KERING

Financial document
2017

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kering in 2017

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1. history

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

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

1963

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

1988

- Listing of Pinault SA on the Paris Stock Exchange.

1990

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

1991

- The Group acquires Conforama and enters the retail market.

1992

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

1994

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

1999

- Acquisition of a 42% stake in Gucci Group NV, marking the Group's entry into the Luxury Goods sector.
- First steps towards the creation of a multi-brand Luxury Goods group, with the acquisition by Gucci Group of Yves Saint Laurent, YSL Beauté and Sergio Rossi.

2000

- Acquisition by Gucci Group of high jewelry House Boucheron.

2001

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

2003

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

2004

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

2005

- Pinault-Printemps-Redoute becomes PPR.

2006

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

2007

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

2008

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

2009

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

2010

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

2011

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

2012

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

2013

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

2014

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

2015

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

2016

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

2017

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

2. key consolidated figures

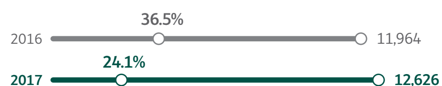
(in € millions)	2017	2016	Change
Revenue	**15,478**	**12,385**	**+25.0%**
EBITDA	**3,464**	**2,318**	**+49.4%**
EBITDA margin (as a % of revenue)	*22.4%*	*18.7%*	*+3.7pts*
Recurring operating income	**2,948**	**1,886**	**+56.3%**
Recurring operating margin (as a % of revenue)	*19.0%*	*15.2%*	*+3.8pts*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

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

dividend per share
(in €)

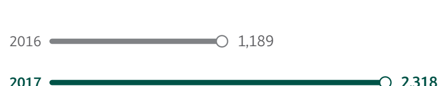
net income attributable to owners of the parent
(in € millions)

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



** Net debt(3) / equity.*

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

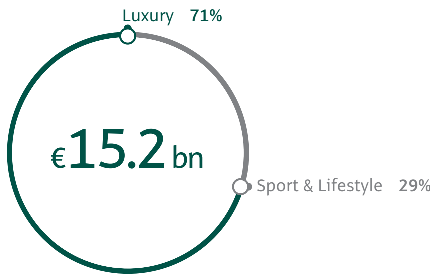


net debt [(3)]
(in € millions)

solvency ratio
(Net debt(3)/EBITDA)

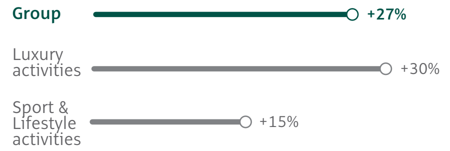
(1) Purchases of property, plant and equipment and intangible assets.
(2) Net cash flow from operating activities less net acquisitions of property, plant and equipment and intangible assets.
(3) Net debt is defined on page 86.
(4) Subject to the approval of the Annual General Meeting to be held on April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

revenue breakdown by activity[1]

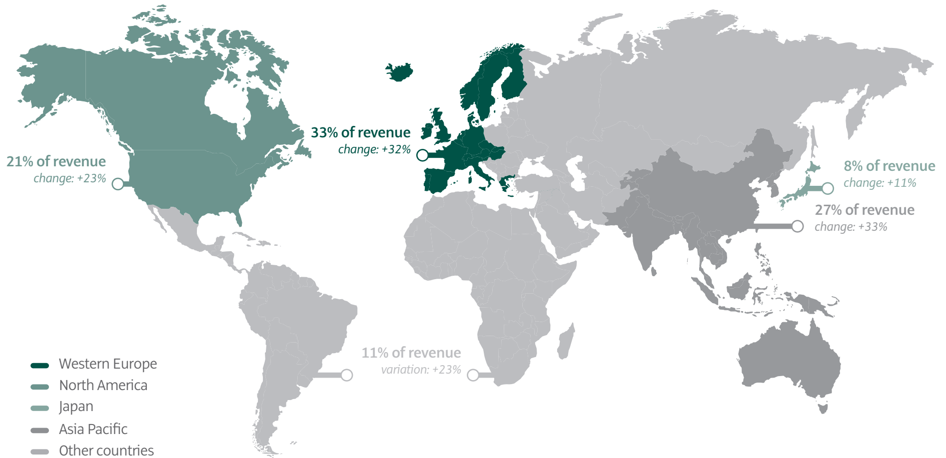


group revenue

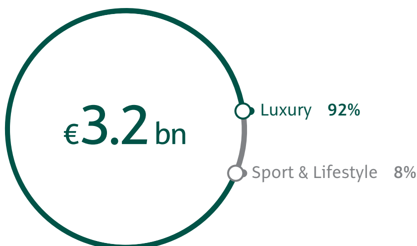
2017 vs 2016 comparable[2] change, in %



revenue breakdown and comparable[2] change by region



recurring operating income breakdown by activity[3]

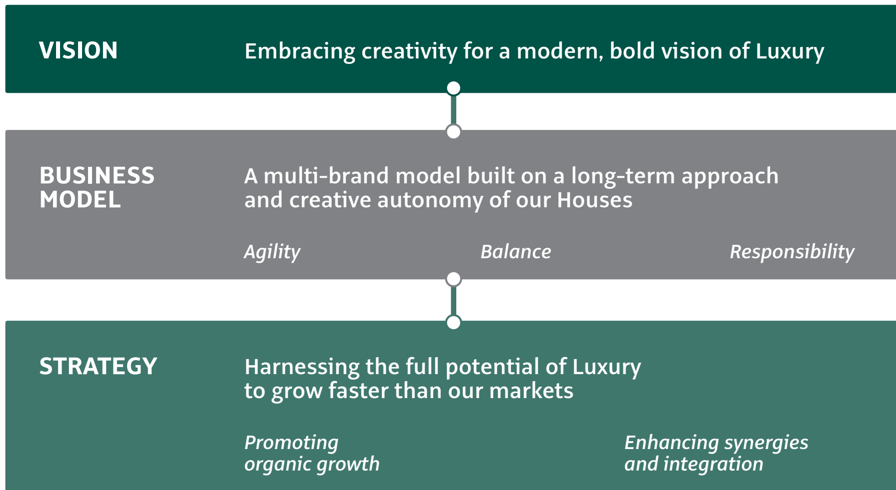


recurring operating income change and margin

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

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

3. group strategy



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

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

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

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

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

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

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

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

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

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

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

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

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

- **Constancy**

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

- **Flexibility**

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

- **Clarity**

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

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

- **An ensemble of exceptional Houses**

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

- **Multi-brand model**

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

- **Growth prospects**

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

- **Ready to weather adverse market conditions**

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

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

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

- **Towards sustainable Luxury**

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

- **A people-centred approach**

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

- **Creative potential**

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

- **Governance and ethics**

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

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

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

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

Promoting organic growth

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

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

- **Product innovation**

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

- **Sales efficiency**

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

- **Customer experience**

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

- **Omni-channel approach**

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

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

Enhancing synergies and integration

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

- **Resource pooling**

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

- **Cross-business expertise**

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

- **Vertical integration**

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

- **Talent excellence**

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

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

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

kering in 2017: a record-breaking year

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

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

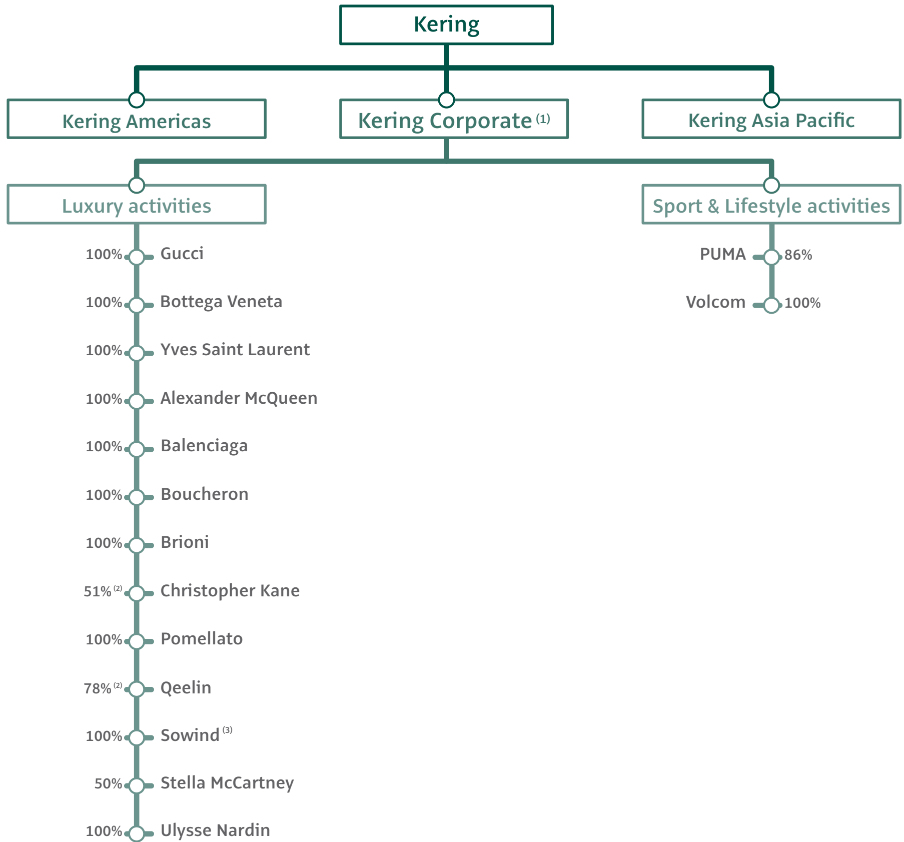
- promoting long-term value creation, combining boldness and imagination, creativity and measured risk-taking, adaptability and agility;
- nurturing each brand's potential, with priority given to organic growth and operating cash flow generation.

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

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

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

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



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

chapter 2
our activities

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worldwide personal luxury goods market overview

This section contains information derived from studies conducted by organisations, such as Altagamma and Bain & Company. Unless otherwise indicated, all historical and forecast information, including trends, sales, market shares, sizes and growth, comes from the Bain Luxury Study – Altagamma Worldwide Market Monitor, published in October 2017, rounded out with data from the full report published in December 2017. Luxury Goods industry segments and product categories correspond to the definitions used in the Bain Luxury Study – Altagamma Worldwide Market Monitor.

In this document, the global personal Luxury Goods market includes the "soft luxury" segment (Leather Goods, Apparel and Accessories), the "hard luxury" segment (watches and jewelry) and the "perfumes and cosmetics" segment.

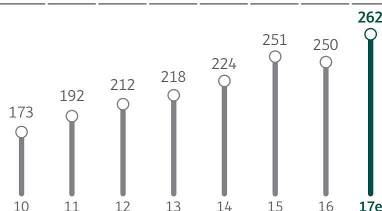
market overview: size, trends and main growth drivers

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

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

Annual change at reported or comparable exchange rates

reported	**+11%**	**+10%**	**+3%**	**+3%**	**+12%**	**0%**	**+5%**
comparable	+13%	+5%	+7%	+3%	+1%	0%	+6%

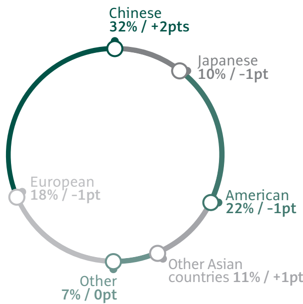


2017 was characterised by:

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

2017e Luxury Goods market by nationality

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



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

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

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

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

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

Certain structural factors will clearly still be supporting demand and growth of the personal Luxury Goods market, including:

- positive demographic trends, especially in emerging markets;
- the emerging middle class in these countries, where the average disposable income and purchasing power of consumers has continued to grow;
- the rising number of super-rich consumers and high-net-worth individuals (HNWI);
- increasing international mobility, generating higher travel flows and spending.

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

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

competitive environment

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

regional overview

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

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

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

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

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

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

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

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

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

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

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

product categories

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

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

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

Accessories

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

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

The two main sub-categories were:

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

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

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

Apparel

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

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

Hard luxury

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

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

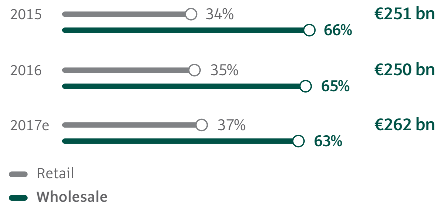
Perfume and cosmetics

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

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

distribution channels

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



Retail channel

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

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

Wholesale channel

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

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

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

E-commerce

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

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

Kering brands are also distributed online by selected partners.

market outlook

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

Key trends for 2018 include:

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

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

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

luxury activities

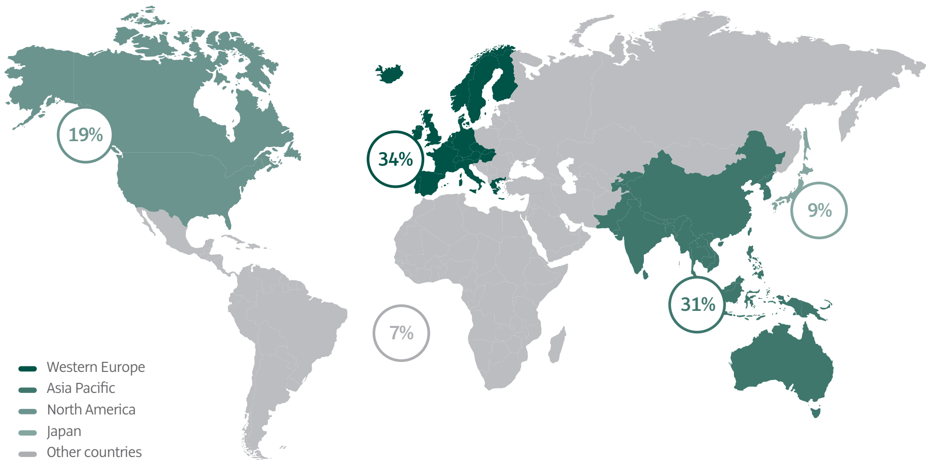
2017 key figures

€10,796 million
in revenue

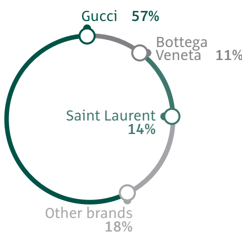
Revenue (in € millions)

breakdown of revenue

By region



By brand



By product category

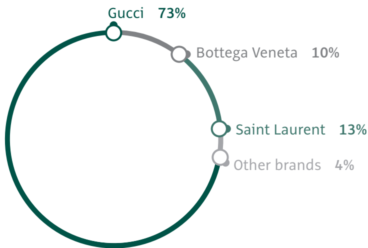
By distribution channel

€2,911 million

in recurring operating income

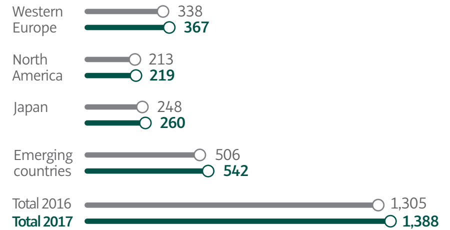
Recurring operating income (in € millions)

Breakdown of recurring operating income by brand



1,388

directly operated stores



23,423

average number of employees (full time equivalent)

GUCCI

2017 key figures

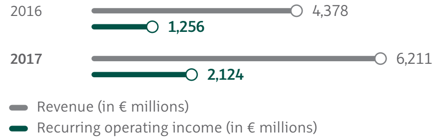
€6,211 million
in revenue

€2,124 million
in recurring operating income

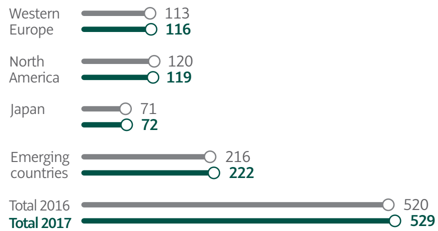
11,543
average number of employees (full time equivalent)

529
directly operated stores

Revenue and recurring operating income

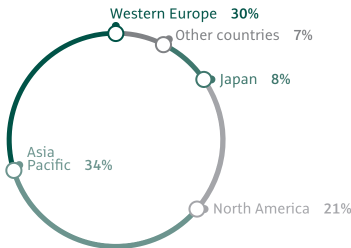


Number of directly operated stores by region



breakdown of revenue

By region



By distribution channel

By product category

business concept

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

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

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

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

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

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

competitive environment

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

strategy

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

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

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

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

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

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

2017 highlights and outlook for 2018

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

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

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

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

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

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

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

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

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

BOTTEGA VENETA

2017 key figures

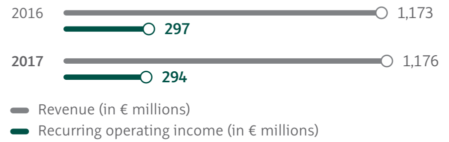
€1,176 million
in revenue

€294 million
in recurring operating income

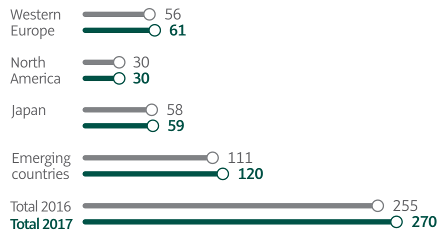
3,381
average number of employees
(full time equivalent)

270
directly operated stores

Revenue and recurring operating income

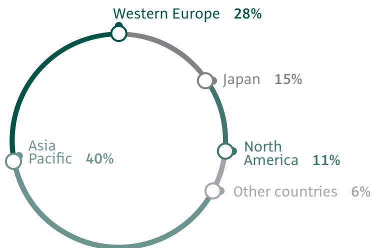


Number of directly operated stores by region



breakdown of revenue

By region



By distribution channel

By product category

business concept

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

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

Bottega Veneta's products are sold through a distribution network of directly operated stores, complemented by exclusive franchise stores, selected department and specialty stores worldwide. In addition, Bottega Veneta's products are now available through the brand's online store in 66 countries.

competitive environment

Bottega Veneta is one of the only Italian brands to offer truly handcrafted products made with the expert know-how of its master Italian artisans. It is a rare example of an absolute luxury lifestyle brand that never compromises on the quality of its products while always providing an unsurpassed level of service to clients. This places Bottega Veneta at the top of the luxury pyramid, and puts it in competition with a limited number of other brands.

strategy

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

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

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

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

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

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

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

2017 highlights and outlook for 2018

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

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

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

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

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

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

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

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

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

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

SAINT LAURENT

2017 key figures

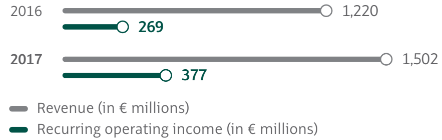
€1,502 million
in revenue

€377 million
in recurring operating income

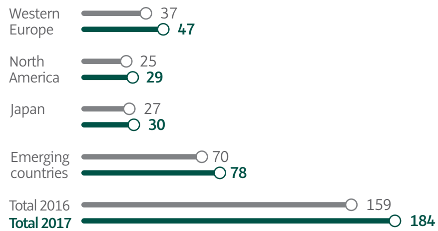
2,594
average number of employees (full time equivalent)

184
directly operated stores

Revenue and recurring operating income

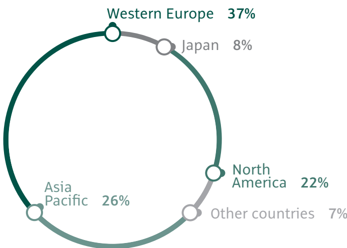


Number of directly operated stores by region



breakdown of revenue

By region



By distribution channel

By product category

business concept

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

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

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

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

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

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

competitive environment

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

Saint Laurent now competes globally with high-end exclusive luxury brands and occupies a leading position in ready-to-wear, fashion and leather goods sectors. Saint Laurent's status as a leading fashion House is fully established and recognised, with a very distinctive identity and strong codes that are perfectly identified and made relevant to our time.

strategy

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

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

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

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

2017 highlights and outlook for 2018

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

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

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

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

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

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

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

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

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

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

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

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

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

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

other brands

2017 key figures

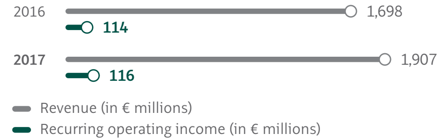
€1,907 million
in revenue

€116 million
in recurring operating income

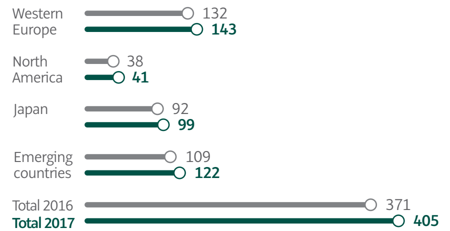
5,905
average number of employees (full time equivalent)

405
directly operated stores

Revenue and recurring operating income

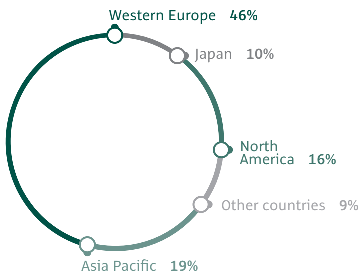


Number of directly operated stores by region



breakdown of revenue

By region



By distribution channel

By product category

ALEXANDER MCQUEEN

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

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

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

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

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

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

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

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

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

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

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

BALENCIAGA

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

In the 1990s and early 2000s, the brand experienced a re-birth and saw an extension of its product universe to a broader range of products, focusing particularly on iconic handbag launches, together with increased focus on fashion shoes as well as accessories, without compromising the core ready-to-wear segment. The brand significantly expanded its retail network, helping to bolster brand awareness around the globe.

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

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

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

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

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

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

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

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

BOUCHERON
PARIS

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

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

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

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

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

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

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

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

Brioni

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

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

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

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

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

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

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

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

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

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

CHRISTOPHER KANE

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

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

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

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

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

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

GP
GIRARD-PERREGAUX
HAUTE HORLOGERIE SUISSE DEPUIS 1791

JR
JEANRICHARD
1681

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

The history of the brand is marked by watches that combine sharp design with innovative technology, such as the renowned *Tourbillon with Three Gold Bridges* presented by Constant Girard-Perregaux in 1889 at the Paris Universal Exhibition, where he was awarded a gold medal.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

qeelin

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

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

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

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

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

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

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

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

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

STELLA McCARTNEY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

worldwide sport & lifestyle market overview

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

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

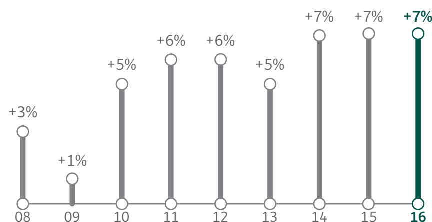
Note that (i) all growth rates are expressed in reported terms (unless stated otherwise); (ii) the designation "Sport & Lifestyle" (SLS) refers to all types of sports from running and hiking to snowboarding; (iii) the sporting goods market, as reported by Euromonitor, includes two major categories: apparel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

market overview: size, trends and main growth drivers

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

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

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



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

- demographic trends and increase in world GDP;
- increase in sports participation and growing awareness among the population of the positive effects of sport on health;
- globalisation and convergence of consumer habits as sport promotes universal values;
- increase in purchasing power and urbanisation in emerging countries.

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

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

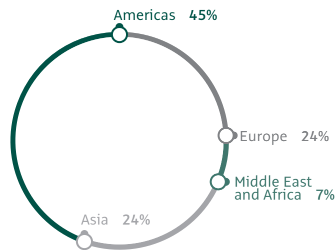
competitive environment

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

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

regional overview

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



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

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

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

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

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

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

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

product categories

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

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

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

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

distribution channels

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

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

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

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

market outlook

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

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

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

sport & lifestyle activities

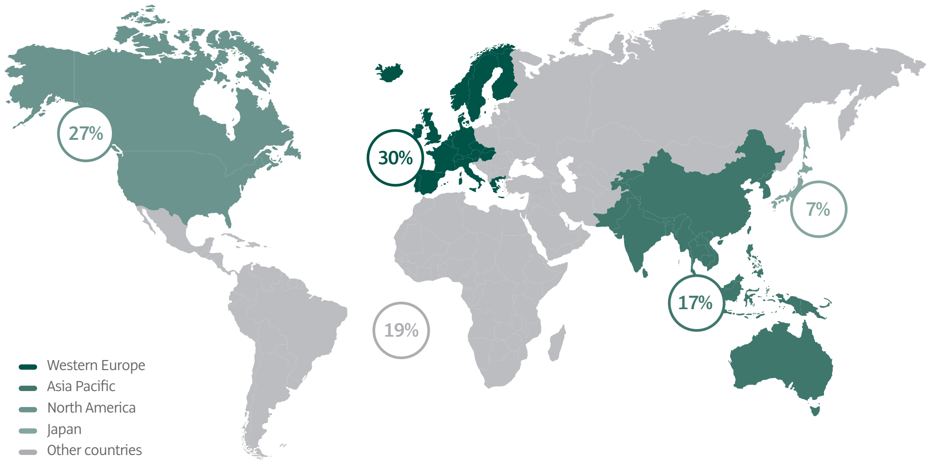
2017 key figures

€4,382 million
in revenue

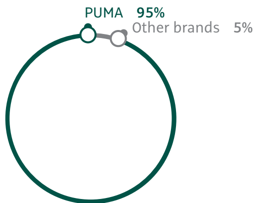
Revenue (in € millions)

breakdown of revenue

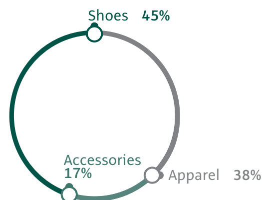
By region



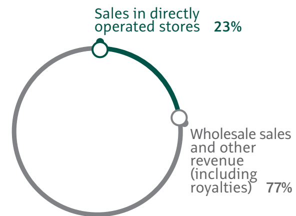
By brand



By product category



By distribution channel

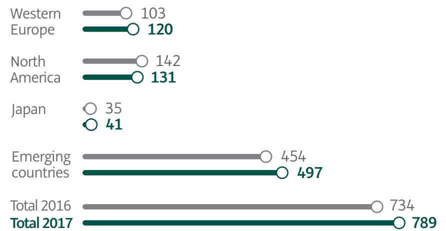


€244 million
in recurring operating income

Recurring operating income (in € millions)

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

789
directly operated stores

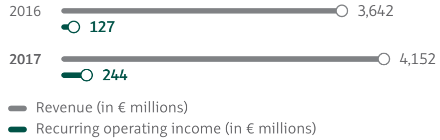


2017 key figures

€4,152 million
in revenue

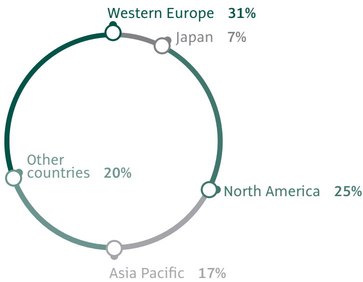
€244 million
in recurring operating income

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



breakdown of revenue

By region



By distribution channel

By product category

business concept

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

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

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

market

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

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

strategy

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

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

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

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

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

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

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

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

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

2017 highlights and outlook for 2018

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

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

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

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

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

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

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

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

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

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

other brands

2017 key figures

€230 million
in revenue

755
average number of employees
(full time equivalent)

Revenue
(in € millions)

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

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

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

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

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

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

kering eyewear

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

chapter 3
financial information

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1. activity report

1.1. changes in group structure and highlights of the year

Kering Eyewear – A strategic partnership with the Richemont group

On June 1, 2017, Kering announced the close of the partnership deal agreed on March 21 between Kering Eyewear and the Maison Cartier (owned by Compagnie Financière Richemont) to develop the Eyewear category. The strategic rationale behind the partnership is to join forces and grow in scale to create a high-performing platform for the development, manufacture and worldwide distribution of Cartier eyewear.

