to ensure the validity of their consent or the existence of parental authorization.

3.2 General position on personal data protection

3.2.1 Measures being taken to ensure compliance

The procedures currently in place for responding to data-related incidents are many and varied and rely on the individual assessment of brand legal teams. As the joint data controller, Kering is working to introduce procedures that will ensure a unique and consistent approach to data protection and incident response, based on the confidentiality level of the data involved and the number of people potentially impacted across all brands and regions.

In light of the global deployment of our brands and the increasingly widespread use of digital marketing tools, the Group has taken steps to reinforce the contractual framework concerning data protection. We therefore intend to set up a real-time consent management portal that will link information collected by our sales associates with our communication and marketing teams.

In addition, dedicated email addresses have been created so that the clients and employees of the Group and its brands can exercise their rights as data subjects under the GDPR.

Our website has also been adapted in this regard.

3.2.2 Structure implemented for data governance

Data governance roles and responsibilities

In general terms, the Legal Department remains responsible for ensuring compliance with the GDPR via its Compliance Department.

In this regard, Kering has appointed a Group Privacy Officer, in charge of ensuring the Group's compliance with its data protection obligations and implementing a cross-disciplinary approach that includes all of the teams potentially involved in data protection: human resources, IT security, marketing, digital and legal.

The Group Privacy Officer has direct access to all of the Group's legal departments and management teams and answers all questions relating to data governance with the help of her committee of experts.

Data governance policy

We are still working on a standardized governance policy for the Group that takes into account recent changes in our organization. Various projects, notably our expansion in online and remote sales, require us to make these policies flexible. One of the challenges is harmonizing these projects across all of the countries where the Group operates, in an environment where data protection laws and regulations are evolving.

The Group Privacy Officer and the Chief IT Security Officer work together to monitor the legal and technical developments in this area and to inform and train employees and other participants in the Group's data protection process to ensure the best possible response to the needs of our clients and our brands.

CHAPTER 7
Additional information

1. GENERAL INFORMATION

Company name and registered office

Company name: Kering
Registered office: 40 rue de Sèvres, 75007 Paris, France

Legal form

A French corporation (*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 favor 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 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 canceled 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 authorized 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 organization, 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.

2. PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT

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, 2018 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 412 and 413) 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.

Paris, March 27, 2019

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
Tour Majunga, 6 place de la Pyramide, 92908 Paris La Défense 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 accordance 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 December 31, 2017: 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, 15 to 56, 202 to 230, 231 and 232, 243 to 327, 328 to 333, 334 to 350, 351 to 354 of the Reference Document filed on March 28, 2018 with the French financial markets authority (*Autorité des marchés financiers* – AMF);
- for the fiscal year ended 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, 348 and 349, 350 to 366, 367 and 368 of the Reference Document filed on March 30, 2017 with the AMF.

Information included in these two Reference Documents other than that listed above is, where relevant, replaced or updated by the information included in this Reference Document. These two Reference Documents are available at the Group's registered office and on its website: www.kering.com, under the Finance section.

5. CROSS-REFERENCE TABLE
to the disclosure requirements set out in Annex 1 of European Regulation No. 809/2004

(1) This Reference Document does not include any profit forecasts.

20. Financial information concerning the issuer's assets and liabilities, financial position and profits and losses	
20.1 Historical financial information	253-333, 340-358
20.2. *Pro forma* financial information	N/A
20.3 Financial statements	253-333, 340-358
20.4 Auditing of historical annual financial information	
20.4.1 Statement that the historical financial information has been audited	334-339, 359-362
20.4.2 Other information audited by the Statutory Auditors	149-151, 363-364
20.4.3 Source of financial data not extracted from the issuer's audited financial statements	N/A
20.5 Date of latest financial information	253-333, 340-358
20.6 Interim and other financial information	N/A(2)
20.7 Dividend distribution policy	214, 247, 296, 358
20.7.1 Amount of dividend per share adjusted, where the number of shares in the issuer has changed, to make it comparable	N/A
20.8 Legal and arbitration proceedings	230, 283, 300, 324, 335, 397-398
20.9 Significant change in the financial or trading position	N/A
21. Additional information	
21.1 Share capital	
21.1.1 Amount of issued capital	210
21.1.2 Shares not representing capital	N/A
21.1.3 Shares held by the Company, on its behalf or by subsidiaries	210-212, 216-217
21.1.4 Amount of any convertible securities, exchangeable securities or securities with warrants	N/A
21.1.5 Information about the terms of any acquisition rights and/or any obligations over capital issued but not paid up or an undertaking to increase the capital	N/A
21.1.6 Information about the capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option	N/A
21.1.7 History of share capital	210
21.2 Memorandum and Articles of Association	
21.2.1 Corporate purpose	404
21.2.2 Provisions with respect to the members of the Company's administrative bodies	157-184
21.2.3 Rights, preferences and restrictions attached to each class of existing shares	215, 404-405
21.2.4 Action necessary to change the shareholders' rights	N/A
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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.

6. CROSS-REFERENCE TABLE FOR THE MANAGEMENT REPORT

(Articles L. 225-100 *et seq.*, L. 232-1 and R. 225-102 of the French Commercial Code)

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Expenses that are not deductible for tax purposes	N/A

7. CROSS-REFERENCE TABLE FOR THE ANNUAL FINANCIAL REPORT

(Article 222-3 of the AMF General Regulations)

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