Under the terms of the agreement, Richemont acquired a minority stake in Kering Eyewear, a specialised company fully dedicated to the eyewear activity of the 12 brands of the Kering group (Gucci, Bottega Veneta, Saint Laurent, Alexander McQueen, Brioni, Christopher Kane, McQ, Stella McCartney, Tomas Maier, Boucheron, Pomellato and PUMA). Kering Eyewear has also integrated the Manufacture Cartier Lunettes entity in Sucy-en-Brie, France.

The Cartier 2018 Spring-Summer collection, which was presented at the Silmo International Optics and Eyewear Exhibition held in Paris between October 6 and 9, 2017, marked the official launch of the partnership.

Manufacture Cartier Lunettes has been consolidated in the Group's financial statements since the second half of 2017.

Change in management and creative responsibility – Other Luxury brands

On March 17, 2017, Kering announced the appointment of Fabrizio Malverdi as CEO of Brioni. On June 15, 2017, Kering announced the appointment of Nina-Maria Nitsche as Brioni's new Creative Director with responsibility for the House's collections and image.

On August 17, 2017, Kering announced the appointment of Patrick Pruniaux as CEO of Swiss watchmaking House Ulysse Nardin.

Appointment and corporate governance at Kering

On December 4, 2017, Kering announced that Grégory Boutté had been appointed as Chief Client and Digital Officer and a member of the Group's Executive Committee. His responsibilities are to lead the Group's digital transformation and drive the development of e-commerce, CRM and data management.

Bond issue

On March 28, 2017, Kering carried out a €300 million issue of ten-year bonds with a fixed-rate coupon of 1.50%. The bonds were settled and delivered on April 5, 2017.

1.2. 2017 business review

Definitions of Kering's non-IFRS financial indicators are presented at the end of this chapter on page 86.

Key figures

Condensed consolidated income statement

(in € millions)	2017	2016	Change
Revenue	15,477.7	12,384.9	+25.0%
Recurring operating income	2,948.0	1,886.2	+56.3%
as a % of revenue	*19.0%*	*15.2%*	*+3.8 pts*
EBITDA	3,464.4	2,318.2	+49.4%
as a % of revenue	*22.4%*	*18.7%*	*+3.7 pts*
Other non-recurring operating income and expenses	(241.7)	(506.0)	-52.2%
Finance costs, net	(242.6)	(201.8)	+20.2%
Corporate income tax	(591.0)	(296.1)	+99.6%
Share in earnings (losses) of equity-accounted companies	(2.0)	(2.2)	-9.1%
Net income from continuing operations	1,870.7	880.1	+112.6%
o/w attributable to owners of the parent	*1,791.2*	*825.1*	*+117.1%*
o/w attributable to non-controlling interests	*79.5*	*55.0*	*+44.5%*
Net income (loss) from discontinued operations	(5.6)	(11.6)	-51.7%
Net income attributable to owners of the parent	1,785.6	813.5	+119.5%
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent	2,001.9	1,281.9	+56.2%

Earnings per share

	2017	2016	Change
Earnings per share attributable to owners of the parent	€14.17	€6.46	+119.3%
Earnings per share from continuing operations (excluding non-recurring items) attributable to owners of the parent	€15.89	€10.17	+56.2%

Operating investments

(in € millions)	2017	2016	Change
Gross operating investments	752.0	611.0	+23.1%

Free cash flow from operations

(in € millions)	2017	2016	Change
Free cash flow from operations	2,318.3	1,189.4	+94.9%

Revenue

(in € millions)	2017	%	2016	%	Reported change	Comparable change [1]
Luxury	10,795.8	70%	8,469.4	69%	+27.5%	+29.9%
Sport & Lifestyle	4,381.9	28%	3,883.7	31%	+12.8%	+14.7%
Corporate and other	300.0	2%	31.8	0%	N/A	N/A
Total revenue	**15,477.7**	**100%**	**12,384.9**	**100%**	**+25.0%**	**+27.2%**

(1) On a comparable Group structure and exchange rate basis.

Consolidated revenue for 2017 amounted to €15,478 million, up 25.0% on 2016 as reported and 27.2% based on a comparable Group structure and exchange rates.

Exchange rate fluctuations shaved €221 million off the overall 2017 revenue figure, including €56 million due to the depreciation of the US dollar and €63 million due to the depreciation of the Japanese yen.

Revenue by region

(in € millions)	2017	%	2016	%	Reported change	Comparable change [1]
Western Europe	5,077.1	33%	3,885.9	31%	+30.7%	+32.3%
North America	3,306.0	21%	2,740.5	22%	+20.6%	+22.9%
Japan	1,291.2	8%	1,226.3	10%	+5.3%	+10.9%
Sub-total – mature markets	**9,674.3**	**62%**	**7,852.7**	**63%**	**+23.2%**	**+25.8%**
Eastern Europe, Africa and the Middle East	1,023.9	7%	814.3	7%	+25.7%	+24.9%
South America	594.7	4%	514.3	4%	+15.6%	+19.1%
Asia Pacific (excluding Japan)	4,184.8	27%	3,203.6	26%	+30.6%	+32.7%
Sub-total – emerging markets	**5,803.4**	**38%**	**4,532.2**	**37%**	**+28.0%**	**+29.8%**
Total revenue	**15,477.7**	**100%**	**12,384.9**	**100%**	**+25.0%**	**+27.2%**

(1) On a comparable Group structure and exchange rate basis.

Comparable revenue growth was just as strong in mature markets (led by Western Europe and North America) as in emerging markets, whose sales contributed 38% of the consolidated total, with Asia Pacific (excluding Japan) accounting for 27%.

Revenue generated outside the eurozone represented 78% of the consolidated total in 2017.

Quarterly revenue data

Consolidated revenue by quarter

	First quarter	Second quarter	Third quarter	Fourth quarter	Total
2017	3,573.5	3,722.7	3,925.0	4,256.5	**€15,477.7m**
2016	2,723.8	2,969.1	3,184.7	3,507.3	€12,384.9m

Quarterly revenue by activity

(in € millions)	First quarter	Second quarter	Third quarter	Fourth quarter	Total 2017
Gucci	1,354.0	1,478.5	1,553.8	1,824.9	6,211.2
Bottega Veneta	280.4	310.0	280.7	305.2	1,176.3
Yves Saint Laurent	364.4	346.4	383.7	406.9	1,501.4
Other Luxury brands	418.3	479.2	459.6	549.8	1,906.9
Luxury	**2,417.1**	**2,614.1**	**2,677.8**	**3,086.8**	**10,795.8**
PUMA	1,008.9	972.1	1,125.7	1,045.0	4,151.7
Other Sport & Lifestyle brands	55.2	50.3	65.6	59.1	230.2
Sport & Lifestyle	**1,064.1**	**1,022.4**	**1,191.3**	**1,104.1**	**4,381.9**
Corporate and other	**92.3**	**86.2**	**55.9**	**65.6**	**300.0**
KERING TOTAL	**3,573.5**	**3,722.7**	**3,925.0**	**4,256.5**	**15,477.7**

(in € millions)	First quarter	Second quarter	Third quarter	Fourth quarter	Total 2016
Gucci	894.2	1,053.3	1,088.3	1,342.5	4,378.3
Bottega Veneta	267.9	303.3	293.8	308.4	1,173.4
Yves Saint Laurent	269.2	278.7	326.1	346.2	1,220.2
Other Luxury brands	372.4	438.9	406.7	479.5	1,697.5
Luxury	**1,803.7**	**2,074.2**	**2,114.9**	**2,476.6**	**8,469.4**
PUMA	855.9	830.5	994.1	961.7	3,642.2
Other Sport & Lifestyle brands	57.2	53.2	70.3	60.8	241.5
Sport & Lifestyle	**913.1**	**883.7**	**1,064.4**	**1,022.5**	**3,883.7**
Corporate and other	**7.0**	**11.2**	**5.4**	**8.2**	**31.8**
KERING TOTAL	**2,723.8**	**2,969.1**	**3,184.7**	**3,507.3**	**12,384.9**

(comparable change) [1]	First-quarter change	Second-quarter change	Third-quarter change	Fourth-quarter change	Full-year 2017
Gucci	+48.3%	+39.3%	+49.4%	+42.6%	+44.6%
Bottega Veneta	+2.3%	+1.7%	+0.9%	+4.7%	+2.4%
Yves Saint Laurent	+33.4%	+23.7%	+22.2%	+22.9%	+25.3%
Other Luxury brands	+11.1%	+9.1%	+17.0%	+18.8%	+14.1%
Luxury	**+31.6%**	**+25.3%**	**+32.3%**	**+30.5%**	**+29.9%**
PUMA	+15.3%	+16.1%	+17.3%	+14.6%	+15.8%
Other Sport & Lifestyle brands	-6.3%	-7.4%	-3.2%	+4.2%	-3.2%
Sport & Lifestyle	**+14.0%**	**+14.7%**	**+15.9%**	**+14.0%**	**+14.7%**
Corporate and other	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
KERING TOTAL	**+28.6%**	**+24.6%**	**+28.4%**	**+27.4%**	**+27.2%**

(1) On a comparable Group structure and exchange rate basis.

Recurring operating income

The Group's gross margin for 2017 amounted to €10,133 million, up €2,343 million or 30.1% on the previous year as reported. Operating expenses increased by 21.7% as reported.

(in € millions)	2017	2016	Change
Luxury	2,911.0	1,936.0	+50.4%
Sport & Lifestyle	244.0	123.2	+98.1%
Corporate and other	(207.0)	(173.0)	-19.7%
Recurring operating income	**2,948.0**	**1,886.2**	**+56.3%**

Kering's recurring operating income totalled €2,948 million in 2017, up 56.3% on 2016 as reported. Consolidated recurring operating margin came to 19.0%, fuelled by Luxury activities whose recurring operating margin widened significantly to 27.0%. Recurring operating margin for the Group's Sport & Lifestyle activities came to 5.6%.

EBITDA

(in € millions)	2017	2016	Change
Recurring operating income	**2,948.0**	**1,886.2**	**+56.3%**
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets	516.4	432.0	+19.5%
EBITDA	**3,464.4**	**2,318.2**	**+49.4%**

(in € millions)	2017	2016	Change
Luxury	3,275.3	2,255.4	+45.2%
Sport & Lifestyle	320.4	190.0	+68.6%
Corporate and other	(131.3)	(127.2)	-3.2%
EBITDA	**3,464.4**	**2,318.2**	**+49.4%**

The EBITDA margin widened by 3.7 points on a reported basis to 22.4% from 18.7%.

Other non-recurring operating income and expenses

Other non-recurring operating income and expenses consist of unusual items that could distort the assessment of each brand's financial performance.

This item represented a net expense of €242 million in 2017, significantly lower than the €506 million net expense recorded for 2016. The 2017 figure primarily corresponded to €219 million in asset impairment losses, of which €185 million related to write-downs of goodwill and a brand within Other Luxury brands as well as a write-down of the Volcom brand.

The net expense for 2016 mainly comprised €335 million in asset impairment losses, of which €297 million concerned write-downs of goodwill and a brand within Other Luxury brands.

Other non-recurring operating income and expenses also included the losses recorded by Kering Eyewear during its ramp-up phase prior to it being granted the Gucci licence on January 1, 2017. Since that date, Kering Eyewear's results of operations have been presented under Recurring operating income.

(See Note 9 – Other non-recurring operating income and expenses, to the consolidated financial statements).

Finance costs, net

(in € millions)	2017	2016	Change
Cost of net debt	(128.2)	(128.3)	-0.1%
Other financial income and expenses	(114.4)	(73.5)	+55.6%
Finance cost, net	**(242.6)**	**(201.8)**	**+20.2%**

The Group's cost of net debt was €128 million in 2017, unchanged from 2016 as the sharp decrease in its average outstanding net debt during the year was fully offset by unfavourable interest rates. This situation stemmed from changes in the Group's net debt profile following the repayment of very short-term debt (commercial paper) which had extremely low interest rates and was partly refinanced by the issue of long-term bonds in 2016 and 2017 (which pay a higher rate of interest but secure the Group's financing over the long term). In addition, the situation was exacerbated by the fact that, due to ongoing negative interest rates, there was hardly any return on the strong cash flows generated from the Group's revenue growth.

Other financial income and expenses represented a net expense of €114 million in 2017, up 55.6% on the €74 million net expense recorded for 2016. This year-on-year growth was chiefly due to the impact of restatements carried out in connection with applying IAS 39. The carrying cost of currency hedges was adversely impacted by higher interest rates in the United States, the volatility of Asian rates and negative interest rates in the eurozone.

(See Note 10 – Finance costs (net), to the consolidated financial statements).

Corporate income tax

(in € millions)	2017	2016	Change
Tax on recurring income	(622.0)	(345.3)	+80.1%
Tax on non-recurring items	31.0	49.2	-37.0%
Total tax charge	**(591.0)**	**(296.1)**	**+99.6%**
Effective tax rate	**24.0%**	**25.1%**	**-1.1 pt**
Recurring tax rate	**23.0%**	**20.5%**	**+2.5 pts**

Kering's effective tax rate decreased to 24.0% in 2017 from 25.1% in 2016 due to a higher amount of permanent differences relating mainly to non-recurring expenses. Adjusted for the effect of non-recurring items and the related taxes, the recurring tax rate rose to 23.0% from 20.5%.

The year-on-year increase is partly attributable to business growth in regions or countries with higher average tax rates. It is also the result of overhauling supply chain and logistics structures and processes in order to adapt the brands' business models to new constraints arising from the Group's development of the omnichannel approach as well as from shorter lead times for designing and manufacturing products. The opening of Gucci ArtLab – an excellence centre for Leather Goods and Shoes based near Florence – is a prime example of this new way of working.

The above-described operational restructuring should lead in the coming years to a gradual increase in the recurring tax rate, which will be partially offset by tax cuts planned for several countries.

The Group is currently analysing the potential impacts of the recent tax reform in the United States and at this stage does not think it likely that the reform will significantly impact the Group's future tax rates. The Group remeasured its deferred tax assets and liabilities in line with the US tax cuts and recognised these remeasurements in its consolidated financial statements for the year ended December 31, 2017.

Lastly, on November 29, 2017, the Italian financial police (*Guardia di Finanza*) searched Gucci's Milan and Florence offices as part of an investigation by Milan's public prosecutor into suspected tax evasion. Gucci has announced that it is cooperating fully with the authorities in the investigation. The related tax risk cannot be measured reliably at this point in the proceedings and therefore no specific provision was recorded in 2017. However, as in previous years, the Group adopted a prudent approach for measuring its tax liabilities.

(See Note 11 – Income taxes, to the consolidated financial statements).

1.3. operating performances by brand

Information concerning the breakdown of revenue (by region, product, distribution channel) is set out in Chapter 2 of this document.

Luxury activities

(in € millions)	2017	2016	Change
Revenue	**10,795.8**	**8,469.4**	**+27.5%**
Recurring operating income	**2,911.0**	**1,936.0**	**+50.4%**
as a % of revenue	***27.0%***	***22.9%***	***+4.1 pts***
EBITDA	3,275.3	2,255.4	+45.2%
as a % of revenue	*30.3%*	*26.6%*	*+3.7 pts*
Gross operating investments	486.9	380.6	+27.9%
Average FTE headcount	23,423	21,559	+8.6%

In 2017, the worldwide Luxury Goods market (as presented and defined in Chapter 2 of this document) picked up sharply, growing 5% on a reported basis and 6% at constant exchange rates, after having contracted slightly in 2016 on both a reported basis and at constant exchange rates according to data published by Bain Altagamma.

In line with the gradual upward pattern observed during the course of 2016, spending by Chinese customers on Luxury Goods rose considerably in 2017, which lifted not only the domestic market (up 18% at constant exchange rates based on Bain Altagamma's data) but also markets in tourist destinations.

The market upswing in Mainland China boosted overall performance in the Asia Pacific region, where business began to trend upwards in Hong Kong and Macao and remained firm throughout most of the region.

Growth was also robust in Western Europe (up 7% at constant exchange rates according to Bain Altagamma) thanks to high tourist numbers and spending by domestic customers. Based on data published by Global Blue, sales to tourists climbed 8% during 2017. However, having kept up extremely robust momentum in the first six months and despite tourist numbers picking up again in France, the pace of growth slowed as from August 2017 in view of a high basis of comparison in the United Kingdom.

Luxury Goods sales in North America were weighed down by the persistently lacklustre US market which posted the weakest growth amongst the main regions, in large part due to sluggish sales in US department stores, a key distribution channel for Luxury Goods players. Worldwide, department stores were the only distribution channel to turn in a flat performance in 2017 (edging down 1% at constant exchange rates according to Bain Altagamma).

In Japan, the market swung upwards in the second half of 2017, following a sluggish start to the year. For the full twelve months growth reached 8% at constant exchange rates according to Bain Altagamma, fuelled by a recovery in tourism during the year.

The picture was mixed across product categories. Accessories, Jewelry and, to a certain extent, Ready-to-Wear fared well, and the timepieces sector began to pick up although performance was volatile depending on the schedule of deliveries to distributors.

In terms of distribution channels, 2017 saw an acceleration in e-commerce sales as well as steady growth for travel retail in airports. Based on Bain Altagamma data, stores directly operated by Luxury Goods brands seemed to experience more modest growth but this reflects a highly polarised market with very diverse performances between the various players.

In addition, 2017 saw Millennials increasingly becoming customers of Luxury Goods brands. According to Bain Altagamma, they contributed an overall 30% to the industry's revenue, and even more in key markets such as China and the United States.

Finally, whereas the first six months of 2017 saw relatively little volatility for the world's major currencies, the second half of the year was affected by the euro gradually gaining strength against its peers. Accordingly, for Kering's Luxury activities, while reported growth for the first six months of the year was 140 basis points higher than growth at constant exchange rates, in the second half it was 580 points lower.

Revenue

The Group's Luxury activities (whose scope of consolidation remained unchanged during 2017) posted stellar revenue growth of 27.5% on a reported basis for the year and 29.9% at comparable exchange rates, topping €10 billion to reach €10,796 million and once again significantly outperforming the market.

Organic growth for the second half of the year came to 31.3% on a comparable basis, outstripping the 28.3% recorded for the first six months and achieved despite a higher basis of comparison than for 2016. Quarter-on-quarter growth for the second half was very evenly balanced.

Retail sales in directly operated stores and online advanced 35.3% on a comparable basis to €8,110 million, propelled by excellent in-store performances from Gucci, Yves Saint Laurent and Balenciaga, and by the rapid development of online sales (which surged more than 70% during the year).

Directly operated stores accounted for 75.1% of total revenue generated by the Group's Luxury activities in 2017, versus 72.3% in 2016. This increase reflects the strategy implemented by all of the Luxury brands to take greater control of their distribution and reinforce their exclusivity, as well as measures to prudently manage the expansion of the directly operated store network. It also illustrates the Group's objective of retaining and, where appropriate, developing, a network of high-quality wholesalers for a select number of brands and product categories and in certain regions.

Wholesale sales for 2017 were 16.7% higher year on year on a comparable basis, with all of the Group's main wholesale markets posting strong growth, including the United States. This performance reflects the strong appeal of the Group's brands, resulting in them being showcased by wholesalers, which have generally become increasingly selective in their purchasing choices. Consequently, the brands were able to win further market share during the year.

Revenue by region

As in 2016, revenue growth for the Group's Luxury activities in 2017 was generally balanced across mature and emerging markets.

Sales in emerging markets climbed 32.8% compared with 2016, with the Asia Pacific region posting a 33.4% rise. All of the region's main markets saw very strong growth, except for Taiwan where momentum was less brisk. Revenue in Mainland China jumped 37.7% and sales in Hong Kong and Macao swung upwards with double-digit growth. Despite the tensions that put strain on tourist numbers during the year, sales levels in South Korea – which is the Group's second largest emerging market – remained very strong, with growth of around 40%.

In mature markets, revenue was up 28.1% based on comparable data, with growth breaking down as follows by region:

- up 32.7% in Western Europe, with very even revenue rises across all of the main markets and consumer nationalities;
- up 27.1% in North America, primarily driven by excellent showings from Gucci, Yves Saint Laurent and Balenciaga;
- up 15.5% in Japan, spurred by a sharp sales recovery in the second half (up by more than 20% on a comparable basis).

Revenue by product category

The weighting of product categories within Luxury activities' overall revenue is becoming increasingly balanced, reflecting the strategic fit of the brands in the portfolio.

Apart from Watches, revenue climbed steeply for each of the main product categories. Sales of Watches nevertheless increased, having been held back for several years by the sluggish timepieces market.

After stagnating in 2016, revenue from royalties rose significantly in 2017 led by the strong momentum for Gucci eyewear following the transfer of the Gucci licence to Kering Eyewear.

Recurring operating income

Recurring operating income for the Group's Luxury activities totalled €2,911 million in 2017, up by a steep 50.4% as reported year on year, and recurring operating margin reached a record 27.0%, up 410 basis points as reported. This achievement was mainly attributable to the sharp increases in recurring operating margin posted by Gucci and Yves Saint Laurent, whose sales growth far exceeded the rise in their cost bases resulting from the in-store expenses and communication costs incurred in connection with their expansion projects.

The combined effects of exchange rate fluctuations and currency hedges did not have a significant impact on recurring operating income in 2017 in light of the intrinsic rise in recurring operating margin.

EBITDA topped the €3 billion mark, leaping 45.2% to €3,275 million, and the EBITDA margin widened by 370 basis points to 30.3%.

Store network and operating investments

Luxury activities' gross operating investments totalled €487 million in 2017, €106 million higher than in 2016 but unchanged from 2016 as a proportion of revenue (4.5%).

As of December 31, 2017, Luxury activities had a network of 1,388 directly operated stores, including 846 (61%) in mature markets and 542 in emerging markets. Net store additions during the year totalled 83, which was largely attributable to the planned expansion of the Yves Saint Laurent network and targeted store openings at Bottega Veneta.

Gucci

(in € millions)	2017	2016	Change
Revenue	**6,211.2**	**4,378.3**	**+41.9%**
Recurring operating income	**2,124.1**	**1,256.3**	**+69.1%**
as a % of revenue	***34.2%***	***28.7%***	***+5.5 pts***
EBITDA	2,331.0	1,424.5	+63.6%
as a % of revenue	*37.5%*	*32.5%*	*+5.0 pts*
Gross operating investments	248.5	184.7	+34.5%
Average FTE headcount	11,543	10,253	+12.6%

Gucci had an excellent 2017 in all respects, far outperforming the Luxury Goods market as a whole, exceeding its own financial targets and methodically pursuing the rollout of action plans geared to supporting the brand's long-term growth.

The main highlights of 2017 were as follows:

- Gucci continued to rework its product offering, almost entirely completing the process by the end of the year. In all categories, older styles have been replaced by the new aesthetic brought to the brand by Alessandro Michele. The reaction of both customers and distributors has been extremely positive, as illustrated by Gucci's sales figures. However, the in-depth work of Gucci's merchandising teams is ongoing as the brand needs to be able to maximise each category's growth potential over the longer term by constantly honing the product offering;
- the fashion shows (which now combine menswear and womenswear in one show) and collections presented by Gucci during the year were once again extremely well received, consolidating the brand's leading position in the world of fashion and luxury;
- thanks to Gucci's renewed brand appeal and the success of its reworked offering, it has not run any promotional offers in its stores since the last quarter of 2016;
- the ramp-up programme for the new store concept was continued throughout the course of the year, with 66 stores developed around or converted to the concept during the period;
- Gucci's new image was also relayed through in-store events, measures to further enhance the customer experience, and the launch of more consistent and better targeted communication campaigns. The brand has forged several new partnerships as a launching pad for these initiatives, covering distribution, design and content creation. As such, Gucci has invested heavily in the production of images and films in order to regularly enrich its digital communication;
- digital technology remained at the heart of Gucci's omnichannel strategy, and in early July the brand launched its e-commerce activity in China. Overall, Gucci's online sales in 2017 advanced by over 80%;
- finally, Gucci continued to reorganise and rescale its production capacities and supply chain with a view to making them more agile, responsive and able to absorb rising demand. The new Gucci ArtLab – an excellence centre for Leather Goods and Shoes based near Florence that is due to open in early 2018 – is a prime example of the brand's overhaul of its supply chain and represents a major investment.

Revenue

Gucci's revenue topped the €6 billion mark in 2017, reaching €6,211 million. Revenue growth was an outstanding 41.9% as reported and 44.6% based on comparable exchange rates.

Second-half revenue leapt 45.7%, outpacing the 43.7% recorded for the first six months and achieved despite a very high basis of comparison.

Retail sales generated in directly operated stores shot up 47.0% at constant exchange rates, fuelled by increasingly higher footfall and improved productivity in the brand's stores.

Sales generated in the wholesale network advanced 34.7% on a comparable basis. Excluding the more mixed performances from the Watches category – whose product offering is still being repositioned – sales for this distribution channel rose at the same pace as those generated in directly operated stores. All of the brand's main markets saw sales growth during the year and Gucci won further market share amongst distributors.

Revenue by region

In view of the proportion of Gucci's sales that are generated in directly operated stores (84.6% in 2017), the most relevant revenue analysis by region concerns in-store business.

In the brand's mature markets, Western Europe posted the highest increase in revenue from directly operated stores, with growth coming in at 57.6% on a comparable basis. Thanks to its broader and younger customer base, Gucci was able to reap the benefits of the upturn in spending by domestic customers in the region and, as a result of its renewed appeal, was able to position itself as one of the most purchased brands by tourists visiting Europe.

In North America, having accelerated sharply in the second half, comparable-basis sales jumped 43.9% for the year as a whole, driven by the brand's success both amongst Millennials and a more traditional clientele, thanks to the depth and breadth of Gucci's product offering.

In Japan, in-store sales advanced by a brisk 21.4% on a comparable basis. This performance reflects how domestic customers have increasingly signed up to the brand's new look, as well as the fact that tourist numbers began to pick up again in the second half of the year.

In emerging markets, revenue vaulted 48.9% at constant exchange rates, with all regions contributing to this excellent performance, including Asia Pacific which delivered a 48.4% revenue hike on the back of dynamic markets in China and South Korea and sales upturns in Hong Kong and Macao.

Revenue by product category

Against a backdrop of Gucci having more or less completed the overhaul of its product offering, all of the brand's main product categories contributed to sales growth in directly operated stores in 2017.

For Leather Goods, the work on revisiting the product offering and replacing older collections was completed for Gucci's handbag lines in 2016. The sales figure for handbags in 2017 attests to the success of the new lines and carryovers designed by Alessandro Michele. The designs of small leather goods and luggage collections were reworked later on in the brand's transformation process, but the steep sales increase in 2017 demonstrates that the measures undertaken to reposition the product offering have been warmly received by the brand's customers.

Sales of Ready-to-Wear collections surged once again across all regions, with a menswear offering that now has a broader clientele and is enjoying very strong growth.

The remarkable sales momentum experienced by the Shoes category continued in 2017, driven by the success encountered by the vast majority of new lines presented by the brand.

Royalties returned to growth in 2017, led by the remodelling of the brand's eyewear offering since the Gucci licence was transferred to Kering Eyewear on January 1, 2017. In the Perfume and Cosmetics category, the launch in the second half of the year of the first perfume created with Alessandro Michele – *Gucci Bloom* – also helped royalties get back on the growth track.

Recurring operating income

Gucci's recurring operating income soared 69.1% on a reported basis in 2017, coming in at €2,124 million, and its recurring operating margin widened by 550 basis points to a record 34.2%.

This year-on-year jump was partly due to a slight rise in gross margin powered by excellent sales volumes in directly operated stores and the absence of promotional offers during the year. However, the main growth driver was the favourable leverage effect as revenue grew at a much higher rate than operating expenses. This was the case despite the fact that Gucci continued to make the necessary investments during the year to support the brand's development by raising the budget for in-store expenses on communications and information systems in line with the sector's accelerating digital transformation. The impact of these initiatives was offset by strict cost control measures for other expense items. The resulting effect was particularly favourable in the second half, when recurring operating margin gained 640 basis points (compared with 440 in the first six months).

Gucci's EBITDA for 2017 stood at €2,331 million, and the EBITDA margin was almost 37.5%.

Store network and operating investments

As of December 31, 2017, Gucci operated 529 stores directly, including 222 in emerging markets. A net nine stores were opened during the year, including five that were formerly operated by a franchisee in Thailand. The brand now has an overall network that is adapted to its operations in terms of store numbers and its current focus is on increasing organic growth by pursuing its refurbishment programme for existing stores.

Gucci's gross operating investments amounted to €249 million in 2017, up 34.5% on 2016. The 2017 figure mostly corresponds to the refurbishment programme aimed at gradually introducing the new store concept across the brand's entire network. As anticipated, Gucci's operating investments programme was particularly focused on the second half of the year.

At end-2017, around 29% of the store network had adopted the new concept and a large number of stores that have not yet been refurbished were fitted out and furnished along the lines of the brand's new design aesthetic.

Bottega Veneta

(in € millions)	2017	2016	Change
Revenue	**1,176.3**	**1,173.4**	**+0.2%**
Recurring operating income	**294.0**	**297.4**	**-1.1%**
as a % of revenue	***25.0%***	***25.3%***	***-0.3 pt***
EBITDA	337.3	341.7	-1.3%
as a % of revenue	*28.7%*	*29.1%*	*-0.4 pt*
Gross operating investments	51.0	42.8	+19.2%
Average FTE headcount	3,381	3,417	-1.1%

In 2017, Bottega Veneta's management team expanded and stepped up the action plans undertaken in 2016 and aimed at:

- re-energising the Leather Goods offering, whose trademark remains the *intrecciato* technique but which has been enriched with new distinctive styles that have proven very popular;
- developing other product categories – first and foremost Shoes. The year's fashion shows also spotlighted a very attractive Ready-to-Wear offering;
- guaranteeing Bottega Veneta's exclusivity by optimising distribution. Measures taken to reduce the number of wholesale points of sale and close certain stores directly operated by the brand were offset by the opening of new higher-end stores designed to more effectively showcase the product offering;
- increasing the brand's penetration amongst local customers in mature markets and young customers through more effective, digital communications.

Against a more favourable market backdrop for Luxury Goods, Bottega Veneta delivered a satisfactory performance in 2017 and there are encouraging signs that attest to the quality of its action plans and the speed of their implementation.

However, the benefits of these plans will be felt over the longer term and 2017 was above all a year of transition and consolidation for Bottega Veneta.

Revenue

In 2017, Bottega Veneta's revenue rose 2.4% year on year on a comparable basis. Based on reported data, it edged up 0.2%.

With a view to preserving its high-end positioning and exclusivity, Bottega Veneta's preferred distribution channel is its directly operated stores, which accounted for 82.9% of the brand's total sales in 2017. Revenue generated in directly operated stores increased by a solid 3.6% in the first six months of the year and 4.4% in the second half, based on constant exchange rates. This performance was achieved despite the decision to significantly reduce the scope and scale of in-store promotions in order to protect the brand's exclusivity.

Sales generated in the wholesale network contracted 4.5% in 2017, with a particularly marked decline in the first six months of the year. As in 2016, Bottega Veneta continued to reorganise this distribution channel in a bid to avoid the risk of saturation in points of sale and only work with the highest-quality partners.

Revenue by region

In view of the proportion of Bottega Veneta's sales that are generated in directly operated stores, the following revenue analysis by region only concerns in-store business.

Western Europe was the region where Bottega Veneta experienced the fastest sales momentum in 2017, with revenue up 7.3% on a comparable basis driven by a sharp increase in sales to domestic customers in the region's main markets. Sales tailed off towards the end of the year, however, under the effect of lower tourist numbers.

In Japan, whereas the downward trend experienced in 2016 continued into the first half of 2017, business picked up in the second part of the year, spurred by renewed growth for sales to Chinese tourists, with sales to domestic customers remaining more or less stable. Overall, this pushed up full-year revenue by 3.7% at constant exchange rates.

In North America the brand's sales retreated by 2.3% as they continued to be adversely affected by low tourist numbers and the aggressive promotional strategies of department stores, despite more encouraging trends as from the second quarter.

In emerging markets, Bottega Veneta's sales rose 3.9% year on year based on comparable data. Sales growth was solid in Mainland China, Macao, South Korea and Singapore in spite of relatively high bases of comparison for some of these markets and a drastic reduction in promotions compared with 2016. Meanwhile, market conditions remained challenging in Hong Kong – where Bottega Veneta's performances were particularly affected by the change in customer profile in view of the brand's high-end price positioning – and the brand's performance also continued to come under pressure in Taiwan.

Revenue by product category

All Bottega Veneta product categories registered sales rises in directly operated stores in 2017. Growth was particularly buoyant for Ready-to-Wear and Shoes, demonstrating how the development measures put in place over the past few years for these categories are now paying off.

In the Leather Goods category (which is still Bottega Veneta's core business, accounting for 84.6% of the brand's total sales including to wholesalers), handbag sales rose year on year, fuelled by the brand's latest launches and a successful new strategy for its iconic lines.

Overall, the brand's decision to revise its sales promotion policy has weighed on the short-term performance of the Leather Goods category.

Recurring operating income

Bottega Veneta's recurring operating income for 2017 totalled €294 million, down just €3 million on 2016. Recurring operating margin came in at 25.0%, representing a 30 basis-point decrease. This slight decrease was attributable to the targeted and controlled increase in certain operating expenses arising from the initiatives undertaken to enable Bottega Veneta to enter a new phase in its expansion and ensure that it will be in a position to use its current transition period as a springboard for future growth.

EBITDA totalled €337 million and EBITDA margin narrowed 40 basis points to 28.7%, which is still nevertheless a very high margin for the sector.

Store network and operating investments

As of December 31, 2017, Bottega Veneta had 270 directly operated stores, including 120 in emerging markets. There were 15 net store openings during the year. Bottega Veneta has put in place a programme to streamline its store network which includes not only store closures but also relocating certain stores, opening a select number of flagship stores, and expanding the brand's presence in a number of regions or networks (such as travel retail).

Within this context and in view of the need to refurbish its existing store network, Bottega Veneta has increased its operating investment budget. In 2017, the brand's gross operating investments amounted to €51 million, up €8 million on 2016, when the level of operating investments was particularly low. However, as a percentage of the brand's total sales, these investments were still relatively contained for the year (4.3% of revenue).

Yves Saint Laurent

(in € millions)	2017	2016	Change
Revenue	**1,501.4**	**1,220.2**	**+23.0%**
Recurring operating income	**376.9**	**268.5**	**+40.4%**
as a % of revenue	***25.1%***	***22.0%***	***+3.1 pts***
EBITDA	422.1	312.2	+35.2%
as a % of revenue	*28.1%*	*25.6%*	*+2.5 pts*
Gross operating investments	73.0	57.8	+26.3%
Average FTE headcount	2,594	2,204	+17.7%

Yves Saint Laurent has been the Group's second-largest Luxury brand in terms of revenue since 2016, and in 2017 it continued down the growth path both for sales and profitability. The brand's sales growth remained evenly balanced across its different distribution channels and product categories.

Since his appointment in April 2016 as Creative Director, Anthony Vaccarello has revisited the product offering, in keeping with the brand's traditions and history, particularly thanks to his mastery of tailoring techniques and the precision of his cuts. In 2017, Anthony Vaccarello's collections replaced the brand's older styles, beginning with the 2017 Summer collection which was delivered to stores towards the end of 2016.

The brand also continued to invest in its retail network, not only opening new stores but also launching a new version of YSL.com.

Revenue

Despite a high basis of comparison, the brand's revenue growth in 2017 came to 23.0% as reported and 25.3% at constant exchange rates, very close to the 25.5% growth recorded for 2016. With a year-on-year increase of 23.0% in the fourth quarter, Yves Saint Laurent's revenue growth has now exceeded 20% for seventeen quarters in a row.

Revenue from retail sales in directly operated stores climbed 27.3% on a comparable basis during 2017, led by another very strong increase in same-store sales. This performance is first and foremost due to Yves Saint Laurent's timeless brand appeal and the quality of its store network, in which it has invested heavily over the past five years or so. It also reflects the success of the measures put in place to efficiently allocate and restock items within the store network and ensure that customers have an excellent in-store experience.

Wholesale sales were up 20.1% based on comparable data, despite some volatility from one quarter to another due to different delivery schedules in relation to 2016. The wholesale channel is still obviously strategically important for Yves Saint Laurent as it represents a perfect fit with its retail business.

Revenue by region

In view of the increasing proportion of Yves Saint Laurent's sales that are generated through directly operated stores (68.6% in 2017), the following revenue analysis by region only concerns in-store business.

Yves Saint Laurent notched up revenue rises across all of its geographic regions in 2017.

Sales in Yves Saint Laurent's heritage markets rose 22.5% based on comparable data, fuelled by higher numbers of domestic customers and increased customer loyalty, as well as by the brand's cachet amongst tourists. Western Europe led the way, with a 27.1% revenue hike in directly operated stores. Performance remained robust in North America, where year-on-year growth reached 18.9%. In Japan, sales advanced 16.0%, gathering pace throughout the year as customers gradually bought into the brand's new creative direction.

In emerging markets, where the brand's recognition and appeal has become stronger, in-store sales surged 36.2%. In the Asia Pacific region (excluding Japan) – which accounted for three quarters of the brand's total sales in emerging markets – growth was extremely robust in all of the brand's main markets.

Performances delivered by the wholesale network were consistent across regions, with a particularly good showing in North America where the brand outperformed market trends.

Revenue by product category

All of Yves Saint Laurent's main product categories once again posted very solid sales growth in 2017.

The Leather Goods offering – which the brand strives to constantly renew and refresh, with a dedicated creative team – remained highly popular, both with long-standing and new customers. This category recorded the highest year-on-year increase for 2017.

Ready-to-Wear sales – which continued to occupy an essential place in the brand's product offering – saw a fairly balanced weighting of sales between women's and men's collections. Although revenue increased, 2017 marked a transition period for this category, with the successful launch of collections designed by Anthony Vaccarello and the gradual withdrawal during the year of certain styles based on past collections.

The brand's third leading product category – Shoes – registered a strong sales rise, thanks to the work launched by Anthony Vaccarello on re-energising the offering.

Revenue from licensed product categories rose at a similar pace to that from directly managed product categories, with royalties once again boosted during the year by the extensive reworking of offerings carried out by L'Oréal for perfumes and cosmetics and by Kering Eyewear for eyewear collections.

Recurring operating income

Yves Saint Laurent ended 2017 with recurring operating income of €377 million, versus €269 million in 2016, representing a year-on-year increase of 40.4%. Recurring operating margin widened by 310 basis points as reported to 25.1%, topping the 25% mark for the first time. This further year-on-year rise demonstrates how the brand has now reached critical mass, enabling it to capitalise on its operating leverage without straining its capacity to finance certain operating expenses that are essential for its short- and medium-term expansion. This is illustrated in Yves Saint Laurent's heavy investment in distribution and communication as part of an omnichannel approach.

EBITDA rose by €110 million to €422 million and the EBITDA margin was 28.1%.

Store network and operating investments

As of December 31, 2017, the Yves Saint Laurent brand directly operated 184 stores, including 78 in emerging markets. There were 25 net store openings during the year, including a large number of retail concessions in department stores as well as airport duty free stores, in phase with the brand's store network expansion plan which encompasses the travel retail sector.

Yves Saint Laurent's gross operating investments amounted to around €73 million in 2017, €15 million higher than in 2016. As a percentage of sales, however, they were contained to 5%, enabling the brand going forward to pursue its drive of opening new stores and refurbishing its oldest points of sale.

Other Luxury brands

(in € millions)	2017	2016	Change
Revenue	**1,906.9**	**1,697.5**	**+12.3%**
Recurring operating income	**116.0**	**113.8**	**+1.9%**
as a % of revenue	***6.1%***	***6.7%***	***-0.6 pt***
EBITDA	184.9	177.0	+4.5%
as a % of revenue	*9.7%*	*10.4%*	*-0.7 pt*
Gross operating investments	114.4	95.3	+20.0%
Average FTE headcount	5,905	5,685	+3.9%

Revenue

Sales generated by the Other Luxury brands – whose scope of consolidation remained unchanged during the year – totalled €1,907 million, rising 12.3% year on year as reported and 14.1% at constant exchange rates.

The Couture & Leather Goods brands posted an excellent 17.8% revenue increase on a comparable basis, despite a slightly negative contribution from Brioni.

Sales of Watches & Jewelry brands rose by a very solid 8.7% based on comparable data.

The wholesale network was once again the main distribution channel for Other Luxury brands, accounting for 51.5% of sales. This proportion reflects the differing stages of development of the Couture & Leather Goods brands as well as the specific distribution characteristics for Watches & Jewelry. Sales generated in the wholesale network increased 7.4% year on year on a comparable basis, fuelled by a very good showing from Balenciaga, although the overall growth trajectory was hampered by the revenue dip experienced by Brioni as this brand is in the process of restructuring its distribution system.

Retail sales in directly operated stores leapt 26.3%, with all brands trending upwards – including Brioni which posted sharp growth of close to 10%. Balenciaga was the star performer, with all of its regions and product categories seeing faster paces of growth, propelling the brand's growth rate to the top of the list for the Group's Luxury activities.

Revenue by region

Sales of the Other Luxury brands were up across all of the main host regions in 2017.

In North America, having been weighed down in the first six months of the year by low volumes of purchases in US department stores, sales picked up in the second half, rising 1.7%, largely due to Balenciaga's performance in its directly operated stores.

Western Europe posted a 17.0% revenue increase, powered by brisk sales momentum in the United Kingdom, an upswing in France, and good showings in the region's other main markets.

Japan also turned in a very positive performance, with revenue up 19.9% thanks to an excellent second half and strong demand by Japanese customers for Demna Gvasalia's collections at Balenciaga.

In emerging markets, year-on-year growth was 15.3%, closely reflecting the trends seen in Asia Pacific (excluding Japan) where sales advanced 16.9%. Performance in this region was fuelled by an ongoing sales upturn in Mainland China (which saw almost 30% growth) and South Korea, as well as improved business volumes in Hong Kong and Macao.

Revenue by product category

The Watches market seemed to stabilise overall in 2017 although the situation remained volatile from one month to the next. Against this backdrop and in light of all the measures put in place to improve the performance of the Group's Watches brands, sales of this product category picked up during the second half of the year and led to an increase for the year as a whole.

All other product categories also reported sales growth for 2017, with Ready-to-Wear and Shoes in the vanguard.

Recurring operating income

Recurring operating income for the Other Luxury brands rose by €2 million year on year to €116 million in 2017 while recurring operating margin narrowed by 60 basis points to 6.1%.

This margin decrease was mainly due to a higher cost base for Boucheron and to a lesser extent Pomellato, as a result of the Group's decision to invest in its Jewelry brands and cultivate their organic growth by strengthening their structures, increasing their marketing and communications expenses, and – on a more long-term basis – supporting their store opening strategy. Brioni – which is still in its transformation phase – posted losses for the year, but Balenciaga and Alexander McQueen reported very solid recurring operating margins.

In addition, in light of Balenciaga's rapid expansion and ensuing operating leverage, the decrease was highly concentrated in the first six months of the year (210 basis-point decline) whereas the second half saw an increase of 70 basis points.

EBITDA for Other Luxury brands came in at €185 million, up 4.5% on 2016 as reported, and the EBITDA margin narrowed by 70 basis points to 9.7%.

Store network and operating investments

The network of directly operated stores owned by Other Luxury brands totalled 405 units as of December 31, 2017, representing an increase of 34 stores compared with one year earlier. This rise was due to openings carried out by Balenciaga, Alexander McQueen and Stella McCartney as part of their strategy to gradually and prudently expand their exclusive distribution network.

As of December 31, 2017, the network comprised 283 stores in mature markets and 122 in emerging markets.

Overall gross operating investments for Other Luxury brands amounted to €114 million, representing a €19 million (or 20%) increase compared with 2016.

In terms of operating investments, Brioni considerably reduced its outlay in 2017 after relocating two of its major stores, in Paris and New York, in 2016, whereas the Group's Other Luxury brands stepped up their investment projects during the year. This was particularly the case for Jewelry brands, whose ambitious rollout strategy requires additional points of sale.

Other Luxury brands performed as follows in 2017, beginning with Couture & Leather Goods brands:

Alexander McQueen's focus was on rebalancing the product offer within the House between daywear, tailoring and evening, while building a strong core collection. The House saw a repositioning of the accessory offer, and increased communication through runway shows and social media. The reworked, on-trend offering and new points of sale that were opened pushed up sales growth in stores directly operated by the brand, with a marked acceleration in the fourth quarter. Wholesale sales growth was solid, especially in Western Europe. The overall brand – which also includes the McQ line, positioned in the accessible luxury segment – once again posted a very satisfactory recurring operating margin.

The Balenciaga collections, designed by Demna Gvasalia, have been very well received by the media and customers since 2016, and the fashion House is widely recognised for its creative edge. The brand's cachet is reflected in its record high revenue growth – mainly driven by the Ready-to-Wear and Shoes categories – which fuelled a very sharp rise in recurring operating margin.

Brioni recorded a slight sales decline, primarily with wholesalers, reflecting the brand's ongoing measures to streamline its distribution channels and restructure its production processes. While, trends for revenue generated by Brioni's directly operated stores were highly encouraging, this improvement was not sufficient to shore up recurring operating margin which remained very eroded.

For Christopher Kane – a brand with highly creative content – 2017 was a year in which synergies with the Group continued to be developed from 2016 and organisational and distribution structures were consolidated, although for the brand's smaller lines the positive impacts of these measures were weighed down by a weak US market.

After several years of strong growth, Stella McCartney recorded a more modest revenue rise in 2017. Sales momentum remained buoyant overall, however, positively impacting all of the main distribution channels. 2017 was a year of consolidation for the brand, marked by moves to strengthen its organisational structures and processes. This led to a lower recurring operating margin, although it is still at a good level considering the brand's size.

For the Jewelry brands, 2017 saw expansion and investment, in line with their respective strategic plans.

Over the past several years, Boucheron has built up a very coherent offering of jewelry and high-jewelry collections, including its iconic lines the *Serpent Bohème* and *Quatre*, and in 2017 the brand reported very solid sales growth despite the partial closure of its Place Vendôme store in Paris for refurbishment works. This flagship store will reopen in 2018 for the brand's 160th anniversary celebrations. The actions undertaken to penetrate new markets and introduce a new store concept pushed down Boucheron's recurring operating margin over the short term.

Revenue generated by the Pomellato and Dodo brands rose sharply again in 2017, particularly in the brands' heritage markets in Western Europe. Pomellato used the occasion of its fiftieth anniversary celebrations to successfully round out and refresh its product offering. Combined recurring operating margin for Pomellato and Dodo remained very satisfactory, in spite of all the expenses incurred for sustaining the recognition of these brands and enabling them to reach out to new markets.

Qeelin had an excellent year in 2017, registering high sales growth driven by the brand's fast expansion in Mainland China and growing repute in Greater China.

For the Girard-Perregaux and Ulysse Nardin watchmaking brands, 2017 was a year of consolidation and sales growth, albeit somewhat moderate. These two brands continued to streamline their organisational structures and successfully innovate – as demonstrated by the acclaim for their products at the prestigious SIHH international luxury watch show held in Geneva. Thanks to improved sales and continuing measures to reduce the cost base, the Watches division was able to significantly reduce its losses.

Sport & Lifestyle activities

(in € millions)	2017	2016	Change
Revenue	**4,381.9**	**3,883.7**	**+12.8%**
Recurring operating income	**244.0**	**123.2**	**+98.1%**
as a % of revenue	***5.6%***	***3.2%***	***+2.4 pts***
EBITDA	320.4	190.0	+68.6%
as a % of revenue	*7.3%*	*4.9%*	*+2.4 pts*
Gross operating investments	130.9	92.0	+42.3%
Average FTE headcount	12,144	11,873	+2.3%

Revenue

Kering's Sport & Lifestyle activities generated revenue of €4,382 million in 2017, up 12.8% as reported and 14.7% based on a comparable Group structure and exchange rates. This increase was powered by an excellent performance from PUMA, whose revenue advanced 15.8% year on year.

Overall revenue growth for Sport & Lifestyle activities was steady throughout the course of 2017, with the second-half increase (15.0% on a comparable basis) very much in line with the 14.3% rise recorded for the first six months.

The reported growth figure was lower than at constant exchange rates because the currency effect switched from positive to negative during the year, particularly hitting second-half performance. This adverse impact was related to the euro gaining strength against the currencies of the countries that correspond to PUMA and Volcom's key markets (notably North America, which accounts for 27.5% of the two brands' revenue).

In line with the upturn that began in 2014, wholesale sales climbed 12.7% on a comparable basis.

Retail sales in directly-operated stores progressed 21.9% based on comparable data, led by very solid same-store growth and a 51% surge in online sales.

Revenue by region

Revenue generated by Sport & Lifestyle activities rose across all of the main host regions.

At 21.3%, sales growth was very strong in Western Europe, propelled by excellent momentum in the region's main markets (Germany, France and the United Kingdom). Despite the contraction in the region's action sport market (which particularly penalised Volcom) and the difficulties encountered by department stores and specialised distributors in the United States, North America turned in a very solid performance with revenue up 11.0% on 2016. Conversely, 2017 was a mediocre year for Sport & Lifestyle activities in Japan where revenue retreated 3.8%.

In emerging markets, Sport & Lifestyle activities posted dynamic sales growth of 16.5%. All regions experienced very robust sales rises, spurred by PUMA's increasing appeal in Mainland China and expansion of its heritage markets in South America.

Revenue by product category

By product category, Footwear sales rose by a sharp 23.3% on a comparable basis, with this category enjoying its fourteenth consecutive quarter of sales growth.

The Apparel category delivered a very solid showing, with comparable-basis sales up 8.5% despite the contraction reported by Volcom.

Revenue from Accessories picked up pace during the year, rising 8.4%.

Recurring operating income

Recurring operating income for Sport & Lifestyle activities amounted to €244 million in 2017, up by €121 million, or 98.1%, on 2016. Recurring operating margin widened by 240 basis points to 5.6%, boosted by a very favourable operating leverage effect at PUMA.

EBITDA totalled €320 million, representing a year-on-year increase of 68.6%.

Store network and operating investments

Gross operating investments for Sport & Lifestyle activities totalled €131 million in 2017, €39 million higher than in 2016 when the level of operating investments was very contained. Despite the year-on-year increase, this outlay only represented 3.0% of revenue for 2017.

PUMA

(in € millions)	2017	2016	Change
Revenue	**4,151.7**	**3,642.2**	**+14.0%**
Recurring operating income	**243.9**	**126.6**	**+92.7%**
as a % of revenue	***5.9%***	***3.5%***	***+2.4 pts***
EBITDA	314.4	187.2	+67.9%
as a % of revenue	*7.6%*	*5.1%*	*+2.5 pts*
Gross operating investments	124.3	84.3	+47.4%
Average FTE headcount	11,389	11,128	+2.3%

Following a period of overhauling its product offering and organisational structure, PUMA is now in a position to fully capitalise on the partnerships and alliances it has entered into or renewed in recent years.

Prime examples of the brand's vitality and communications strength can be seen in its sponsorship agreements with several prestigious football clubs in Europe and South America, its long-standing partnership with Usain Bolt and athletics in general, its choice of sports stars to act as ambassadors (Antoine Griezmann, for example), as well as the alliances it has forged in the fashion world, such as with Selena Gomez and Cara Delevingne, and its collaboration with Rihanna.

PUMA's results for 2017 – marked by strong sales growth and an upturn in recurring operating income and margin, testify to how it has entered a new phase in its recovery and is increasingly affirming its position as a leading player in its field.

Revenue

PUMA's revenue totalled €4,152 million in 2017, making tremendous strides both on a reported basis (up 14.0%) and at constant exchange rates (15.8% increase). Growth was very evenly balanced from one half of the year to the next.

Wholesale sales – which accounted for 76.5% of the brand's total revenue in 2017 – climbed 14.0% on a comparable basis. The quality of PUMA's product offering and its renewed brand appeal enabled it to extend its wholesale network, be more selective in its choice of distributors and win market share with key accounts.

Revenue posted by PUMA's directly operated stores advanced 22.9%, fuelled by higher same-store sales and ongoing brisk growth for online sales.

Revenue by region

In PUMA's more mature markets, revenue was up 15.3% year on year based on comparable data.

Growth came in at a very strong 22.3% in Western Europe, where the brand's exposure was considerably heightened amongst major distributors. In volume terms, the United Kingdom, France and Germany were the main contributors to the region's overall revenue rise.

In North America (the brand's largest market), despite some US banners encountering difficulties in developing their business models in the face of mounting competition from online distribution, PUMA has managed to consistently record revenue rises over the past few financial years. 2017 was no exception, with PUMA delivering a 13.8% revenue hike on a comparable basis, driven by the brand's robust sales momentum in the region, which has enabled it to gain market share.

PUMA fared less well in Japan where sales retreated 4.1% based on comparable data. However, action plans have been launched to re-energise the brand's offering and distribution in this country.

In emerging markets sales advanced 16.8% overall on a comparable basis, led by the Asia Pacific region whose sales jumped 21.1%. In Mainland China, revenue surged 41.0% and PUMA also posted very solid performances in the brand's heritage markets, especially South America.

Revenue by product category

Sales of Footwear, which at 47.6% once again made up the highest proportion of PUMA's revenue, rose 23.5% based on comparable data, marking the fourteenth consecutive quarter of growth for this key category.

Apparel sales climbed 10.0% on a comparable basis, which was a very robust showing in view of the extremely unfavourable basis of comparison with 2016, a year that saw a host of sporting events.

Sales of Accessories continued down the growth track (up 9.2%) despite no specific product launches or commercial initiatives taking place during the year for this category as communication and marketing expenditure was focused on other key categories.

Recurring operating income

PUMA's contribution to the Group's recurring operating income shot up €118 million to €244 million in 2017, representing an almost twofold increase year on year. PUMA's recurring operating margin climbed 240 basis points to hover just beneath 6%, at 5.9%.

The brand's higher profitability, both in absolute value and percentage terms, was partly attributable to a higher gross margin, which widened by 150 basis points as reported and even more at constant exchange rates. This performance reflects PUMA's streamlined offering and greater marketability as well as the increased efficiency of its sourcing structure, which have all helped to optimise procurement conditions and pricing in spite of the negative currency effect. As a result, PUMA's gross margin is now back on a par with other main players in its sector.

Above all, the brand's improved profitability stems from its operating leverage, with revenue growth coming in significantly higher than the increase in its operating expenses. Although PUMA continued to invest in communication and marketing campaigns during the year in order to support its growth, it managed to contain the rise in its cost base.

PUMA's EBITDA leapt 67.9% to €314 million and its EBITDA margin came in at 7.6%.

Store network and operating investments

As of December 31, 2017, PUMA's directly operated retail network included 703 stores, representing 39 net openings compared with December 31, 2016. More than two-thirds of existing stores and the majority of the new stores opened during the year are in emerging markets where this distribution channel is growing and is delivering good margins.

PUMA's gross operating investments amounted to €124 million in 2017, up 47.4% on 2016. This year-on-year increase – following several years of lower operating investments – was due to several major projects carried out by PUMA, including the modernisation of its IT systems and the expansion of its head office.

Other Sport & Lifestyle brands

(in € millions)	2017	2016	Change
Revenue	**230.2**	**241.5**	**-4.7%**
Recurring operating income	**0.1**	**(3.4)**	**+102.9%**
as a % of revenue	***0.0%***	***-1.4%***	***+1.4 pt***
EBITDA	6.0	2.8	+114.3%
as a % of revenue	*2.6%*	*1.2%*	*+1.4 pt*
Gross operating investments	6.6	7.7	-14.3%
Average FTE headcount	755	745	+1.3%

Revenue

"Other Sport & Lifestyle brands" now comprises only Volcom, as Electric was sold at the beginning of 2016.

Volcom recorded €230 million in revenue in 2017, down 4.7% as reported and down 3.2% at constant exchange rates. Sales were firmer in the second half, however, inching up 0.2% on a comparable basis.

As in 2016, operating conditions in the surfwear and action sport market remained very challenging, with major distributors in the United States suffering revenue declines which led them to streamline their store networks.

Despite this tough operating environment, Volcom strove to protect the integrity and positioning of its brand by focusing on the quality of its distribution and product offering. It put in place numerous marketing and communications initiatives during the year, which had a very positive effect on fostering the brand's appeal and reputation.

Volcom recorded a further decrease in wholesale sales in 2017 (down 5.6%), but the decline was more contained on a same-store basis and trends improved towards the end of the year.

Sales in directly operated stores advanced 6.4%.

Revenue by region

Volcom's sales are still highly concentrated on mature markets, especially North America, which in 2017 was once again the brand's leading market, accounting for 63.2% of its total sales despite the region's contraction in revenue. Western Europe contributed 19.1% to Volcom's overall revenue for the year.

Revenue by product category

Volcom is currently focusing its investments and other efforts on the Apparel product category, which represented around 86% of its total revenue in 2017.

Recurring operating income

Volcom's recurring operating income was at break-even for 2017 whereas in 2016 it recorded a recurring operating loss of €3 million. This turnaround is a real achievement given that sales retreated by €12 million (on a reported basis), and was due to Volcom's persistent efforts to reduce its cost base and streamline its organisational structure.

Store network and operating investments

Volcom's directly operated store network comprised 86 stores as of December 31, 2017, including eight in emerging markets. This represents 16 more points of sale than as of December 31, 2016, primarily due to opening or taking over shops-in-shops within department stores in Europe.

Volcom's gross operating investments amounted to €7 million in 2017, €1 million lower than in 2016.

Corporate and other

The Corporate and other segment comprises (i) Kering's corporate departments and headquarters teams, (ii) Shared Services, which provide a range of services to the brands, (iii) the Kering Sustainability Department, and (iv) Kering's Sourcing Department (KGS), a profit centre for services that it provides on behalf of non-Group brands, such as the companies making up the former Redcats group.

In addition, since January 1, 2017, Kering Eyewear's results have been reported within the Corporate and other segment. 2017 was the first year of operating the Gucci licence, which currently represents a very substantial proportion of Kering Eyewear's business. During the ramp-up period of this business (from 2014-2016), the operating losses associated with Kering Eyewear were recognised as non-recurring operating expenses and the revenue generated from other brand licences was not recognised.

In 2017, Kering Eyewear experienced swift momentum, with a sales figure of €352 million, with sales concentrated in the first half of the year. This business contributed €272 million to Kering's consolidated revenue (after eliminating intra-group sales and royalties paid to the brands) and 2.2 points to the Group's overall organic growth at constant exchange rates.

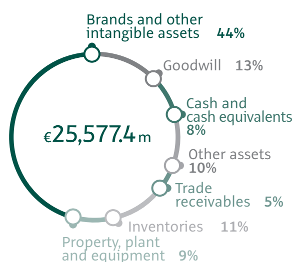
Despite recognising the amortisation expense on the portion of the compensation paid to Safilo for the early termination of the Gucci licence – which was capitalised in the Group's balance sheet in an amount of €57 million as of December 31, 2016 and is being amortised over approximately four years as from January 1, 2017 – Kering Eyewear made a positive (albeit slight) contribution to the Group's recurring operating income. This was achieved thanks to good sales volumes for the year and to the well-controlled rise in operating expenses.

Overall, net costs recorded by the Corporate and other segment in 2017 totalled €207 million, €34 million higher than the 2016 figure. Two-thirds of this year-on-year increase is attributable to the cost of long-term incentive plans, including those of corporate officers, in line with the rise in Kering's share price which was up 84% year on year.

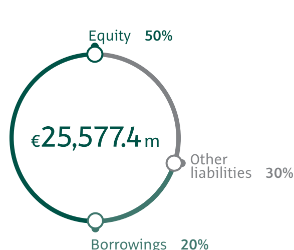
Gross operating investments recorded by the Corporate and other segment came to €134 million, €4 million lower than in 2016. However, adjusted for the €30 million compensation paid to Safilo for the early termination of the Gucci licence in 2016, they rose by €26 million, reflecting the faster pace of projects to upgrade IT systems, increased capacity of the Group's logistics base and the fact that the figure now includes Kering Eyewear's operating investments.

1.4. financial structure as of december 31, 2017

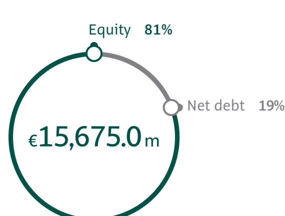
ASSETS



EQUITY AND LIABILITIES



CAPITAL EMPLOYED



Condensed statement of financial position

(in € millions)	Dec. 31, 2017	Dec. 31, 2016	Change
Goodwill	3,421.2	3,533.5	-112.3
Brands and other intangible assets	11,159.0	11,272.7	-113.7
Property, plant and equipment	2,267.6	2,206.5	+61.1
Investments in equity-accounted companies	48.6	48.3	+0.3
Other non-current assets	1,364.3	1,437.8	-73.5
Non-current assets	**18,260.7**	**18,498.8**	**-238.1**
Inventories	2,699.1	2,432.2	+266.9
Trade receivables	1,366.5	1,196.4	+170.1
Cash and cash equivalents	2,136.6	1,049.6	+1,087.0
Other current assets	1,114.5	962.0	+152.5
Current assets	**7,316.7**	**5,640.2**	**+1,676.5**
TOTAL ASSETS	**25,577.4**	**24,139.0**	**+1,438.4**
Equity attributable to owners of the parent	11,948.2	11,269.7	+678.5
Equity attributable to non-controlling interests	678.2	694.2	-16.0
Total equity	**12,626.4**	**11,963.9**	**+662.5**
Non-current borrowings	4,245.5	4,185.8	+59.7
Other non-current liabilities	2,942.9	3,090.7	-147.8
Non-current liabilities	**7,188.4**	**7,276.5**	**-88.1**
Current borrowings	939.7	1,234.5	-294.8
Other current liabilities	4,822.9	3,664.1	+1,158.8
Current liabilities	**5,762.6**	**4,898.6**	**+864.0**
TOTAL EQUITY AND LIABILITIES	**25,577.4**	**24,139.0**	**+1,438.4**

Net debt

(in € millions)	Dec. 31, 2017	Dec. 31, 2016	Change
Gross borrowings	5,185.2	5,420.3	-235.1
Cash	(2,136.6)	(1,049.6)	-1,087.0
Net debt	**3,048.6**	**4,370.7**	**-1,322.1**

Capital employed

(in € millions)	Dec. 31, 2017	Dec. 31, 2016	Change
Total equity	12,626.4	11,963.9	+662.5
Net debt	3,048.6	4,370.7	-1,322.1
Capital employed	**15,675.0**	**16,334.6**	**-659.6**

1.5. comments on the group's financial position

Goodwill and brands

GOODWILL

BRANDS

As of December 31, 2017, brands net of deferred tax liabilities amounted to €8,001 million, compared with €8,068 million as of December 31, 2016.

Operating infrastructure

		Owned outright	Finance leases	Operating leases	2017	2016
Stores	Luxury	3	2	1,383	1,388	1,305
	Sport & Lifestyle	5	0	784	789	734
Logistics units	Luxury	3	0	79	82	80
	Sport & Lifestyle	5	0	41	46	41
Production units & other	Luxury	39	1	74	114	97
	Sport & Lifestyle	1	0	2	3	4

Current assets, net

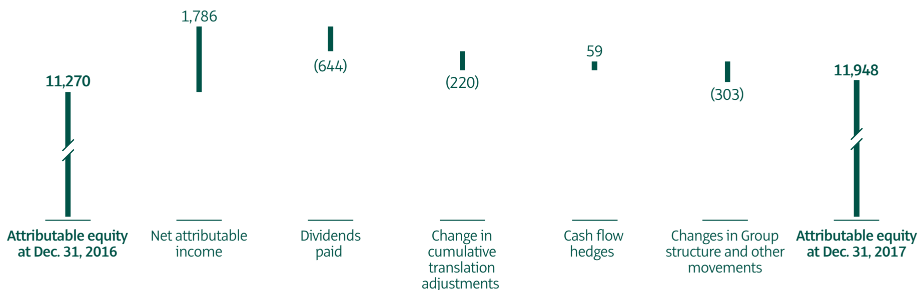
(in € millions)	Dec. 31, 2017	Dec. 31, 2016	Change
Inventories	2,699.1	2,432.2	+266.9
Trade receivables	1,366.5	1,196.4	+170.1
Trade payables	(1,240.7)	(1,098.5)	-142.2
Current tax receivables/payables	(736.8)	(292.9)	-443.9
Other current assets and liabilities	(1,537.8)	(1,158.8)	-379.0
Current assets, net	**550.3**	**1,078.4**	**-528.1**

As of December 31, 2017, movements in exchange rates, and notably the appreciation of the euro over the year, had a negative €151 million impact on the value of net current assets. This particularly impacted items such as inventories (€145 million) and trade receivables (€79 million), which are mostly located outside the eurozone. In contrast, the currency impact was far smaller for trade payables (€28 million). Excluding changes in exchange rates and in Group structure, the increase in inventories (€402 million) and trade receivables (€246 million) reflected strong business growth during the year.

Since it was mostly located in geographic regions and countries with higher average tax rates, business growth also drove a significant increase in net current tax liabilities (€450 million, excluding changes in exchange rates). The change in this item also reflects significantly higher payables for variable remuneration components, in line with the Group's strong performance.

Equity

As of December 31, 2017, equity attributable to owners of the parent totalled €11,948 million, up by more than €678 million compared with December 31, 2016.



As of December 31, 2017, Kering SA's share capital amounted to €505,117,288, comprising 126,279,322 fully paid-up shares with a par value of €4 each, unchanged from December 31, 2016. As of December 31, 2017 and December 31, 2016, Kering held no shares in treasury as part of the liquidity agreement.

See Note 25 – Equity, to the consolidated financial statements.

As of December 31, 2017, equity attributable to non-controlling interests stood at €678 million (versus €694 million as of December 31, 2016), and mainly concerned PUMA.

1.6. comments on movements in net debt

Breakdown of net debt

The Group's net debt stood at €3,049 million as of December 31, 2017, down sharply on the December 31, 2016 figure of €4,371 million and breaking down as follows:

(in € millions)	Dec. 31, 2017	Dec. 31, 2016	Change
Bonds	4,096.1	4,180.9	-84.8
Bank borrowings	318.5	335.1	-16.6
Commercial paper	–	350.1	-350.1
Other borrowings	770.6	554.2	+216.4
Gross borrowings	**5,185.2**	**5,420.3**	**-235.1**
Cash and cash equivalents	(2,136.6)	(1,049.6)	-1,087.0
Net debt	**3,048.6**	**4,370.7**	**-1,322.1**

As of December 31, 2017, the Group's gross borrowings included €386 million concerning put options granted to non-controlling interests (compared with €95 million as of December 31, 2016).

New borrowings during the year mainly comprised a €300 million issue on April 5, 2017 of ten-year bonds with a fixed-rate annual coupon of 1.50%. Debt redemptions and repayments relate mainly to debt issued by Kering SA in 2009 which matured in June 2017 and November 2017 for €150 million and €200 million, respectively.

The most significant repayments of borrowings mainly concerned commercial paper.

Solvency

The Group has a very sound financial structure and on May 2, 2017 Standard & Poor's upgraded Kering's long-term BBB rating from a stable outlook to a positive outlook.

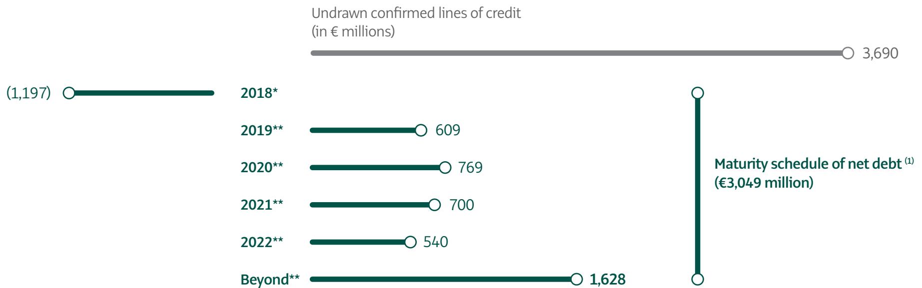
Its bank borrowing facilities are subject to just one financial covenant which provides that the solvency ratio (net debt to EBITDA, calculated annually on a proforma basis at the year-end) must not exceed 3.75.

Liquidity

As of December 31, 2017, the Group had cash and cash equivalents totalling €2,137 million (€1,050 million as of December 31, 2016), as well as confirmed lines of credit totalling €3,747 million (€4,189 million as of December 31, 2016). The balance of confirmed undrawn lines of credit amounted to €3,690 million at end-December 2017 (€4,153 million as of December 31, 2016).

Cash and cash equivalents exclusively comprise cash instruments and money-market funds (UCITS) that are not subject to any risk of changes in value.

MATURITY SCHEDULE OF NET DEBT



* *Gross borrowings after deduction of cash equivalents.*
** *Gross borrowings.*

The portion of the Group's gross borrowings maturing within one year corresponded to 18.1% as of December 31, 2017 (22.8% as of December 31, 2016).

In view of the above, the Group is not exposed to any liquidity risk.

The Group's loan agreements feature standard *pari passu*, cross default and negative pledge clauses.

The Group's debt contracts do not include any rating trigger clauses.

(See Note 29 - Borrowings, to the consolidated financial statements).

Changes in net debt

(in € millions)	2017	2016	Change
Net debt as of January 1	**4,370.7**	**4,679.4**	**-308.7**
Free cash flow from operations	(2,318.3)	(1,189.4)	-1,128.9
Dividends paid	615.9	541.4	+74.5
Net interest paid and dividends received	195.5	172.6	+22.9
Net acquisitions (disposals) of Kering shares	(0.2)	(0.5)	+0.3
Other acquisitions and disposals	373.4	169.7	+203.7
Other movements	(188.4)	(2.5)	-185.9
Net debt at the period end	**3,048.6**	**4,370.7**	**-1,322.1**

(1) *Net debt is defined on page 86.*

Free cash flow from operations

Cash flow from operating activities

(in € millions)	2017	2016	Change
Cash flow from operating activities before tax, dividends and interest	**3,479.3**	**2,171.8**	**+60.2%**
Change in working capital (excluding tax)	(94.3)	(84.4)	+11.7%
Corporate income tax paid	(364.9)	(295.5)	+23.5%
Net cash from operating activities	**3,020.1**	**1,791.9**	**+68.5%**

Changes in working capital gave rise to a net cash outflow of €94 million in 2017 (€84 million net cash outflow in 2016). In view of the Group's strong business growth, the relatively slight €10 million increase in working capital over the year reflects the following factors:

- a €172 million adverse impact resulting from a higher increase in inventories in 2017, particularly due to the robust growth momentum at Gucci and PUMA;
- a €181 million unfavourable year-on-year impact arising from a higher increase in trade receivables, particularly for PUMA, due to growth in sales to wholesalers and to Kering Eyewear taking over the Gucci licence from January 1, 2017;
- offset by a €343 million positive effect from a strong increase in trade payables (taxes, lease payments and variable remuneration), as a direct result of the Group's business growth.

Operating investments

(in € millions)	2017	2016	Change
Net cash from operating activities	**3,020.1**	**1,791.9**	**+68.5%**
Purchases of property, plant and equipment and intangible assets	(752.0)	(611.0)	+23.1%
Proceeds from disposals of property, plant and equipment and intangible assets	50.2	8.5	+490.6%
Free cash flow from operations	**2,318.3**	**1,189.4**	**+94.9%**

Gross operating investments by activity

(in € millions)	2017	2016	Change
Luxury	486.9	380.6	+27.9%
Sport & Lifestyle	130.9	92.0	+42.3%
Corporate and other	134.2	138.4	-3.0%
Gross operating investments	**752.0**	**611.0**	**+23.1%**

In 2017, 51% of the Group's gross operating investments concerned the store network (versus 48% in 2016). Out of the total year-on-year increase in gross operating investments for Luxury activities, 33% related to store opening programmes and 38% to store conversions and refurbishments.

Available cash flow

(in € millions)	2017	2016	Change
Free cash flow from operations	**2,318.3**	**1,189.4**	**+94.9%**
Interest and dividends received	8.0	14.0	-42.9%
Interest paid and equivalent	(203.5)	(186.6)	+9.1%
Available cash flow	**2,122.8**	**1,016.8**	**+108.8%**

Dividends paid

The cash dividend paid by Kering SA to its own shareholders in 2017 amounted to €581 million (including the interim dividend paid on January 18, 2017), up 15% on the €505 million cash dividend paid in 2016.

Dividends paid in 2017 included €35 million to minority shareholders of consolidated subsidiaries (€36 million in 2016), of which €15 million related to PUMA and its subsidiaries (€20 million in 2016).

Other acquisitions and disposals

In 2017, transactions with non-controlling interests amounted to €328 million (versus €34 million in 2016) and mainly concerned the remeasurement of put options written over non-controlling interests. Other acquisitions and disposals in 2017 also included financing transactions carried out with non-controlled or equity-accounted companies, as well as cash flows related to discontinued operations (representing €6 million compared with €18 million in 2016).

Other movements

This item includes the €186 million negative impact of fluctuations in exchange rates in 2017 (€3 million negative impact in 2016).

1.7. results and share capital of the parent company

The parent company ended 2017 with net income of €3,915 million compared with €683 million in 2016. The 2017 figure includes €3,839 million in dividends received from subsidiaries (versus €863 million in 2016).

As of December 31, 2017, Kering's share capital comprised 126,279,322 shares with a par value of €4 each.

Payment of a cash dividend

At its February 12, 2018 meeting, the Board decided to ask shareholders to approve a €6.00 per share cash dividend for 2017 at the Annual General Meeting to be held to approve the financial statements for the year ended December 31, 2017.

An interim cash dividend of €2.00 per share was paid on January 17, 2018 pursuant to a decision by the Board of Directors on December 14, 2017.

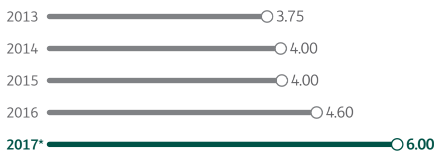
The total cash dividend payout in 2018 would thus amount to €757.7 million.

Kering's goal is to maintain well-balanced payout ratios bearing in mind, on the one hand, changes in net income from continuing operations (excluding non-recurring items) attributable to owners of the parent and, on the other hand, the amount of available cash flow.

Payment of an exceptional dividend in the form of PUMA shares

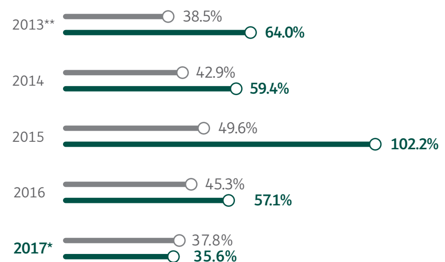
At its January 11, 2018 meeting, Kering's Board of Directors decided to also ask shareholders at the Annual General Meeting of April 26, 2018 to approve the payment of a stock dividend in the form of PUMA SE ("PUMA") shares representing 70.40% of PUMA's shares outstanding, out of the 86.25% owned by the Group as of December 31, 2017. Upon completion of this operation, Kering would retain 2,368,558 PUMA shares, or 15.85% of its shares outstanding and voting rights. If this stock dividend is approved, the ex-dividend date will be May 14, 2018 before market and the payment date will be May 16, 2018.

DIVIDEND PER SHARE (IN €)



* *Subject to the approval of the Annual General Meeting.*

PAYOUT RATIOS



* *Subject to the approval of the Annual General Meeting.*
** *Reported data, not restated.*

1.8. transactions with related parties

Transactions with related parties in 2017 are described in Note 35 – Transactions with related parties, to the consolidated financial statements.

1.9. subsequent events

Payment of an exceptional dividend in the form of PUMA shares

At its January 11, 2018 meeting, Kering's Board of Directors has decided to submit to its shareholders at the Annual General Meeting of April 26, 2018, to be held to approve the financial statements for the year ended December 31, 2017, the payment of an exceptional stock dividend in the form of PUMA SE ("PUMA") shares, with the allocation of 1 PUMA share for 12 Kering shares held. If this stock dividend is approved, the ex-dividend date will be May 14, 2018 before market and the payment date will be May 16, 2018. Upon completion of this operation, Kering would retain 15.85% of PUMA's shares outstanding and voting rights. The main consequence of this distribution of PUMA shares will be that Kering will cease to exercise control over PUMA as of the dividend payment date.

This loss of control over PUMA results from a decision taken after the end of the reporting period and after Kering's Board of Directors had considered the various scenarios for selling or distributing the Group's stake in PUMA, based on favourable market conditions at this date. Accordingly, this transaction does not meet the criteria set out in IFRS 5. However, in accordance with IAS 10.21 and 22 (a) on material events after the reporting period, the estimated main impacts of this future loss of control over PUMA would be:

- the recognition of a capital gain or loss net of current and deferred taxes equal to (i) the number of PUMA shares distributed, multiplied by the PUMA share price as of May 16, 2018, the dividend payment date, less (ii) the share in the consolidated net carrying amount of PUMA as of this date, including transaction fees net of tax;
- the recognition of a capital gain or loss net of deferred taxes as a result of remeasuring the interest retained in PUMA at the opening price for PUMA shares as of May 16, 2018.

For example, based on the PUMA share price as of December 29, 2017 and a consolidated net carrying amount for PUMA as of December 31, 2017, the net capital gain realised would total €316.2 million. However, taking into account PUMA share price volatility in January 2018, the net capital gain or loss would fluctuate as shown below:

PUMA share price from 01/01/2018 to 01/31/2018	Net capital gain (loss) *(in € millions)*
High: €363.50 (01/05/2018)	322.4
Average: €341.54	51.0
Low: €318.50 (01/12/2018)	(233.8)

It should be noted that the net capital gain or loss that will be ultimately realised in Kering's consolidated financial statements as of June 30, 2018 will depend on the PUMA share price at the dividend payment date, i.e., the share price as of May 16, 2018, as well as changes in PUMA's net carrying amount between December 31, 2017 and May 16, 2018, including the impact of movements in the exchange rates to which PUMA is exposed in conducting its business.

The future classification and accounting treatment applicable to the interest retained in PUMA recorded within non-current assets will be determined based on PUMA's governance arrangements, to be finalised upon completion of the operation:

- in accordance with IFRS 9 applicable as of January 1, 2018, if no significant influence can be demonstrated, the interest retained in PUMA will be shown within "Available-for-sale financial assets" and remeasured to fair value, either directly against equity (other comprehensive income) or against financial income/loss, until that interest is sold;
- if significant influence can be demonstrated, the interest retained in PUMA will be shown within "Investments in equity-accounted companies" for an amount relating to the Group's share in equity and net income.

The expected impact of the loss of control over PUMA on the operating lines of the consolidated income statement can be seen in the 2017 pro forma consolidated income statement set out below for illustrative purposes only. This pro forma consolidated income statement was drawn up based on the accounting records used to prepare the consolidated financial statements of Kering SA for the year ended December 31, 2017, and simulates the impacts of the loss of control over PUMA as though the operation had taken place as of January 1, 2017:

(in € millions)	2017 Reported	PUMA contribution	Other adjustments	2017 Pro forma
Revenue	**15,477.7**	**(4,151.7)**		**11,326.0**
Cost of sales	(5,344.7)	2,208.1		(3,136.6)
Gross margin	**10,133.0**	**(1,943.6)**		**8,189.4**
Payroll expenses	(2,443.6)	545.6		(1,898.0)
Other recurring operating income and expenses	(4,741.4)	1,154.1	(0.5)	(3,587.8)
Recurring operating income	**2,948.0**	**(243.9)**	**(0.5)**	**2,703.6**

The impact of the loss of control over PUMA on other financial lines of the consolidated statements of financial position and cash flows can be assessed in Note 4 – Operating segments.

1.10. outlook

Positioned in structurally high-growth markets, Kering enjoys very solid fundamentals and a balanced portfolio of complementary, high-potential brands with clearly focused priorities.

As in 2017, the Group's Luxury activities will focus on achieving same-store revenue growth in 2018 while ensuring a targeted and selective expansion of their store network. In parallel, they will leverage all aspects of their businesses in order to durably strengthen operating margins.

In the Group's Sport & Lifestyle activities, PUMA expects to deliver another year of strong growth in revenue and recurring operating margin. If Kering's shareholders approve the resolution that will be put to them at the Annual General Meeting to pay an exceptional dividend in the form of 70.40% of PUMA's shares outstanding, the Group's exposure to this business will be automatically reduced.

The Group's operating environment remains unsettled – from both an economic and a geopolitical standpoint – and is exposed to events that could influence consumer trends and tourism flows.

In addition, the recent currency fluctuations – especially for the euro which has gained ground against most of its peers – may weigh on the Group's performance indicators.

Against this backdrop, during the course of 2018 the Group will continue to implement the measures it successfully actioned in 2017, namely rigorously managing and allocating resources in order to further enhance operating performance, keep up a high level of cash flow generation and grow its return on capital employed.

1.11. definitions of non-ifrs financial indicators

"Reported" and "comparable" revenue

The Group's "reported" revenue corresponds to published revenue. The Group also uses "comparable" data to measure organic growth. "Comparable" revenue refers to 2016 revenue adjusted as follows by:

- neutralising the portion of revenue corresponding to entities divested in 2016;
- including the portion of revenue corresponding to entities acquired in 2017;
- remeasuring 2016 revenue at 2017 exchange rates.

These adjustments give rise to comparative data at constant scope and exchange rates, which serves to measure organic growth.

Recurring operating income

The Group's total operating income includes all revenues and expenses directly related to Group activities, whether these revenues and expenses are recurring or arise from non-recurring decisions or transactions.

"Other non-recurring operating income and expenses" consists of unusual items, notably as concerns the nature or frequency, that could distort the assessment of Group entities' financial performance. Other non-recurring operating income and expenses may include impairment of property, plant and equipment, goodwill and other intangible assets, gains or losses on disposals of non-current assets, restructuring costs and costs relating to employee adaptation measures.

Consequently, Kering monitors its operating performance using "Recurring operating income", defined as the difference between total operating income and other non-recurring operating income and expenses.

Recurring operating income is an intermediate line item intended to facilitate the understanding of the Group's operating performance and which can be used as a way to estimate recurring performance. This indicator is presented in a manner that is consistent and stable over the long term in order to ensure the continuity and relevance of financial information.

Recurring operating income at comparable exchange rates for 2016 takes into account the currency impact on revenue and Group acquisitions, the effective portion of currency hedges and the impact of changes in exchange rates on the translation of the recurring operating income of consolidated entities located outside the eurozone.

EBITDA

The Group uses EBITDA to monitor its operating performance. This financial indicator corresponds to recurring operating income plus net charges to depreciation, amortisation and provisions on non-current operating assets recognised in recurring operating income.

EBITDA at comparable exchange rates is defined using the same principles as for recurring operating income at comparable exchange rates.

Free cash flow from operations and available cash flow

The Group also uses an intermediate line item, "Free cash flow from operations", to monitor its financial performance. This financial indicator measures net operating cash flow less net operating investments (defined as purchases and sales of property, plant and equipment and intangible assets).

"Available cash flow" corresponds to free cash flow from operations plus interest and dividends received less interest paid and equivalent.

Net debt

As defined by CNC recommendation No. 2009-R-03 of July 2, 2009, net debt comprises gross borrowings, including accrued interest, less cash and cash equivalents.

Net debt includes fair value hedging instruments recorded in the statement of financial position relating to bank borrowings and bonds whose interest rate risk is fully or partly hedged as part of a fair value relationship.

Recurring tax rate

The recurring tax rate corresponds to the effective tax rate, excluding tax effects relating to "Other non-recurring operating income and expenses".

2. consolidated financial statements as of december 31, 2017

2.1. consolidated income statement for the years ended december 31, 2017 and 2016

(in € millions)	Notes	2017	2016
CONTINUING OPERATIONS			
Revenue	**5**	**15,477.7**	**12,384.9**
Cost of sales		(5,344.7)	(4,595.3)
Gross margin		**10,133.0**	**7,789.6**
Payroll expenses	6-7	(2,443.6)	(1,983.7)
Other recurring operating income and expenses		(4,741.4)	(3,919.7)
Recurring operating income	**8**	**2,948.0**	**1,886.2**
Other non-recurring operating income and expenses	9	(241.7)	(506.0)
Operating income		**2,706.3**	**1,380.2**
Finance costs, net	10	(242.6)	(201.8)
Income before tax		**2,463.7**	**1,178.4**
Corporate income tax	11	(591.0)	(296.1)
Share in earnings (losses) of equity-accounted companies		(2.0)	(2.2)
Net income from continuing operations		**1,870.7**	**880.1**
o/w attributable to owners of the parent		1,791.2	825.1
o/w attributable to non-controlling interests	15	79.5	55.0
DISCONTINUED OPERATIONS			
Net loss from discontinued operations	**12**	**(5.6)**	**(11.6)**
o/w attributable to owners of the parent		(5.6)	(11.6)
o/w attributable to non-controlling interests			
Net income of consolidated companies		**1,865.1**	**868.5**
o/w attributable to owners of the parent		1,785.6	813.5
o/w attributable to non-controlling interests	15	79.5	55.0

(in € millions)	Notes	2017	2016
Net income attributable to owners of the parent		**1,785.6**	**813.5**
Earnings per share *(in €)*	13.1	14.17	6.46
Fully diluted earnings per share *(in €)*	13.1	14.17	6.46
Net income from continuing operations attributable to owners of the parent		**1,791.2**	**825.1**
Earnings per share *(in €)*	13.1	14.22	6.55
Fully diluted earnings per share *(in €)*	13.1	14.22	6.55
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent		**2,001.9**	**1,281.9**
Earnings per share *(in €)*	13.2	15.89	10.17
Fully diluted earnings per share *(in €)*	13.2	15.89	10.17

2.2. consolidated statement of comprehensive income for the years ended december 31, 2017 and 2016

(in € millions)	Notes	2017	2016
Net income		**1,865.1**	**868.5**
Actuarial gains and losses [1]		20.1	(3.2)
Total items not reclassified to income		**20.1**	**(3.2)**
Foreign exchange gains and losses		(249.5)	29.3
Cash flow hedges [1]		45.2	31.5
Available-for-sale financial assets [1]		3.9	4.9
Total items to be reclassified to income		**(200.4)**	**65.7**
Other comprehensive income (loss), net of tax	**14**	**(180.3)**	**62.5**
Total comprehensive income		**1,684.8**	**931.0**
o/w attributable to owners of the parent		1,648.7	866.8
o/w attributable to non-controlling interests		36.1	64.2

(1) Net of tax.

2.3. consolidated statement of financial position as of december 31, 2017 and 2016

Assets

(in € millions)	Notes	Dec. 31, 2017	Dec. 31, 2016
Goodwill	16	3,421.2	3,533.5
Brands and other intangible assets	17	11,159.0	11,272.7
Property, plant and equipment	18	2,267.6	2,206.5
Investments in equity-accounted companies	20	48.6	48.3
Non-current financial assets	21	364.3	480.4
Deferred tax assets	11.2	964.6	927.0
Other non-current assets		35.4	30.4
Non-current assets		**18,260.7**	**18,498.8**
Inventories	22	2,699.1	2,432.2
Trade receivables	23	1,366.5	1,196.4
Current tax receivables	11.2	78.6	105.6
Other current financial assets	24-30	155.6	131.0
Other current assets	24	880.3	725.4
Cash and cash equivalents	28	2,136.6	1,049.6
Current assets		**7,316.7**	**5,640.2**
TOTAL ASSETS		**25,577.4**	**24,139.0**

Equity and liabilities

(in € millions)	Notes	Dec. 31, 2017	Dec. 31, 2016
Share capital		505.2	505.2
Capital reserves		2,428.3	2,428.3
Treasury shares		-	-
Translation adjustments		(131.7)	87.8
Remeasurement of financial instruments		76.0	16.8
Other reserves		9,070.4	8,231.6
Equity attributable to owners of the parent	**25**	**11,948.2**	**11,269.7**
Non-controlling interests	15	678.2	694.2
Total equity	**25**	**12,626.4**	**11,963.9**
Non-current borrowings	29	4,245.5	4,185.8
Other non-current financial liabilities	30	0.7	19.6
Provisions for pensions and other post-employment benefits	26	125.7	142.6
Other non-current provisions	27	55.5	74.0
Deferred tax liabilities	11.2	2,712.2	2,854.5
Other non-current liabilities		48.8	-
Non-current liabilities		**7,188.4**	**7,276.5**
Current borrowings	29	939.7	1,234.5
Other current financial liabilities	24-30	367.6	285.9
Trade payables	24	1,240.7	1,098.5
Provisions for pensions and other post-employment benefits	26	10.7	8.2
Other current provisions	27	182.4	143.7
Current tax liabilities	11.2	815.4	398.5
Other current liabilities	24	2,206.1	1,729.3
Current liabilities		**5,762.6**	**4,898.6**
TOTAL EQUITY AND LIABILITIES		**25,577.4**	**24,139.0**

2.4. consolidated statement of cash flows for the years ended december 31, 2017 and 2016

(in € millions)	Notes	2017	2016
Net income from continuing operations		**1,870.7**	**880.1**
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets		516.4	432.0
Other non-cash income and expenses		72.1	295.0
Cash flow from operating activities	**33.2**	**2,459.2**	**1,607.1**
Interest paid/received		198.4	179.3
Dividends received		(1.2)	(0.7)
Net income tax payable	11.1	822.9	386.1
Cash flow from operating activities before tax, dividends and interest		**3,479.3**	**2,171.8**
Change in working capital requirement		(94.3)	(84.4)
Corporate income tax paid	11.2.1	(364.9)	(295.5)
Net cash from operating activities		**3,020.1**	**1,791.9**
Purchases of property, plant and equipment and intangible assets		(752.0)	(611.0)
Proceeds from disposals of property, plant and equipment and intangible assets		50.2	8.5
Acquisitions of subsidiaries, net of cash acquired		1.6	(4.2)
Proceeds from disposals of subsidiaries and associates, net of cash transferred		–	(6.0)
Purchases of other financial assets		(69.1)	(87.4)
Proceeds from disposals of other financial assets		36.0	16.4
Interest and dividends received		8.0	14.0
Net cash used in investing activities		**(725.3)**	**(669.7)**
Dividends paid to owners of the parent company		(580.9)	(504.9)
Dividends paid to non-controlling interests		(35.0)	(36.5)
Transactions with non-controlling interests		(27.8)	(0.2)
Treasury share transactions		0.2	0.5
Bond issues	29-33.3	321.7	570.5
Debt redemptions/repayments	29-33.3	(410.1)	(51.9)
Increase/decrease in other borrowings	29-33.3	(363.4)	(1,054.7)
Interest paid and equivalent		(203.5)	(186.6)
Net cash used in financing activities		**(1,298.8)**	**(1,263.8)**
Net cash used in discontinued operations	12	(6.3)	(17.7)
Impact of exchange rate variations		152.1	13.9
Net increase (decrease) in cash and cash equivalents		**1,141.8**	**(145.4)**
Cash and cash equivalents at beginning of year	**33.1**	**757.5**	**902.9**
Cash and cash equivalents at end of year	**33.1**	**1,899.3**	**757.5**

2.5. consolidated statement of changes in equity for the years ended december 31, 2017 and 2016

(Before appropriation of net income)

(in € millions)	Number of shares outstanding [1]	Share capital	Capital reserves	Treasury shares	Cumulative translation adjustments	Remeasurement of financial instruments	Other reserves and net income attributable to owners of the parent	Equity – Owners of the parent	Equity – Non-controlling interest	Total
As of January 1, 2016	**126,251,724**	**505.2**	**2,428.3**	**(5.1)**	**63.6**	**(9.9)**	**7,966.2**	**10,948.3**	**674.8**	**11,623.1**
Total comprehensive income					**24.2**	**26.7**	**815.9**	**866.8**	**64.2**	**931.0**
Increase/ Decrease in share capital										
Treasury shares [3]	27,598			5.1			(4.6)	0.5		0.5
Valuation of share-based payment							0.2	0.2		0.2
Dividends paid and interim dividends							(504.9)	(504.9)	(36.5)	(541.4)
Changes in Group structure and other changes							(41.2)	(41.2)	(8.3)	(49.5)
As of December 31, 2016	**126,279,322**	**505.2**	**2,428.3**	**-**	**87.8**	**16.8**	**8,231.6**	**11,269.7**	**694.2**	**11,963.9**
Total comprehensive income					**(219.5)**	**59.2**	**1,809.0**	**1,648.7**	**36.1**	**1,684.8**
Increase/ decrease in share capital									50.1	50.1
Treasury shares [3]							(0.1)	(0.1)		(0.1)
Valuation of share-based payment							(1.6)	(1.6)	(0.3)	(1.9)
Dividends paid and interim dividends							(644.1)	(644.1)	(39.1)	(683.2)
Changes in Group structure and other changes							(324.4)	(324.4)	(62.8)	(387.2)
As of December 31, 2017 [2]	**126,279,322**	**505.2**	**2,428.3**	**-**	**(131.7)**	**76.0**	**9,070.4**	**11,948.2**	**678.2**	**12,626.4**

(1) Shares with a par value of €4 each.
(2) Number of shares outstanding as of December 31, 2017: 126,279,322.
(3) Net of tax.

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note 1 – introduction

Kering, the Group's parent company, is a *société anonyme* (French company) with a Board of Directors, incorporated under French law, whose registered office is located at 40, rue de Sèvres, 75007 Paris, France. It is registered with the Paris Trade and Companies Registry under reference 552 075 020 RCS Paris, and is listed on the Euronext Paris stock exchange.

The consolidated financial statements for the year ended December 31, 2017 reflect the accounting position of Kering and its subsidiaries, together with its interests in associates and joint ventures.

On February 12, 2018, the Board of Directors approved the consolidated financial statements for the year ended December 31, 2017 and authorised their publication. These consolidated financial statements will only be considered as final after their adoption by the Annual General Meeting.

note 2 – accounting policies and methods

2.1. General principles and statement of compliance

Pursuant to European Regulation no. 1606/2002 of July 19, 2002, the consolidated financial statements of the Kering group for the year ended December 31, 2017 were prepared in accordance with applicable international accounting standards published and adopted by the European Union and mandatorily applicable as of that date.

These international standards comprise International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC).

The financial statements presented do not reflect the draft standards and interpretations that were at the exposure draft stage with the International Accounting Standards Board (IASB) and the IFRS IC on the date these financial statements were prepared.

All accounting standards and guidance adopted by the European Union may be consulted on the European Union law website at: http://eur-lex.europa.eu/homepage.html.

2.2. IFRS basis adopted

2.2.1. Standards, amendments and interpretations adopted by the European Union and effective as of January 1, 2017

The Group has applied the following amendments in its consolidated financial statements:

- the amendments to IAS 7, IAS 12, and IFRS 12.

Applying these amendments did not have any impact on the Group's consolidated financial statements.

2.2.2. Standards, amendments and interpretations adopted by the European Union but not mandatorily applicable as of January 1, 2017

The Group has elected not to early adopt the following standards:

- IFRS 9 – *Financial Instruments*, published in November 2016, which sets out the recognition and disclosure principles for financial assets and financial liabilities. These principles will supersede those contained in IAS 39 – *Financial Instruments*, as from January 1, 2018;
- IFRS 15 – *Revenue from Contracts with Customers*, published in September 2016, which establishes new revenue recognition principles and will supersede IAS 18 – Revenue, as from January 1, 2018;
- IFRS 16 – *Leases*, published in November 2017, which establishes an accounting model for the recognition of leases and will supersede IAS 17 – *Leases*. The IASB indicates that IFRS 16 will be mandatorily applicable as from January 1, 2019.

2.2.3. Standards, amendments and interpretations that have not yet been adopted by the European Union

The standards and amendments that have not yet been adopted by the European Union are as follows:

- the amendments contained in the Annual Improvements to IFRSs 2014-2016 Cycle, which the IASB indicates are mandatorily applicable as from January 1, 2017 and January 1, 2018;
- the amendments contained in the Annual Improvements to IFRSs 2015-2017 Cycle, which the IASB indicates will be mandatorily applicable as from January 1, 2019;

- the various amendments to IFRS 2, which the IASB indicates will be mandatorily applicable as from January 1, 2018, and the amendments to IAS 28 and IFRS 9, which the IASB indicates will be mandatorily applicable as from January 1, 2019;
- the interpretations IFRIC 22 and IFRIC 23, which the IASB indicates will be mandatorily applicable as from January 1, 2018 and January 1, 2019, respectively.

2.2.4. Expected impacts of future standards, amendments and interpretations

IFRS 9 – *Financial Instruments*, applicable as of January 1, 2018

Kering has chosen to apply all chapters of IFRS 9 as of January 1, 2018. The main impacts of each chapter are described below:

- phase 1 – *Classification and measurement of financial assets and liabilities*: based on analyses carried out, this has no impact on the consolidated financial statements;
- phase 2 – *Impairment methodology*: IFRS 9 requires application of an impairment model based on "expected" losses (as opposed to "known" losses under IAS 39). For its trade receivables, the Group chose to adopt the provision matrix approach available under IFRS 9. The bad debt risk on Kering's receivables in its mainly-retail Luxury activities is extremely low. The Group takes out credit risk insurance covering the majority of trade receivables in its wholesale business. Accordingly, this phase has no impact on the consolidated financial statements;
- phase 3 – *Hedge accounting*: the Group chose to adopt the hedge accounting provisions set out in IFRS 9 with effect from January 1, 2018. The main change with respect to IAS 39 concerns the accounting for foreign currency derivatives classified as cash flow hedges. Under IFRS 9, changes in the time value of options and changes in prices of the underlying on futures transactions are to be recognised in equity over the term of the transactions and taken to financial income/loss when the hedged item is settled. A negative impact of around €8 million will be recognised as of January 1, 2018 in "Remeasurement of financial instruments" with an offsetting entry to "Other reserves".

IFRS 15 – *Revenue from Contracts with Customers*, applicable as of January 1, 2018

In 2017, the Group carried out an in-depth review of the different types of commercial relationships that could potentially be affected by IFRS 15. This review confirmed that IFRS 15 does not have a significant impact on the Kering group owing to the nature of its business activities. Luxury activities are mostly retail businesses with the exception of the Watches & Jewelry brands and Kering Eyewear. IFRS 15 would have had an estimated negative impact on 2017 consolidated revenue of less than 0.20% for example. A negative impact of around €10 million will be recognised in equity ("Other reserves") as of January 1, 2018. The Group will therefore apply the "cumulative catch-up" transition method, as it considers that this will not distort comparability between 2017 and 2018 data.

IFRS 16 – *Leases*, applicable as of January 1, 2019

The application of IFRS 16 – *Leases*, as of January 1, 2019, will have a material impact on Kering's consolidated financial statements since retail operations are a predominant part of its Luxury activities. Virtually all of the Group's leases are property leases. With this in mind, Kering set up a cross-functional project team including representatives from the different departments concerned (finance, real estate, IT and legal) and identified a pilot brand and country to support the roll-out of the requisite future reporting processes and associated IT tools. In 2017, this team completed its analysis of all leases in light of IFRS 16. It also reviewed the various existing software solutions able to provide fully integrated monitoring of leases from both an operational and financial standpoint. An approach for determining interest rates was introduced at the same time and is currently being finalised.

The main issue for the Kering group as regards the interpretation and hence the application of IFRS 16 is identifying the lease term, since property leasing practices vary hugely from one market or country to the next. Determining the lease term to be taken into account under IFRS 16 is not always clear-cut owing to the particulars of certain lease agreements. A constructive approach must therefore be defined based on the economic substance of the underlying transactions in order to better reflect the Group's commitment by lease type (directly operated stores, shop-in-shops, travel retail, etc.).

The Group has not yet decided which transition method to adopt. This will be determined during the first half of 2018 by reference to feasibility criteria based on technical capabilities and expected changes in Group structure over the period.

At December 31, 2017, minimum lease payments calculated in accordance with IAS 17 amounted to €3,880.5 million (€3,732.3 million at end-2016) and are set out in Note 34 – Contingent liabilities, contractual commitments not recognised and other contingencies.

2.3. Basis of preparation of the consolidated financial statements

2.3.1. Basis of measurement

The consolidated financial statements are prepared in accordance with the historical cost convention, with the exception of:

- certain financial assets and liabilities measured at fair value;
- defined benefit plan assets measured at fair value;
- liabilities in respect of cash-settled share-based payments (share appreciation rights) measured at fair value;
- non-current assets held for sale, which are measured and recognised at the lower of net carrying amount and fair value less costs to sell as soon as their sale is considered highly probable. These assets are no longer depreciated from the time they qualify as assets (or disposal groups) held for sale.

2.3.2. Use of estimates and judgement

The preparation of consolidated financial statements requires Group management to make estimates and assumptions that can affect the carrying amounts of certain assets and liabilities, income and expenses, and the disclosures in the accompanying notes. Group management reviews these estimates and assumptions on a regular basis to ensure their pertinence with respect to past experience and the current economic situation. Items in future financial statements may differ from current estimates as a result of changes in these assumptions. The impact of changes in accounting estimates is recognised during the period in which the change occurs and all affected future periods.

The main estimates made by Group management in the preparation of the financial statements concern the valuations and useful lives of operating assets, property, plant and equipment, intangible assets and goodwill, the amount of contingency provisions and other provisions relating to operations, and assumptions underlying the calculation of obligations relating to employee benefits, share-based payment, deferred tax balances and financial instruments. The Group notably uses discount rate assumptions based on market data to estimate the value of its long-term assets and liabilities.

The main assumptions made by the Group are detailed in specific sections of the notes to the consolidated financial statements, and in particular:

- Note 7 – Share-based payment;
- Note 11- Income taxes;
- Note 19 – Impairment tests on non-financial assets;
- Note 26 – Employee benefits;
- Note 27 – Provisions;
- Note 30 – Exposure to interest rate, foreign exchange, equity and precious metals price risk;
- Note 31 – Accounting classification and market value of financial instruments.

In addition to the use of estimates, Group management uses judgement to determine the appropriate accounting treatment for certain transactions, pending the clarification of certain IFRSs or where prevailing standards do not cover the issue at hand. This is notably the case for put options granted to non-controlling interests.

Put options granted to non-controlling interests

The Group has undertaken to repurchase the non-controlling interests of shareholders of certain subsidiaries. The strike price of these put options may be set or determined according to a predefined calculation formula, and the options may be exercised at any time or on a specific date.

The appropriate accounting treatment for acquisitions of additional shares in a subsidiary after control is obtained is prescribed by IFRS. As permitted by the French financial markets authority (*Autorité des marchés financiers* – AMF), the Group has decided to apply two different accounting methods to these put options, depending on whether they were granted before or after the date the revised IFRS 3 – *Business Combinations first came into effect*.

Put options granted before January 1, 2009: existing goodwill method retained

The Group records a financial liability in respect of the put options granted to holders of non-controlling interests in the entities concerned. The corresponding non-controlling interests are derecognised, with an offsetting entry to the financial liability. The difference between the debt representing the commitment to repurchase the non-controlling interests and the carrying amount of reclassified non-controlling interests is recorded as goodwill.

This liability is initially recognised at the present value of the strike price. Subsequent changes in the value of the commitment are recorded by an adjustment to goodwill.

Put options granted after January 1, 2009

The Group records a financial liability at the present value of the strike price in respect of the put options granted to holders of non-controlling interests in the entities concerned.

The offsetting entry for this financial liability will differ depending on whether the non-controlling interests have maintained access at present to the economic benefits of the entity.

In the case of continued access at present to the entity's economic benefits, non-controlling interests are maintained in the statement of financial position and the liability is recognised against equity attributable to owners of the parent. In the case where access to the entity's economic benefits is no longer available by virtue of the put option, the corresponding non-controlling interests are derecognised. The difference between the debt representing the commitment to repurchase the non-controlling interests and the carrying amount of derecognised non-controlling interests is recorded as a deduction from equity attributable to owners of the parent.

Subsequent changes in the value of the commitment are recorded by an adjustment to equity attributable to owners of the parent.

2.3.3. Statement of cash flows

The Group's statement of cash flows is prepared in accordance with IAS 7 – *Statement of Cash Flows*. The Group prepares its statement of cash flows using the indirect method.

2.4. Consolidation principles

The Kering group consolidated financial statements include the financial statements of the companies listed in Note 36 – List of consolidated subsidiaries. They include the financial statements of companies acquired as from the acquisition date and companies sold up until the date of disposal.

2.4.1. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group exercises control. Control is defined according to three criteria: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to exert power over the investee to affect the amount of the investor's returns. This definition of control implies that power over an investee can take many forms other than simply holding voting rights. The existence and effect of potential voting rights are considered when assessing control, if the rights are substantive. Control generally implies directly or indirectly holding more than 50% of the voting rights but can also exist when less than 50% of the voting rights are held.

Subsidiaries are consolidated from the effective date of control.

Inter-company assets and liabilities and transactions between consolidated companies are eliminated. Gains and losses on internal transactions with controlled companies are fully eliminated.

Accounting policies and methods are modified where necessary to ensure consistency of accounting treatment at Group level.

2.4.2. Associates

Associates are all entities in which the Group exercises a significant influence over the entity's management and financial policy, without exercising control or joint control; this generally implies holding 20% to 50% of the voting rights.

Associates are recognised using the equity method and initially measured at cost, except when the associates were previously controlled by the Group, in which case they are measured at fair value through the income statement as of the date control is lost.

Subsequently, the share in profits or losses of the associate attributable to owners of the parent is recognised in "Share in earnings (losses) of equity-accounted companies", and the share in other comprehensive income of associates is carried on a separate line of the statement of comprehensive income. If the Group's share in the losses of an associate equals or exceeds its investment in that associate, the Group no longer recognises its share of losses, unless it has legal or constructive obligations to make payments on behalf of the associate.

Goodwill related to an associate is included in the carrying amount of the investment, presented separately within "Investments in equity-accounted companies" in the statement of financial position.

Gains or losses on internal transactions with equity-accounted associates are eliminated in the amount of the Group's investment in these companies.

The accounting policies and methods of associates are modified where necessary to ensure consistency of accounting treatment at Group level.

2.4.3. Business combinations

Business combinations, where the Group acquires control of one or more other activities, are recognised using the acquisition method.

Business combinations are recognised and measured in accordance with the provisions of the revised IFRS 3. Accordingly, the consideration transferred (acquisition price) is measured at the fair value of the assets transferred, equity interests issued and liabilities incurred by the acquirer at the date of exchange. Identifiable assets and liabilities are generally measured at their fair value on the acquisition date. Costs directly attributable to the business combination are recognised in expenses.

The excess of the consideration transferred plus the amount of any non-controlling interest in the acquiree over the net fair value of the identifiable assets and liabilities acquired is recognised as goodwill. If the difference is negative, the gain on the bargain purchase is immediately recognised in income.

The Group may choose to measure any non-controlling interests resulting from each business combination at fair value (full goodwill method) or at the proportionate share in the identifiable net assets acquired, which are also generally measured at fair value (partial goodwill method).

Goodwill is determined at the date control over the acquired entity is obtained and may not be adjusted after the measurement period. No additional goodwill is recognised on any subsequent acquisition of non-controlling interests. Acquisitions and disposals of non-controlling interests are recognised directly in consolidated equity.

The accounting for a business combination must be completed within 12 months of the acquisition date. This applies to the measurement of identifiable assets and liabilities, consideration transferred and non-controlling interests.

2.5. Foreign currency translation

2.5.1. Functional and presentation currency

Items included in the financial statements of each Group entity are valued using the currency of the primary economic environment in which the entity operates (functional currency). The Group's consolidated financial statements are presented in euros, which serves as its presentation currency.

2.5.2. Foreign currency transactions

Transactions denominated in foreign currencies are recognised in the entity's functional currency at the exchange rate prevailing on the transaction date.

Monetary items in foreign currencies are translated at the closing exchange rate at the end of each reporting period. Translation adjustments arising from the settlement of these items are recognised in income or expenses for the period.

Non-monetary items in foreign currencies valued at historical cost are translated at the rate prevailing on the transaction date, and non-monetary items in foreign currencies measured at fair value are translated at the rate prevailing on the date the fair value is determined. When a gain or loss on a non-monetary item is recognised directly in other comprehensive income, the foreign exchange component is also recognised in other comprehensive income. Otherwise, the component is recognised in income or expenses for the period.

The treatment of foreign exchange rate hedges in the form of derivatives is described in the section on derivative instruments in Note 2.11 – Financial assets and liabilities.

2.5.3. Translation of the financial statements of foreign subsidiaries

The results and financial statements of Group entities with a functional currency that differs from the presentation currency are translated into euros as follows:

- items recorded in the statement of financial position other than equity are translated at the exchange rate at the end of the reporting period;
- income and cash flow statement items are translated at the average exchange rate for the period, corresponding to an approximate value for the rate at the transaction date in the absence of significant fluctuations;
- foreign exchange differences are recognised as translation adjustments in the statement of comprehensive income under other comprehensive income.

Goodwill and fair value adjustments arising from a business combination with a foreign activity are recognised in the functional currency of the entity acquired. They are subsequently translated into the Group's presentation currency at the closing exchange rate, and any resulting differences are transferred to other comprehensive income within the statement of comprehensive income.

2.5.4. Net investment in a foreign subsidiary

Foreign exchange gains or losses arising on the translation of a net investment in a foreign subsidiary are recognised in the consolidated financial statements as a separate component within the statement of comprehensive income, and in income on disposal of the net investment. Foreign exchange gains or losses in respect of foreign currency borrowings designated as a net investment in a foreign subsidiary are recognised in other comprehensive income (to the extent that the hedge is effective), within the statement of comprehensive income, and in income on disposal of the net investment.

2.6. Goodwill

Goodwill is determined as indicated in Note 2.4.3 – Business combinations.

Goodwill is allocated as of the acquisition date to cash-generating units (CGUs) or groups of CGUs defined by the Group based on the characteristics of the core business, market or geographical segment of each brand. The CGUs or groups of CGUs to which goodwill has been allocated are tested for impairment during the second half of each fiscal year or whenever events or circumstances indicate that an impairment loss is likely.

Impairment tests are described in Note 2.10 – Asset impairment.

2.7. Brands and other intangible assets

Intangible assets are recognised at cost less accumulated amortisation and impairment losses.

Intangible assets acquired as part of a business combination, which are controlled by the Group and are separable or arise from contractual or other legal rights, are recognised separately from goodwill.

Intangible assets are amortised over their useful lives where this is finite and are tested for impairment when there is an indication that they may be impaired. Intangible assets with indefinite useful lives are not amortised but are tested for impairment at least annually or more frequently when there is an indication that an impairment loss is likely.

Brands, which represent a predominant category of the Group's intangible assets, are accounted for separately from goodwill when they meet the criteria set out in IAS 38. Recognition and durability criteria are then taken into account to assess the useful life of the brand. Most of the Group's brands are intangible assets with indefinite useful lives.

Impairment tests are described in Note 2.10 – Asset impairment.

In addition to the projected future cash flows method, the Group applies the royalties method, which consists of determining the value of a brand based on future royalty revenue receivable where it is assumed that the brand will be operated under licence by a third party.

Software acquired as part of recurring operations is usually amortised over a period not exceeding 12 months.

Software developed in-house by the Group and meeting all the criteria set out in IAS 38 is capitalised and amortised on a straight-line basis over its useful life, which is generally between three and ten years.

2.8. Property, plant and equipment

Property, plant and equipment are recognised at cost less accumulated depreciation and impairment losses with the exception of land, which is presented at cost less impairment losses. The various components of property, plant and equipment are recognised separately when their estimated useful life and therefore their depreciation periods are significantly different. The cost of an asset includes the expenses that are directly attributable to its acquisition.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate component, where necessary, if it is probable that future economic benefits will flow to the Group and the cost of the asset can be reliably measured. All other routine repair and maintenance costs are expensed in the year they are incurred.

Depreciation is calculated using the straight-line method, based on the purchase price or production cost, less any residual value which is reviewed annually if considered material, over a period corresponding to the useful life of each asset category, i.e., 10 to 40 years for buildings and improvements to land and buildings, and 3 to 10 years for equipment.

Property, plant and equipment are tested for impairment when an indication of impairment exists, such as a scheduled closure, a redundancy plan or a downward revision of market forecasts. When the asset's recoverable amount is less than its net carrying amount, an impairment loss is recognised. Where the recoverable amount of an individual asset cannot be determined precisely, the Group determines the recoverable amount of the CGU or group of CGUs to which the asset belongs.

Lease contracts

Agreements whose fulfilment depends on the use of one or more specific assets and which transfer the right to use the asset are classified as lease contracts.

Lease contracts which transfer to the Group substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases.

Assets acquired under finance leases are recognised in property, plant and equipment against the corresponding debt recognised in borrowings for the same amount, at the lower of the fair value of the asset and the present value of minimum lease payments. The corresponding assets are depreciated over a useful life identical to that of property, plant and equipment acquired outright, or over the term of the lease, whichever is shorter.

Lease contracts that do not transfer substantially all the risks and rewards incidental to ownership are classified as operating leases. Payments made under operating leases are recognised in recurring operating expenses on a straight-line basis over the term of the lease.

Capital gains on the sale and leaseback of assets are recognised in full in income at the time of disposal when the lease qualifies as an operating lease and the transaction is performed at fair value.

The same accounting treatment is applied to agreements that, while not presenting the legal form of a lease contract, confer on the Group the right to use a specific asset in exchange for a payment or series of payments.

2.9. Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated sale price in the normal course of operations, net of costs to be incurred to complete the sale.

The same method for determining costs is adopted for inventories of a similar nature and use within the Group. Inventories are valued using the first-in-first-out (FIFO) retail method or weighted average cost method, depending on the Group activity.

Interest expenses are excluded from inventories and expensed as finance costs in the year they are incurred.

The Group may recognise an inventory allowance based on expected turnover, if inventory items are damaged, have become wholly or partially obsolete, the selling price has declined, or if the estimated costs to completion or to be incurred to make the sale have increased.

2.10. Asset impairment

For the purposes of impairment testing, assets are grouped into cash-generating units (CGUs), i.e., the smallest group of assets that generates cash inflows from continuing use, that are largely independent of the cash inflows from other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

CGUs comprising goodwill and/or intangible assets with indefinite useful lives, such as certain brands, are tested for impairment at least annually during the second half of each reporting period.

An impairment test is also performed for all CGUs when events or circumstances indicate that they may be impaired. Such events or circumstances concern material unfavourable changes of a permanent nature affecting either the economic environment or the assumptions or objectives used on the acquisition date of the assets.

Impairment tests seek to determine whether the recoverable amount of a CGU is less than its net carrying amount.

The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use.

The value in use is determined with respect to future cash flow projections, taking into account the time value of money and the specific risks attributable to the asset, CGU or group of CGUs.

Future cash flow projections are based on medium-term budgets and plans. These plans are drawn up for a period of four years with the exception of certain CGUs or groups of CGUs undergoing strategic repositioning, for which a longer period may be applied. To calculate value in use, a terminal value equal to the perpetual capitalisation of a normative annual cash flow is added to the estimated future cash flows.

Fair value corresponds to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These values are determined based on market data (comparison with similar listed companies, values adopted in recent transactions and stock market prices).

When the CGU's recoverable amount is less than its net carrying amount, an impairment loss is recognised.

Impairment is charged first to goodwill where appropriate, and recognised under "Other non-recurring operating income and expenses" in the income statement as part of operating income.

Impairment losses recognised in respect of property, plant and equipment and other intangible assets may be reversed at a later date if there is an indication that the impairment loss no longer exists or has decreased. Impairment losses in respect of goodwill may not be reversed.

Goodwill relating to the partial disposal of a CGU is measured on a proportionate basis, except where an alternative method is more appropriate.

2.11. Financial assets and liabilities

Derivative instruments are recognised in the statement of financial position at fair value, in assets (positive fair value) or liabilities (negative fair value).

2.11.1. Financial assets

Pursuant to IAS 39, financial assets are classified within one of the following four categories:

- financial assets at fair value through the income statement;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

The classification determines the accounting treatment for the instrument. It is defined by the Group on the initial recognition date, based on the objective behind the asset's purchase. Purchases and sales of financial assets are recognised on the transaction date, which is the date the Group is committed to the purchase or sale of the asset. A financial asset is derecognised if the contractual rights to the cash flows from the financial asset expire or the asset is transferred.

1. Financial assets at fair value through the income statement

These are financial assets held by the Group for short-term profit, or assets voluntarily classified in this category.

These assets are measured at fair value, with changes in fair value recognised in income.

They primarily comprise eligible money-market funds (OPCVMs) classified as current assets under cash equivalents, as well as derivatives not designated as hedging instruments within a hedging relationship.

2. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market and are not held for trading purposes or classified as available for sale.

These assets are initially recognised at fair value and subsequently at amortised cost using the effective interest method. For short-term receivables without a stated interest rate, fair value and amortised cost approximate the amount of the original invoice unless the effective interest rate has a material impact.

These assets are subject to impairment tests when there is an indication of an impairment loss. An impairment loss is recognised if the carrying amount exceeds the estimated recoverable amount.

Loans and receivables due from non-consolidated investments, deposits and guarantees, trade receivables and other short-term receivables are included in this category and are presented in non-current financial assets, trade receivables and other current financial assets in the statement of financial position.

3. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets, other than loans or receivables, with fixed or determinable payments and a fixed maturity that the Group has the positive intention and ability to hold to maturity. These assets are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

These assets are subject to impairment tests when there is an indication of impairment loss. An impairment loss is recognised if the carrying amount exceeds the estimated recoverable amount.

Held-to-maturity investments are presented in non-current financial assets.

4. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not included in the aforementioned categories. They are recognised at fair value. Unrealised capital gains or losses are recognised in other comprehensive income until the disposal of the assets. However, where there is an objective indication of loss in value of an available-for-sale financial asset, the accumulated loss is recognised in income. Impairment losses recognised in respect of shares cannot be reversed through the income statement at the end of a subsequent reporting period.

For listed securities, fair value corresponds to a market price. For unlisted securities, fair value is determined by reference to recent transactions or using valuation techniques based on reliable and objective indicators. However, when the fair value of a security cannot be reasonably estimated, it is recorded at historical cost. These assets are subject to impairment tests in order to assess whether they are recoverable.

This category mainly comprises non-consolidated investments and marketable securities that do not meet the definitions of other financial asset categories. They are presented in non-current financial assets.

2.11.2. Financial liabilities

The measurement of financial liabilities depends on their IAS 39 classification. Excluding put options granted to non-controlling interests, derivative liabilities and financial liabilities accounted for under the fair value option, the Group recognises all financial liabilities and particularly borrowings, trade payables and other liabilities initially at fair value less transaction costs and subsequently at amortised cost, using the effective interest method.

The effective interest rate is determined for each transaction and corresponds to the rate that would provide the net carrying amount of the financial liability by discounting its estimated future cash flows until maturity or the nearest date the price is reset to the market rate. The calculation includes transaction costs and any premiums and/or discounts. Transaction costs correspond to the costs directly attributable to the acquisition or issue of a financial liability.

The net carrying amount of financial liabilities that qualify as hedged items as part of a fair value hedging relationship and are valued at amortised cost, is adjusted with respect to the hedged risk.

Hedging relationships are described in Note 2.11.4 – Derivative instruments.

Financial liabilities accounted for under the fair value option, other than derivative liabilities, are carried at fair value. Changes in fair value are taken to the income statement. Transaction costs incurred in setting up these financial liabilities are recognised immediately in expenses.

2.11.3. Hybrid instruments

Certain financial instruments have both a standard debt component and an equity component.

For the Group, this concerns in particular OCEANE bonds (bonds convertible or exchangeable into new or existing shares).

Under IAS 32, convertible bonds are considered hybrid instruments insofar as the conversion option provides for the repayment of the instrument against a fixed number of equity instruments. There are several components:

- a financial liability (corresponding to the contractual commitment to pay cash), representing the debt component;
- the option converting the bonds into a fixed number of ordinary shares, offered to the subscriber, similar to a call option written by the issuer, representing the equity component;
- potentially one or more embedded derivatives.

The accounting policies applicable to each of these components, at the issue date and at the end of each subsequent reporting period, are as follows:

- debt component: the amount initially recognised as debt corresponds to the present value of the future cash flows arising from interest and principal payments at the market rate for a similar bond with no conversion option. If the convertible bond contains embedded derivatives closely related to the borrowing within the meaning of IAS 39, the value of these components is allocated to the debt in order to determine the value of the equity component. The debt component is subsequently recognised at amortised cost;
- embedded derivatives not closely related to the debt are recognised at fair value, with changes in fair value recognised in income;
- equity component: the value of the conversion option is determined by deducting the value of any embedded derivatives from the amount of the issue less the carrying amount of the debt component. The conversion option continues to be recorded in equity at its initial value. Changes in the value of the option are not recognised;
- transaction costs are allocated pro rata to each component.

2.11.4. Derivative instruments

The Group uses various financial instruments to reduce its exposure to foreign exchange, interest rate and equity risk. These instruments are listed on organised markets or traded over the counter with leading counterparties.

All derivatives are recognised in the statement of financial position under other current or non-current financial assets and liabilities depending on their maturity and accounting classification, and are valued at fair value as of the transaction date. Changes in the fair value of derivatives are always recorded in income except in the case of cash flow and net investment hedges.

Derivatives designated as hedging instruments are classified by category of hedge based on the nature of the risks being hedged:

- a cash flow hedge is used to hedge the risk of changes in cash flow from recognised assets or liabilities or a highly probable transaction that would impact consolidated net income;
- a fair value hedge is used to hedge the risk of changes in the fair value of recognised assets or liabilities or a firm commitment not yet recognised that would impact consolidated net income;
- a net investment hedge is used to hedge the foreign exchange risk arising on foreign activities.

Hedge accounting can only be applied if all the following conditions are met:

- there is a clearly identified, formalised and documented hedging relationship as of inception;
- the effectiveness of the hedging relationship can be demonstrated on a prospective and retrospective basis. The results obtained must attain a confidence level of between 80% and 125%.

The accounting treatment of financial instruments qualified as hedging instruments, and their impact on the income statement and the statement of financial position, depends on the type of hedging relationship:

- cash flow and net investment hedges:
  - the effective portion of fair value gains and losses on the hedging instrument is recognised directly in other comprehensive income. These amounts are reclassified to the income statement to match the recognition of the hedged items, mainly in gross profit for trading transaction hedges and in net finance costs for financial transaction hedges,
  - the ineffective portion of the hedge is recognised in the income statement;
- for fair value hedges, the hedged component of these items is measured in the statement of financial position at fair value with respect to the hedged risk. Fair value gains and losses are recorded in the income statement and are offset, to the extent effective, by matching fair value gains and losses on the hedging instrument.

2.11.5. Cash and cash equivalents

The "Cash and cash equivalents" line item recorded on the assets side of the consolidated statement of financial position comprises cash, mutual or similar funds, short-term investments and other highly liquid instruments that are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value, and have a maximum maturity of three months as of the purchase date.

Investments with a maturity exceeding three months, and blocked or pledged bank accounts, are excluded from cash. Bank overdrafts are presented in borrowings on the liabilities side of the statement of financial position.

In the statement of cash flows, cash and cash equivalents include accrued interest receivable on assets presented in cash and cash equivalents and bank overdrafts. A schedule reconciling cash in the statement of cash flows and in the statement of financial position is provided in Note 33 – Statement of cash flows.

2.11.6. Definition of consolidated net debt

The concept of net debt used by Group companies comprises gross debt including accrued interest receivable, less net cash as defined by the French accounting standards authority (*Autorité des normes comptables* – ANC) recommendation no. 2013-03. Net debt includes fair value hedging instruments recorded in the statement of financial position relating to bank borrowings and bonds whose interest rate risk is fully or partly hedged as part of a fair value hedging relationship.

2.12. Treasury shares

Treasury shares, whether specifically allocated for grant to employees or allocated to the liquidity agreement or in any other case, as well as directly related transaction costs, are deducted from equity attributable to owners of the parent. On disposal, the consideration received for these shares, net of transaction costs and the related tax impacts, is recognised in equity attributable to owners of the parent.

2.13. Treasury share options

Treasury share options are accounted for as derivative instruments, equity instruments or non-derivative financial liabilities, as appropriate based on their characteristics.

Options classified as derivatives are recognised at fair value through the income statement. Options classified as equity instruments are recorded in equity for their initial amount, and any changes in their value are not recognised. The accounting treatment of financial liabilities is described in Note 2.11.2 – Financial liabilities.

2.14. Share-based payment

The Group may award free share plans, stock purchase plans and stock subscription plans settled in shares. In accordance with IFRS 2 – *Share-based Payment*, the fair value of these plans, determined by reference to the fair value of services rendered by the beneficiaries, is assessed at the grant date.

During the rights vesting period, the fair value of options and free shares calculated as described above is amortised in proportion to the vesting of rights. This expense is recorded in payroll expenses with an offsetting increase in equity.

The Group may also award share-based payment plans systematically settled in cash, which result in the recognition of payroll expenses spread over the rights vesting period and a matching liability which is measured at fair value through income at the end of each reporting period.

2.15. Income taxes

The income tax charge for the year comprises the current and deferred tax charges.

Deferred tax is calculated using the liability method on all temporary differences between the carrying amount recorded in the consolidated statement of financial position and the tax value of assets and liabilities, except for goodwill that is not deductible for tax purposes and certain other exceptions. The valuation of deferred tax balances depends on the way in which the Group intends to recover or settle the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities are not discounted and are classified in the statement of financial position within non-current assets and liabilities.

A deferred tax asset is recognised on deductible temporary differences and for tax loss carry-forwards and tax credits to the extent that their future offset is probable.

A deferred tax liability is recognised on taxable temporary differences relating to investments in subsidiaries, associates and joint ventures unless the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16. Provisions

Provisions for claims and litigation, and miscellaneous contingencies and losses are recognised as soon as a present obligation arises from past events which is likely to result in an outflow of resources embodying economic benefits, the amount of which can be reliably estimated.

Provisions maturing in more than one year are valued at their discounted amount, representing the best estimate of the expense necessary to extinguish the current obligation at the end of the reporting period. The discount rate used reflects current assessments of the time value of money and specific risks related to the liability.

A restructuring provision is recognised when there is a formal and detailed restructuring plan and the plan has begun to be implemented or its main features have been announced before the end of the reporting period. Restructuring costs for which a provision is made essentially represent employee costs (severance pay, early retirement plans, payment in lieu of notice, etc.), work stoppages and compensation for breaches of contract with third parties.

2.17. Post-employment benefits and other long-term employee benefits

Based on the laws and practices of each country, the Group recognises various types of employee benefits.

Under defined contribution plans, the Group is not obliged to make additional payments over and above contributions already made to a fund, if the fund does not have sufficient assets to cover the benefits corresponding to services rendered by personnel during the current period and prior periods. Contributions paid into these plans are expensed as incurred.

Under defined benefit plans, obligations are valued using the projected unit credit method based on agreements in effect in each entity. Under this method, each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation. The obligation is then discounted. The actuarial assumptions used to determine the obligations vary according to the economic conditions of the country where the plan is established. These plans are valued by independent actuaries on an annual basis for the most significant plans and at regular intervals for the other plans. The valuations take into account the level of future compensation, the probable active life of employees, life expectancy and staff turnover.

Actuarial gains and losses are primarily due to changes in assumptions and the difference between estimated results based on actuarial assumptions and actual results. All actuarial differences in respect of defined benefit plans are recognised immediately in other comprehensive income.

The past service cost, designating the increase in an obligation following the introduction of a new plan or changes to an existing plan, is expensed immediately whether the benefit entitlement has already vested or is still vesting.

Expenses relating to this type of plan are recognised in recurring operating income (service cost) and net finance costs (net interest on the net defined benefit liability or asset). Curtailments, settlements and past service costs are recognised in recurring operating income. The provision recognised in the statement of financial position corresponds to the present value of the obligations calculated as described above, less the fair value of plan assets.

2.18. Non-current assets (and disposal groups) held for sale and discontinued operations

The Group applies IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. This requires the separate recognition and presentation of non-current assets (or disposal groups) held for sale and discontinued operations.

Non-current assets, or groups of assets and liabilities directly associated with those assets, are considered as held for sale if it is highly probable that their carrying amount will be recovered principally through a sale rather than through continuing use. Non-current assets (or disposal groups) held for sale are measured and recognised at the lower of their net carrying amount and their fair value less the costs of disposal. These assets are no longer depreciated from the time they qualify as assets (or disposal groups) held for sale. They are presented on separate lines in the consolidated statement of financial position, without restatement for previous periods.

A discontinued operation is defined as a component of a group that generates cash flows that can be clearly distinguished from the rest of the group and represents a separate major line of business or geographical area of operations. For all periods presented, the net income or loss from these activities is shown on a separate line of the income statement ("Discontinued operations"), and is restated in the statement of cash flows.

2.19. Revenue recognition

Revenue mainly comprises sales of goods for resale, consumer goods and Luxury Goods, together with income from sales-related services, royalties and operating licences.

Revenue is valued at the fair value of the consideration received for goods and services sold, royalties and licences, excluding taxes, net of rebates and discounts and after elimination of inter-company sales.

In the event of deferred payment beyond the usual credit terms that is not assumed by a financing institution, the revenue from the sale is equal to the discounted price, with the difference between the discounted price and the cash payment recognised in financial income over the life of the deferred payment if the transaction is material.

Sales of goods are recognised when a Group entity has transferred the risks and rewards incidental to ownership to the buyer (generally on delivery), when revenue can be reliably measured, when recovery is reasonably assured and when the probability of the goods being returned can be estimated with sufficient reliability.

Services such as those directly related to the sale of goods are recognised over the period in which such services are rendered or, if the Group company acts as an agent in the sale of these services, as of the date the contractual agreement is signed by the customer.

2.20. Operating income

Operating income includes all revenue and expenses directly related to Group activities, whether these revenue and expenses are recurring or arise from non-recurring decisions or transactions.

Recurring operating income is an analytical balance intended to facilitate the understanding of the entity's operating performance.

Other non-recurring operating income and expenses consist of items which, by their nature, amount or frequency, could distort the assessment of Group entities' operating performance. Other non-recurring operating income and expenses may include:

- impairment of goodwill and of other intangible assets and property, plant and equipment;
- gains or losses on disposals of non-current assets;
- restructuring costs and costs relating to employee retraining measures.

2.21. Earnings per share

Earnings per share are calculated by dividing net income attributable to owners of the parent by the weighted average number of outstanding shares during the year, after deduction of the weighted average number of treasury shares held by consolidated companies.

Fully diluted earnings per share are calculated by adjusting net income attributable to owners of the parent and the number of outstanding shares for all instruments granting deferred access to the share capital of the Company, whether issued by Kering or by one of its subsidiaries. Dilution is determined separately for each instrument based on the following conditions:

- when the proceeds corresponding to potential future share issues are received at the time dilutive securities are issued (e.g., convertible bonds), the numerator is equal to net income before dilution plus the interest expense that would be saved in the event of conversion, net of tax;
- when the proceeds are received at the time the rights are exercised (e.g., stock subscription options), the dilution attached to the options is determined using the treasury shares method (theoretical number of shares purchased at market price [average over the period] based on the proceeds received at the time the rights are exercised).

In the case of material non-recurring items, earnings per share excluding non-recurring items is calculated by adjusting net income attributable to owners of the parent for non-recurring items net of taxes and non-controlling interests. Non-recurring items taken into account for this calculation correspond to all the items included under "Other non-recurring operating income and expenses" in the income statement.

2.22. Operating segments

In accordance with IFRS 8 – *Operating Segments*, segment information is reported on the same basis as used internally by the Chairman and Chief Executive Officer and the Group Managing Director – the Group's chief operating decision makers – to allocate resources to segments and assess their performance.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker, and for which discrete financial information is available.

Each operating segment is monitored separately for internal reporting purposes, according to performance indicators common to all of the Group's segments.

The segments presented are operating segments or groups of similar operating segments.

note 3 – changes in group structure and other highlights

3.1. Changes in Group structure

Kering Eyewear – A strategic partnership with the Richemont group

On June 1, 2017, Kering announced the close of the partnership deal agreed on March 21 between Kering Eyewear and the Maison Cartier (owned by Compagnie Financière Richemont) to develop the Eyewear category. The strategic rationale behind the partnership is to join forces and grow in scale to create a high-performing platform for the development, manufacture and worldwide distribution of Cartier eyewear.

Under the terms of the agreement, Richemont acquired a minority stake in Kering Eyewear, a specialised company fully dedicated to the eyewear activity of the 12 brands of the Kering group (Gucci, Bottega Veneta, Saint Laurent, Alexander McQueen, Brioni, Christopher Kane, McQ, Stella McCartney, Tomas Maier, Boucheron, Pomellato and PUMA). Kering Eyewear has also integrated the Manufacture Cartier Lunettes entity in Sucy-en-Brie, France.

The Cartier 2018 Spring-Summer collection, which was presented at the Silmo International Optics and Eyewear Exhibition held in Paris between October 6 and 9, 2017, marked the official launch of the partnership.

Manufacture Cartier Lunettes has been consolidated in the Group's financial statements since the second half of 2017.

3.2. Other highlights

Change in management and creative responsibility – Other Luxury brands

On March 17, 2017, Kering announced the appointment of Fabrizio Malverdi as CEO of Brioni. On June 15, 2017, Kering announced the appointment of Nina-Maria Nitsche as Brioni's new Creative Director with responsibility for the House's collections and image.

On August 17, 2017, Kering announced the appointment of Patrick Pruniaux as CEO of Swiss watchmaking house Ulysse Nardin.

Appointment and corporate governance at Kering

On December 4, 2017, Kering announced that Grégory Boutté had been appointed as Chief Client and Digital Officer and a member of the Group's Executive Committee. His responsibilities are to lead the Group's digital transformation and drive the development of e-commerce, CRM and data management.

Bond issue

On March 28, 2017, Kering carried out a €300 million issue of ten-year bonds with a fixed-rate coupon of 1.50%. The bonds were settled and delivered on April 5, 2017.

note 4 – operating segments

The policies applied to determine the operating segments presented are set out in Note 2.22 – Operating segments.

Information provided on operating segments is prepared in accordance with the same accounting rules as used for the consolidated financial statements and set out in the notes thereto.

The performance of each operating segment is measured based on recurring operating income, which is the method used by the Group's chief operating decision maker.

Net recurring charges to depreciation, amortisation and provisions on non-current operating assets reflect net charges to depreciation, amortisation and provisions on intangible assets and property, plant and equipment recognised in recurring operating income.

Purchases of property, plant and equipment and intangible assets correspond to gross non-current asset purchases, including cash timing differences but excluding purchases of assets under finance leases.

Non-current segment assets comprise goodwill, brands and other intangible assets, property, plant and equipment and other non-current assets.

Segment assets comprise non-current segment assets, inventories, trade receivables and other current assets.

Segment liabilities comprise deferred tax liabilities on brands, trade payables and other current liabilities.

4.1. Information by segment

(in € millions)	Gucci	Bottega Veneta
2017		
Revenue [1]	6,211.2	1,176.3
Recurring operating income (loss)	**2,124.1**	**294.0**
Recurring charges to depreciation, amortisation and provisions on non-current operating assets	206.9	43.3
Other non-cash recurring operating income and expenses	(95.9)	(32.0)
Purchases of property, plant and equipment and intangible assets, gross	248.5	51.0
Segment assets at December 31, 2017	**8,790.0**	**859.7**
Segment liabilities at December 31, 2017	**2,307.8**	**241.3**
2016		
Revenue [1]	4,378.3	1,173.4
Recurring operating income (loss)	**1,256.3**	**297.4**
Recurring charges to depreciation, amortisation and provisions on non-current operating assets	168.2	44.3
Other non-cash recurring operating income and expenses	(55.7)	(15.9)
Purchases of property, plant and equipment and intangible assets, gross	184.7	42.8
Segment assets at December 31, 2016	**8,494.8**	**829.0**
Segment liabilities at December 31, 2016	**2,062.0**	**209.9**

(1) Non-Group.

Yves Saint Laurent	Other brands	Luxury activities	PUMA	Other brands	Sport & Lifestyle activities	Corporate and other	Total
1,501.4	1,906.9	**10,795.8**	4,151.7	230.2	**4,381.9**	300.0	**15,477.7**
376.9	**116.0**	**2,911.0**	**243.9**	**0.1**	**244.0**	**(207.0)**	**2,948.0**
45.2	68.9	**364.3**	70.5	5.9	**76.4**	75.7	**516.4**
0.4	(23.3)	**(150.8)**	19.2	(1.9)	**17.3**	127.2	**(6.3)**
73.0	114.4	**486.9**	124.3	6.6	**130.9**	134.2	**752.0**
1,534.9	**2,899.7**	**14,084.3**	**6,360.7**	**307.2**	**6,667.9**	**1,076.9**	**21,829.1**
399.0	**632.4**	**3,580.5**	**1,933.8**	**87.9**	**2,021.7**	**470.0**	**6,072.2**
1,220.2	1,697.5	**8,469.4**	3,642.2	241.5	**3,883.7**	31.8	**12,384.9**
268.5	**113.8**	**1,936.0**	**126.6**	**(3.4)**	**123.2**	**(173.0)**	**1,886.2**
43.7	63.2	**319.4**	60.6	6.2	**66.8**	45.8	**432.0**
(5.0)	(9.2)	**(85.8)**	4.5	(2.0)	**2.5**	105.7	**22.4**
57.8	95.3	**380.6**	84.3	7.7	**92.0**	138.4	**611.0**
1,446.5	**2,978.9**	**13,749.2**	**6,258.9**	**404.0**	**6,662.9**	**985.0**	**21,397.1**
344.8	**625.2**	**3,241.9**	**1,828.8**	**139.3**	**1,968.1**	**356.9**	**5,566.9**

4.2. Information by geographic area

The presentation of revenue by geographic area is based on the geographic location of customers. Non-current segment assets are not broken down by geographic area since these assets largely consist of goodwill and brands, which are analysed based on the revenue generated in each region, and not based on their geographic location.

(in € millions)	2017	2016
Western Europe	5,077.1	3,885.9
North America	3,306.0	2,740.5
Japan	1,291.2	1,226.3
Sub-total – mature markets	**9,674.3**	**7,852.7**
Eastern Europe, Middle East and Africa	1,023.9	814.3
South America	594.7	514.3
Asia Pacific (excluding Japan)	4,184.8	3,203.6
Sub-total – emerging markets	**5,803.4**	**4,532.2**
Revenue	**15,477.7**	**12,384.9**

4.3. Reconciliation of segment assets and liabilities

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Goodwill	3,421.2	3,533.5
Brands and other intangible assets	11,159.0	11,272.7
Property, plant and equipment	2,267.6	2,206.5
Other non-current assets	35.4	30.4
Non-current segment assets	**16,883.2**	**17,043.1**
Inventories	2,699.1	2,432.2
Trade receivables	1,366.5	1,196.4
Other current assets	880.3	725.4
Segment assets	**21,829.1**	**21,397.1**
Investments in equity-accounted companies	48.6	48.3
Non-current financial assets	364.3	480.4
Deferred tax assets	964.6	927.0
Current tax receivables	78.6	105.6
Other current financial assets	155.6	131.0
Cash and cash equivalents	2,136.6	1,049.6
TOTAL ASSETS	**25,577.4**	**24,139.0**

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Deferred tax liabilities on brands	2,625.4	2,739.1
Trade payables	1,240.7	1,098.5
Other current liabilities	2,206.1	1,729.3
Segment liabilities	**6,072.2**	**5,566.9**
Total equity	12,626.4	11,963.9
Non-current borrowings	4,245.5	4,185.8
Other non-current financial liabilities	0.7	19.6
Other non-current liabilities	48.8	-
Non-current provisions for pensions and other post-employment benefits	125.7	142.6
Other non-current provisions	55.5	74.0
Other deferred tax liabilities	86.8	115.4
Current borrowings	939.7	1,234.5
Other current financial liabilities	367.6	285.9
Current provisions for pensions and other post-employment benefits	10.7	8.2
Other current provisions	182.4	143.7
Current tax liabilities	815.4	398.5
TOTAL EQUITY AND LIABILITIES	**25,577.4**	**24,139.0**

note 5 – revenue

(in € millions)	2017	2016
Net sales of goods	15,285.9	12,170.5
Net sales of services	3.6	3.4
Revenue from concessions and licences	145.5	167.1
Other revenue	42.7	43.9
TOTAL	**15,477.7**	**12,384.9**

note 6 – payroll expenses and headcount

6.1. Payroll expenses by activity

Payroll expenses primarily include fixed and variable remuneration, payroll taxes, charges relating to employee profit-sharing and other incentives, training costs, share-based payment expenses (as detailed in Note 7 – Share-based payment) and expenses relating to employee benefits recognised in recurring operating income (as detailed in Note 26 – Employee benefits).

(in € millions)	2017	2016
Luxury activities	(1,570.2)	(1,265.6)
Sport & Lifestyle activities	(591.0)	(532.5)
Corporate and other	(282.4)	(185.6)
TOTAL	**(2,443.6)**	**(1,983.7)**

6.2. Average headcount on a full-time equivalent basis by activity

	2017	2016
Luxury activities	23,423	21,559
Sport & Lifestyle activities	12,144	11,873
Corporate and other	3,029	2,445
TOTAL	**38,596**	**35,877**

6.3. Headcount on the payroll at year-end by activity

	Dec. 31, 2017	Dec. 31, 2016
Luxury activities	26,222	23,302
Sport & Lifestyle activities	14,485	14,065
Corporate and other	3,348	2,685
TOTAL	**44,055**	**40,052**

note 7 – share-based payment

Kering Monetary Units (KMUs)

Since 2013, the Group has granted certain employees Kering Monetary Units (KMUs), which represent synthetic share-based payment plans systematically settled in cash.

The Group recognises its obligation as services are rendered by the beneficiaries, over the period from the grant date to the vesting date:

- the grant date is the date on which the plans were individually approved by the relevant decision-making body (Board of Directors or other) and corresponds to the initial measurement date of the plans;
- as from the grant date, the rights vesting period is the so-called "lock-in" period during which the specified vesting conditions are to be satisfied (service conditions for all beneficiaries, and performance conditions for executive corporate officers);
- the exercise date is the date at which all of the specified vesting conditions have been satisfied, and as of which the beneficiaries are entitled to ask for payment of their rights.

The unit value of the KMUs awarded is determined and changes based on the intrinsic movement in the Kering share and in comparison with the average increase in a basket of nine stocks from the Luxury and Sports industries.

Plans based on Kering Monetary Units	2013 Plan	2014 Plan	2015 Plan	2016 Plan	2017 Plan
Grant date	07/21/2013	04/22/2014	05/22/2015	05/20/2016	05/29/2017
Vesting period	3 years	3 years	3 years	3 years	3 years
Exercise period [(1)]	2 years	2 years	2 years	2 years	2 years
Number of beneficiaries	264	301	316	323	319
Number initially granted	124,126	122,643	114,997	126,974	111,000
Number of existing KMUs as of Jan. 1, 2017	8,824	99,876	101,856	125,792	-
Number awarded in 2017	-	-	-	19,490	111,000
Number forfeited in 2017	362	25,674	9,696	13,492	2,618
Number exercised in 2017	8,462	46,555	-	-	-
Number of existing KMUs as of Dec. 31, 2017	-	27,647	92,160	131,790	108,382
Number exercisable as of Dec. 31, 2017	-	27,647	N/A	N/A	N/A
Fair value at grant date *(in €)*	152.00	144.00	167.00	166.00	249.00
Weighted average price per KMU paid *(in €)*	191.51	266.47	N/A	N/A	N/A

(1) Vested rights may be exercised over a period of two years, during which beneficiaries can opt to cash out some or all of their KMUs in April or October, at their discretion, based on the most recently determined value.

In 2017, the Group recognised a €115.5 million payroll expense within recurring operating income in respect of vested KMUs, a significant increase on the 2016 expense (€23.8 million) owing to the sharp rise in the Kering share over the year. The 2013 and 2014 KMU plans also gave rise to a cash outflow of €19.5 million in 2017 and €10.5 million in 2016.

note 8 – recurring operating income

Recurring operating income and EBITDA are key indicators of the Group's operating performance.

8.1. Recurring operating income by activity

(in € millions)	2017	2016
Luxury activities	2,911.0	1,936.0
Sport & Lifestyle activities	244.0	123.2
Corporate and other	(207.0)	(173.0)
TOTAL	**2,948.0**	**1,886.2**

8.2. Reconciliation of recurring operating income with EBITDA

(in € millions)	2017	2016
Recurring operating income	2,948.0	1,886.2
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets	516.4	432.0
EBITDA	**3,464.4**	**2,318.2**

note 9 – other non-recurring operating income and expenses

(in € millions)	2017	2016
Non-recurring operating expenses	**(285.4)**	**(520.4)**
Asset impairment	(218.9)	(335.4)
Restructuring costs	(28.8)	(57.2)
Capital losses on disposals	–	(6.2)
Other	(37.7)	(121.6)
Non-recurring operating income	**43.7**	**14.4**
Capital gains on disposals	31.2	7.3
Other	12.5	7.1
TOTAL	**(241.7)**	**(506.0)**

Other non-recurring operating income and expenses consist of unusual items that could distort the assessment of each brand's financial performance.

This item represented a net expense of €241.7 million in 2017, significantly lower than the €506.0 million net expense recorded for 2016 and chiefly comprising:

- impairment of a brand and certain items of goodwill within Other Luxury brands (Ulysse Nardin, Sowind, Brioni and Christopher Kane) for €125.4 million, as well as impairment of the Volcom brand for €60.0 million. This had no effect on the Group's cash (see Note 19 – Impairment tests on non-financial assets);
- impairment of assets for €33.5 million, mainly within Luxury activities;
- a net capital gain on a building amounting to €31.2 million;
- costs of restructuring industrial and sales operations, mainly within Luxury activities, for €28.8 million.

In 2016, other non-recurring operating income and expenses mainly included:

- impairment of a brand and certain items of goodwill within Other Luxury brands (Brioni and Ulysse Nardin) for €296.6 million. This did not impact the Group's cash;
- costs of restructuring industrial and sales operations, mainly within the Luxury – Couture & Leather Goods division, for €57.2 million;
- impairment of assets within Luxury activities and Kering's industrial operations for €38.8 million.

Other items mainly related to operating losses of €61.5 million for Kering Eyewear, which continued to ramp up operations in 2016 with the launch of the first Gucci collections in early 2017, in addition to the outcome of disputes arising in prior years. Other items also included a non-recurring expense of €30.0 million in respect of the compensation paid to Safilo. Pursuant to the agreement with Safilo announced on January 12, 2015 and the payment of €90.0 million in compensation – of which the first two instalments were paid in January 2015 and December 2016 – the Group had recognised an intangible asset in an amount of €60.0 million. The remaining balance was considered to be compensation and was recorded in other non-recurring expenses in the 2016 financial statements. In light of the additional cash flows expected by the Group, it confirmed that it would recover this intangible asset which began to be amortised on January 1, 2017.

note 10 – finance costs (net)

(in € millions)	2017	2016
Cost of net debt	**(128.2)**	**(128.3)**
Income from cash and cash equivalents	8.1	8.9
Finance costs at amortised cost	(135.5)	(135.6)
Gains and losses on cash flow hedging derivatives	(0.8)	(1.6)
Other financial income and expenses	**(114.4)**	**(73.5)**
Net gains and losses on available-for-sale financial assets	(6.0)	(0.7)
Foreign exchange gains and losses	(11.1)	(2.8)
Ineffective portion of cash flow and fair value hedges	(76.8)	(62.9)
Gains and losses on derivative instruments not qualifying for hedge accounting (foreign exchange and interest rate hedges)	1.1	0.4
Impact of discounting assets and liabilities	(2.7)	(4.8)
Other finance costs	(18.9)	(2.7)
TOTAL	**(242.6)**	**(201.8)**

note 11 – income taxes

11.1. Analysis of income tax expense in respect of continuing operations

11.1.1. Income tax expense

(in € millions)	2017	2016
Income before tax	**2,463.7**	**1,178.4**
Taxes paid out of operating income	(822.9)	(386.1)
Other taxes payable not impacting operating cash flow	5.2	10.6
Income tax payable	(817.7)	(375.5)
Deferred tax income/(expense)	226.7	79.4
Total tax charge	**(591.0)**	**(296.1)**
Effective tax rate	**24.0%**	**25.1%**

In 2017, Kering's effective tax rate was 24.0%. In 2016, the effective tax rate was 25.1% owing to the higher amount of permanent differences, mainly related to non-recurring expenses (see Note 11.1.3 – Recurring tax rate).

11.1.2. Reconciliation of the tax rate

(as a % of pre-tax income)	2017	2016
Tax rate applicable in France	**34.4%**	**34.4%**
Impact of taxation of foreign subsidiaries	-21.0%	-21.5%
Theoretical tax rate	**13.4%**	**14.3%**
Effect of items taxed at reduced rates	0.0%	0.1%
Effect of permanent differences	0.3%	2.2%
Effect of unrecognised temporary differences	0.3%	-0.2%
Effect of unrecognised tax losses carried forward	0.3%	4.1%
Effect of changes in tax rates	-1.1%	0.9%
Other	10.8%	5.1%
Effective tax rate	**24.0%**	**25.1%**

In 2017, the income tax rate applicable in France was the standard rate of 33.33%, plus a social surtax of 3.3%, bringing the overall rate to 34.43%.

In 2017 and 2016, "Other" relates mainly to the CVAE tax on value-added in France, the IRAP regional production tax in Italy, and tax reassessments.

11.1.3. Recurring tax rate

(in € millions)	2017	2016
Income before tax	2,463.7	1,178.4
Non-recurring items	(241.7)	(506.0)
Recurring income before tax	**2,705.4**	**1,684.4**
Total tax charge	(591.0)	(296.1)
Tax on non-recurring items	31.0	49.2
Recurring tax charge	**(622.0)**	**(345.3)**
Recurring tax rate	**23.0%**	**20.5%**

The increase in the recurring tax rate is partly attributable to business growth in regions or countries with higher average tax rates. It is also the result of overhauling supply chain and logistics structures and processes in order to adapt the brands' business models to new constraints arising from the Group's development of the omnichannel approach as well as from shorter lead times for designing and manufacturing products.

The above-described operational restructuring should lead in the coming years to a gradual increase in the recurring tax rate, which will be partially offset by tax cuts planned for several countries.

The Group is currently analysing the potential impacts of the recent tax reform in the United States and at this stage does not think it likely that the reform will significantly impact the Group's future tax rates. The Group remeasured its deferred tax assets and liabilities in line with the US tax cuts and recognised these remeasurements in its consolidated financial statements for the year ended December 31, 2017.

Lastly, on November 29, 2017, the Italian financial police (*Guardia di Finanza*) searched Gucci's Milan and Florence offices as part of an investigation by Milan's public prosecutor into suspected tax evasion. Gucci has announced that it is cooperating fully with the authorities in the investigation. The related tax risk cannot be measured reliably at this point in the proceedings and therefore no specific provision was recorded in 2017. However, as in previous years, the Group adopted a prudent approach for measuring its tax liabilities.

11.2. Movements in statement of financial position headings

11.2.1. Changes in net current tax liabilities

(in € millions)	Dec. 31, 2016	Net income	Cash outflows relating to operating activities	Cash outflows relating to investing activities	Other [1]	Dec. 31, 2017
Current tax receivables	105.6					78.6
Current tax liabilities	(398.5)					(815.4)
Net current tax liabilities	**(292.9)**	**(822.9)**	**364.9**	**0.1**	**14.0**	**(736.8)**

(1) "Other" includes changes in Group structure and exchange rates, and reclassifications of statement of financial position items.

The income statement impact is described in Note 11.1.1 – Income tax expense.

11.2.2. Changes in deferred tax assets and liabilities

(in € millions)	Dec. 31, 2016	Net income	Other [1]	Other items recognised in equity	Dec. 31, 2017
Intangible assets	(2,742.6)	111.3	30.6		(2,600.7)
Property, plant and equipment	52.9	(8.2)	(14.5)		30.2
Other non-current assets	52.5	2.5	3.3		58.3
Other current assets	402.5	95.7	(30.6)		467.6
Equity	(0.4)				(0.4)
Borrowings	0.9	(12.0)	(1.2)		(12.3)
Provisions for pensions and other post-employment benefits	67.0	39.6	0.9	(2.5)	105.0
Other provisions	6.8	19.0	(16.7)		9.1
Other current liabilities	101.7	5.2	5.1	(4.2)	107.8
Recognised tax losses and tax credits	131.2	(26.4)	(17.0)		87.8
Net deferred tax assets (liabilities)	**(1,927.5)**	**226.7**	**(40.1)**	**(6.7)**	**(1,747.6)**
Deferred tax assets	927.0				964.6
Deferred tax liabilities	(2,854.5)				(2,712.2)
Deferred tax	**(1,927.5)**	**226.7**	**(40.1)**	**(6.7)**	**(1,747.6)**

(1) "Other" includes changes in Group structure and exchange rates, and reclassifications of different types of deferred tax items.

The income statement impact is described in Note 11.1.1 – Income tax expense.

11.3. Unrecognised deferred tax assets

Changes in and maturities of tax losses and tax credits for which no deferred tax assets were recognised in the statement of financial position can be analysed as follows:

(in € millions)	
As of January 1, 2016	**2,274.7**
Losses generated during the year	105.3
Losses utilised and time barred during the year	(159.7)
Effect of changes in Group structure and exchange rates	20.6
As of December 31, 2016	**2,240.9**
Losses generated during the year	497.0
Losses utilised and time barred during the year	(78.7)
Effect of changes in Group structure and exchange rates	(148.1)
As of December 31, 2017	**2,511.1**

Ordinary tax loss carry-forwards expiring in	**505.1**
Less than five years	362.0
More than five years	143.1
Indefinite tax loss carry-forwards	**2,006.0**
TOTAL	**2,511.1**

There were no unrecognised deferred taxes in respect of temporary differences relating to investments in subsidiaries, associates and joint ventures.

note 12 – discontinued operations

For all periods presented, discontinued operations include the residual expenses and costs related to vendor warranties granted by the Group upon the sale of its distribution businesses (Conforama, Fnac and Redcats) and Sergio Rossi.

Net loss from discontinued operations is shown on a separate line of the income statement and is restated in the statement of cash flows. Assets and liabilities relating to discontinued operations are not shown on separate lines of the statement of financial position.

12.1. Impact of discontinued operations in the income statement

(in € millions)	2017	2016
Net loss from discontinued operations	**(5.6)**	**(11.6)**
o/w attributable to owners of the parent	(5.6)	(11.6)
o/w attributable to non-controlling interests	-	-

In 2017 and 2016, the net loss reported by the Group in respect of discontinued operations concerns the revision and enforcement of certain vendor warranties relating to disposals in prior periods.

12.2. Impact of discontinued operations in the statement of cash flows

(in € millions)	2017	2016
Net cash used in operating activities	(6.3)	(17.7)
Net cash from (used in) investing activities	-	-
Net cash from (used in) financing activities	-	-
Net cash used in discontinued operations	**(6.3)**	**(17.7)**

note 13 – earnings per share

Basic earnings per share are calculated on the basis of the weighted average number of shares outstanding, after deduction of the weighted average number of shares held by consolidated companies.

Fully diluted earnings per share are based on the weighted average number of shares as defined above, plus the weighted average number of potentially dilutive ordinary shares, which may be granted to employees as part of equity-settled share-based payment plans (see Note 7 – Share-based payment). Earnings are adjusted for the theoretical interest charge, net of tax, on convertible and exchangeable instruments.

13.1. Earnings per share

2017

(in € millions)	Consolidated Group	Continuing operations	Discontinued operations
Net income (loss) attributable to ordinary shareholders	**1,785.6**	**1,791.2**	**(5.6)**
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226	126,332,226
Weighted average number of treasury shares	(332,715)	(332,715)	(332,715)
Weighted average number of ordinary shares	**125,999,511**	**125,999,511**	**125,999,511**
Basic earnings (loss) per share *(in €)*	**14.17**	**14.22**	**(0.05)**
Net income (loss) attributable to ordinary shareholders	**1,785.6**	**1,791.2**	**(5.6)**
Convertible and exchangeable instruments			
Diluted net income (loss) attributable to owners of the parent	**1,785.6**	**1,791.2**	**(5.6)**
Weighted average number of ordinary shares	125,999,511	125,999,511	125,999,511
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	**125,999,511**	**125,999,511**	**125,999,511**
Fully diluted earnings (loss) per share *(in €)*	**14.17**	**14.22**	**(0.05)**

2016

(in € millions)	Consolidated Group	Continuing operations	Discontinued operations
Net income (loss) attributable to ordinary shareholders	**813.5**	**825.1**	**(11.6)**
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226	126,332,226
Weighted average number of treasury shares	(332,032)	(332,032)	(332,032)
Weighted average number of ordinary shares	**126,000,194**	**126,000,194**	**126,000,194**
Basic earnings (loss) per share *(in €)*	**6.46**	**6.55**	**(0.09)**
Net income (loss) attributable to ordinary shareholders	**813.5**	**825.1**	**(11.6)**
Convertible and exchangeable instruments			
Diluted net income (loss) attributable to owners of the parent	**813.5**	**825.1**	**(11.6)**
Weighted average number of ordinary shares	126,000,194	126,000,194	126,000,194
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	**126,000,194**	**126,000,194**	**126,000,194**
Fully diluted earnings (loss) per share *(in €)*	**6.46**	**6.55**	**(0.09)**

13.2. Earnings per share from continuing operations excluding non-recurring items

Non-recurring items presented below consist of the income statement line “Other non-recurring operating income and expenses” (see Note 9 – Other non-recurring operating income and expenses), reported net of tax and non-controlling interests.

(in € millions)	2017	2016
Net income attributable to ordinary shareholders	**1,791.2**	**825.1**
Other non-recurring operating income and expenses	(241.7)	(506.0)
Income tax on other non-recurring operating income and expenses	31.0	49.2
Net income excluding non-recurring items	**2,001.9**	**1,281.9**
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226
Weighted average number of treasury shares	(332,715)	(332,032)
Weighted average number of ordinary shares	**125,999,511**	**126,000,194**
Basic earnings per share excluding non-recurring items *(in €)*	**15.89**	**10.17**
Net income excluding non-recurring items	**2,001.9**	**1,281.9**
Convertible and exchangeable instruments		
Diluted net income attributable to owners of the parent	**2,001.9**	**1,281.9**
Weighted average number of ordinary shares	125,999,511	126,000,194
Potentially dilutive ordinary shares	–	-
Weighted average number of diluted ordinary shares	**125,999,511**	**126,000,194**
Fully diluted earnings per share *(in €)*	**15.89**	**10.17**

note 14 – other comprehensive income

The main components of other comprehensive income are:

- gains and losses arising from translating the financial statements of foreign operations;
- the effective portion of gains and losses on cash flow hedging instruments;
- gains and losses on remeasuring available-for-sale financial assets and other financial instruments;
- components relating to the measurement of employee benefit obligations: unrecognised surplus of pension plan assets and actuarial gains and losses on defined benefit plans.

(in € millions)	Gross	Income tax	Net
Foreign exchange gains and losses	(249.5)		(249.5)
Cash flow hedges	49.4	(4.2)	45.2
– change in fair value	*21.8*		
– gains and losses reclassified to income	*27.6*		
Available-for-sale financial assets	3.9		3.9
– change in fair value	*3.9*		
– gains and losses reclassified to income			
Actuarial gains and losses	22.6	(2.5)	20.1
Other comprehensive income (loss) for 2017	**(173.6)**	**(6.7)**	**(180.3)**

(in € millions)	Gross	Income tax	Net
Foreign exchange gains and losses	29.3		29.3
Cash flow hedges	26.7	4.8	31.5
– change in fair value	*37.8*		
– gains and losses reclassified to income	*(11.1)*		
Available-for-sale financial assets	5.6	(0.7)	4.9
– change in fair value	*5.6*		
– gains and losses reclassified to income			
Actuarial gains and losses	(5.2)	2.0	(3.2)
Other comprehensive income for 2016	**56.4**	**6.1**	**62.5**

A negative amount on the “Gains and losses reclassified to income” line item corresponds to a gain recognised in the income statement.

Gains and losses on cash flow hedging instruments reclassified to income are recognised under gross margin.

Gains and losses on available-for-sale financial assets reclassified to income are recognised under net finance costs.

note 15 – non-controlling interests

15.1. Net income attributable to non-controlling interests

(in € millions)	2017	2016
Luxury activities	28.2	28.5
Sport & Lifestyle activities	53.3	34.9
Corporate and other	(2.0)	(8.4)
TOTAL	**79.5**	**55.0**

15.2. Non-controlling interests in equity

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Luxury activities	129.8	161.9
Sport & Lifestyle activities	523.4	532.8
Corporate and other	25.0	(0.5)
TOTAL	**678.2**	**694.2**

note 16 – goodwill

16.1. Changes in goodwill

(in € millions)	Gross	Impairment losses	Net
Goodwill as of January 1, 2016	**4,464.7**	**(705.9)**	**3,758.8**
Acquisitions	8.0		8.0
Disposals	(5.3)	5.3	–
Impairment losses		(235.9)	(235.9)
Impact of put options granted to non-controlling shareholders	2.0	–	2.0
Translation adjustments	10.5	(9.6)	0.9
Other movements	0.1	(0.4)	(0.3)
Goodwill as of December 31, 2016	**4,480.0**	**(946.5)**	**3,533.5**
Disposals	(10.5)		(10.5)
Impairment losses		(85.4)	(85.4)
Impact of put options granted to non-controlling shareholders	3.5		3.5
Translation adjustments	(65.8)	45.5	(20.3)
Other movements	0.7	(0.3)	0.4
Goodwill as of December 31, 2017	**4,407.9**	**(986.7)**	**3,421.2**

The Group did not carry out any material acquisitions in 2017 or 2016. Note 19.3 – Impairment losses recognised during the period, provides details of goodwill impairment recognised in 2017 and 2016.

16.2. Goodwill by activity

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Luxury activities	2,439.3	2,551.1
Sport & Lifestyle activities	977.2	977.7
Corporate and other	4.7	4.7
TOTAL	**3,421.2**	**3,533.5**

note 17 – brands and other intangible assets

17.1. Changes in brands and other intangible assets

(in € millions)	Brands	Internally generated intangible assets	Other intangible assets	Total
Carrying amount as of January 1, 2017	**10,807.1**	**23.9**	**441.7**	**11,272.7**
Acquisitions		39.3	153.0	192.3
Disposals			(5.5)	(5.5)
Amortisation			(114.2)	(114.2)
Impairment losses	(100.2)			(100.2)
Translation adjustments	(81.1)		(10.5)	(91.6)
Other movements	0.2		5.3	5.5
Carrying amount as of December 31, 2017	**10,626.0**	**63.2**	**469.8**	**11,159.0**
Gross value as of December 31, 2017	10,798.9	63.2	1,098.8	11,960.9
Accumulated amortisation and impairment as of December 31, 2017	(172.9)		(629.0)	(801.9)

(in € millions)	Brands	Internally generated intangible assets	Other intangible assets	Total
Carrying amount as of January 1, 2016	**10,850.5**		**435.0**	**11,285.5**
Changes in Group structure			5.4	5.4
Acquisitions		23.9	107.2	131.1
Disposals			(2.8)	(2.8)
Amortisation			(98.2)	(98.2)
Impairment losses	(60.7)		(3.0)	(63.7)
Translation adjustments	17.4		(0.8)	16.6
Other movements	(0.1)		(1.1)	(1.2)
Carrying amount as of December 31, 2016	**10,807.1**	**23.9**	**441.7**	**11,272.7**
Gross value as of December 31, 2016	10,890.4	23.9	1,057.3	11,971.6
Accumulated amortisation and impairment as of December 31, 2016	(83.3)		(615.6)	(698.9)

Note 19.3 – Impairment losses recognised during the period, provides details of goodwill impairment recognised in 2017 and 2016.

17.2. Brands by activity

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Luxury activities	6,812.9	6,886.6
Sport & Lifestyle activities	3,813.1	3,920.5
TOTAL	**10,626.0**	**10,807.1**

note 18 – property, plant and equipment

(in € millions)	Land and buildings	Plant and equipment	Other PP&E	Total
Carrying amount as of January 1, 2017	**784.2**	**1,224.1**	**198.2**	**2,206.5**
Changes in Group structure	(1.2)	9.3	0.2	8.3
Acquisitions	25.0	374.3	177.4	576.7
Disposals	(47.5)	(3.9)	(0.5)	(51.9)
Depreciation	(28.2)	(364.5)	(23.2)	(415.9)
Translation adjustments	(35.2)	(79.3)	(12.2)	(126.7)
Other movements	74.4	45.0	(48.8)	70.6
Carrying amount as of December 31, 2017	**771.5**	**1,205.0**	**291.1**	**2,267.6**
o/w gross value	1,020.8	2,999.0	415.0	4,434.8
o/w depreciation and impairment	(249.3)	(1,794.0)	(123.9)	(2,167.2)
Carrying amount as of December 31, 2017	**771.5**	**1,205.0**	**291.1**	**2,267.6**
o/w assets owned outright	699.8	1,205.9	291.1	2,196.8
o/w assets held under finance leases	71.7	(0.9)	-	70.8

(in € millions)	Land and buildings	Plant and equipment	Other PP&E	Total
Carrying amount as of January 1, 2016	**757.1**	**1,067.5**	**248.4**	**2,073.0**
Changes in Group structure	-	(1.8)	(4.0)	(5.8)
Acquisitions	43.2	296.5	141.2	480.9
Disposals	(1.1)	(3.6)	(0.7)	(5.4)
Depreciation	(27.2)	(319.9)	(20.6)	(367.7)
Translation adjustments	8.6	9.4	1.6	19.6
Other movements	3.6	176.0	(167.7)	11.9
Carrying amount as of December 31, 2016	**784.2**	**1,224.1**	**198.2**	**2,206.5**
o/w gross value	1,029.4	2,934.5	325.0	4,288.9
o/w depreciation and impairment	(245.2)	(1,710.4)	(126.8)	(2,082.4)
Carrying amount as of December 31, 2016	**784.2**	**1,224.1**	**198.2**	**2,206.5**
o/w assets owned outright	704.0	1,223.8	198.2	2,126.0
o/w assets held under finance leases	80.2	0.3	-	80.5

Charges to depreciation are recognised under "Cost of sales" and "Other recurring operating income and expenses" in the income statement.

note 19 – impairment tests on non-financial assets

The principles governing the impairment of non-financial assets are set out in Note 2.10 – Asset impairment.

The main items of goodwill, brands and other intangible assets are broken down by activity in Note 16 – Goodwill, and Note 17 – Brands and other intangible assets.

19.1. Assumptions underlying impairment tests

The pre-tax discount and perpetual growth rates applied to expected cash flows in light of the economic assumptions and forecast operating conditions retained by the Group are as follows:

	Discount rate		Perpetual growth rate	
	2017	2016	2017	2016
Luxury activities	7.3%-11.7%	7.6%-11.6%	3.0%	3.0%
Sport & Lifestyle activities	12.2%- 13.2%	10.1%-11.9%	2.25%	2.25%

The growth rates are appropriate in view of the country mix (the Group now operates in regions whose markets are enjoying faster-paced growth than in Europe), the rise in the cost of raw materials and inflation.

As discussed in Note 2.10 – Asset impairment, the business plans for certain CGUs are drawn up over longer periods of ten years. The CGUs currently being repositioned are Boucheron, Brioni, Christopher Kane, Pomellato, Sowind, Qeelin, Ulysse Nardin and Volcom.

19.2. Impairment tests on major items

In the case of the Gucci CGU, whose goodwill accounts for a significant portion of the goodwill of Luxury activities, the CGU's recoverable amount was determined on the basis of its value in use. Value in use is determined with respect to projected future cash flows, taking into account the time value of money and specific risks associated with the CGU. Future cash flow projections were prepared during the second half of the year on the basis of budgets and medium-term plans with a four-year timescale. To calculate value in use, a terminal value equal to the perpetual capitalisation of a normative annual cash flow is added to the estimated future cash flows.

The growth rate used to extrapolate projected cash flows to perpetuity is 3.0%.

The pre-tax discount rate applied to projected cash flows is 8.3%.

In the case of the Gucci brand, which is the highest-valued Luxury activities brand, its value based on future royalty revenue receivable (where it is assumed that the brand will be operated under licence by a third party) was calculated using a royalty rate of 15.0%, a 3.0% perpetual growth rate and an 8.1% pre-tax discount rate.

In the case of the PUMA CGU, the CGU's recoverable amount was determined on the basis of its value in use. Value in use is determined with respect to projected future cash flows, taking into account the time value of money and specific risks associated with the CGU. Future cash flow projections were prepared during the second half of the year on the basis of budgets and medium-term plans with a four-year timescale. To calculate value in use, a terminal value equal to the perpetual capitalisation of a normative annual cash flow is added to the estimated future cash flows.

The growth rate used to extrapolate projected cash flows to perpetuity is 2.25%.

The pre-tax discount rate applied to projected cash flows is 12.5%.

For information purposes, PUMA's market capitalisation was €5.5 billion as of December 31, 2017. This valuation does not, however, take into account the limited free float and resulting lack of liquidity of PUMA shares. As of December 31, 2017, Kering held an 86.25% controlling interest in PUMA.

In the case of the PUMA brand, which is the most important Sport & Lifestyle activities brand, its value based on future royalty revenue receivable (where it is assumed that the brand will be operated under licence by a third party) was calculated using a royalty rate of 8.0%, a 2.25% perpetual growth rate and a 12.2% pre-tax discount rate.

Sensitivity to changes in key assumptions is shown below:

(in € millions)		Impairment loss due to:		
	Value of net assets concerned	10 basis point increase in post-tax discount rate	10 basis point decrease in perpetual growth rate	10 basis point decrease in normative cash flows
Luxury activities	10,983	(11)	(7)	-
Sport & Lifestyle activities	4,805	-	-	-
Gucci brand	4,800	-	-	N/A
PUMA brand	3,500	-	-	N/A

The Other Luxury brands CGU is sensitive to a rise of 0.1 point in the post-tax discount rate and to a decrease of 0.1 point in the perpetual growth rate.

19.3. Impairment losses recognised during the period

Based on the impairment tests carried out by the Group in 2017, an impairment loss amounting to €125.4 million was recognised against a brand and certain items of goodwill within Luxury activities.

Despite improved performances from the Group's watchmaking brands, the write-down was taken against Ulysse Nardin and Sowind to reflect the growth outlook for the Watches segment. Ongoing restructuring at Brioni also had a short-term impact on revenue and margins, which led to the recognition of a further impairment loss.

In Sport & Lifestyle activities, the Group recognised a €60.0 million impairment loss against the Volcom brand.

Asset impairment tests carried out in 2016 had already led the Group to recognise an impairment loss against Brioni and Ulysse Nardin goodwill (€235.9 million) and against the Ulysse Nardin brand (€60.7 million).

This expense is recognised in the income statement under "Other non-recurring operating income and expenses" (see Note 9 – Other non-recurring operating income and expenses).

Based on events foreseeable within reason at the date of this report, the Group considers that any changes impacting the key assumptions described above would not lead to the recognition of material impairment loss against other CGUs.

note 20 – investments in equity-accounted companies

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Investments in equity-accounted companies	48.6	48.3

As of December 31, 2017, investments in equity-accounted companies mainly comprised shares in Wilderness, Tomas Maier, Altuzarra, WG Alligator Farm and Wall's Gator Farm.

The market value of the Group's interest in Wilderness amounts to €28.5 million.

note 21 – non-current financial assets

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Non-consolidated investments	84.1	140.7
Derivative financial instruments	0.7	-
Available-for-sale financial assets	30.0	26.3
Loans and receivables due from non-consolidated investments	10.8	48.9
Deposits and guarantees	171.9	167.9
Other	66.8	96.6
TOTAL	**364.3**	**480.4**

note 22 – inventories

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Commercial inventories	3,269.4	2,811.5
Industrial inventories	585.1	562.8
Gross amount	**3,854.5**	**3,374.3**
Allowances	(1,155.4)	(942.1)
Carrying amount	**2,699.1**	**2,432.2**

Movements in allowances	2017	2016
As of January 1	**(942.1)**	**(777.5)**
Additions	(388.4)	(277.0)
Reversals	124.2	127.4
Changes in Group structure	(0.5)	4.2
Translation adjustments	51.4	(8.3)
Other movements	–	(10.9)
As of December 31	**(1,155.4)**	**(942.1)**

No inventories were pledged to secure liabilities as of December 31, 2017 or December 31, 2016.

Changes in gross inventories recognised during the period under "Cost of sales" represented an increase of €678.3 million (increase of €334.7 million in 2016).

note 23 – trade receivables

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Trade receivables	1,442.9	1,278.7
Allowances	(76.4)	(82.3)
Carrying amount	**1,366.5**	**1,196.4**

Movements in allowances	2017	2016
As of January 1	**(82.3)**	**(74.1)**
Net (additions)/reversals	1.9	(3.7)
Changes in Group structure	–	3.6
Translation adjustments	4.0	(0.9)
Other movements	–	(7.2)
As of December 31	**(76.4)**	**(82.3)**

Provisions are calculated on the basis of the probability of recovering the receivables concerned. Trade receivables break down by age as follows:

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Not past due	1,183.5	976.1
Less than one month past due	142.6	183.6
One to six months past due	59.8	59.4
More than six months past due	57.0	59.6
Allowance for doubtful receivables	(76.4)	(82.3)
Carrying amount	**1,366.5**	**1,196.4**

No trade receivables were pledged to secure liabilities during the periods presented.

Given the nature of its activities, the Group's exposure to customer default would not have a material impact on its business, financial position or net assets.

note 24 – other current assets and liabilities

(in € millions)	Dec. 31, 2016	Working capital cash flows	Other cash flows	Changes in Group structure	Translation adjustments and other	Dec. 31, 2017
Inventories	2,432.2	401.5		10.7	(145.3)	2,699.1
Trade receivables	1,196.4	246.5		2.1	(78.5)	1,366.5
Other financial assets and liabilities	(154.9)		(71.4)		14.3	(212.0)
Current tax receivables/payables	(292.9)		(457.9)	(0.4)	14.4	(736.8)
Trade payables	(1,098.5)	(153.9)		(3.9)	15.6	(1,240.7)
Other	(1,003.9)	(361.5)	(28.4)	20.0	48.0	(1,325.8)
Other current assets and liabilities	**1,078.4**	**132.6**	**(557.7)**	**28.5**	**(131.5)**	**550.3**

note 25 – equity

As of December 31, 2017, share capital amounted to €505,117,288, comprising 126,279,322 fully paid-up shares with a par value of €4 each (unchanged from December 31, 2016).

25.1. Kering treasury shares and options on Kering shares

In 2017, the Group purchased 337,791 shares and sold 337,791 shares under the liquidity agreement. Accordingly, it held no treasury shares as of December 31, 2017 or December 31, 2016.

The liquidity agreement was entered into with a financial broker on May 26, 2004 in order to improve the liquidity of the Group's shares and ensure share price stability. It complies with the Professional Code of Conduct drawn up by the French Association of Financial and Investment Firms (*Association française des marchés financiers* – AMAFI) and approved by the French financial markets authority (*Autorité des marchés financiers* – AMF). The agreement was initially endowed with €40.0 million, half of which was provided in cash and half in Kering shares. An additional €20.0 million in cash was allocated to the agreement on September 3, 2004, and a further €30.0 million on December 18, 2007. Since the amendment dated December 15, 2016, Kering has maintained a credit balance of €5.0 million in the liquidity account with the broker.

No stock subscription options were exercised during 2017.

25.2. Appropriation of 2017 net income

25.2.1. Payment of a cash dividend

At its February 12, 2018 meeting, Kering's Board of Directors decided to ask shareholders to approve a €6.00 per share cash dividend for 2017 at the Annual General Meeting to be held on April 26, 2018 to approve the financial statements for the year ended December 31, 2017.

An interim cash dividend of €2.00 per share was paid on January 17, 2018 pursuant to a decision by the Board of Directors on December 14, 2017.

The total cash dividend payout in 2018 would thus amount to €757.7 million.

The cash dividend paid for 2016 amounted to €4.60 per share, representing a total payout of €580.9 million (no dividends are paid on treasury shares).

25.2.2. Payment of an exceptional dividend in the form of PUMA shares

At its January 11, 2018 meeting, Kering's Board of Directors decided to also ask shareholders at the Annual General Meeting of April 26, 2018 to approve the payment of a stock dividend in the form of PUMA SE ("PUMA") shares representing 70.40% of PUMA's shares outstanding, out of the 86.25% owned by the Group as of December 31, 2017. Upon completion of this operation, Kering would retain 2,368,558 PUMA shares, or 15.85% of its svhares outstanding and voting rights. If this stock dividend is approved, the ex-dividend date will be May 14, 2018 before market and the payment date will be May 16, 2018.

The main financial impacts of this exceptional dividend payment on the Group's financial statements are described in Note 38 – Subsequent events.

note 26 – employee benefits

26.1. Description of the main pension plans and other post-employment benefits

In accordance with the laws and practices in each country, Group employees receive long-term or post-employment benefits in addition to their short-term remuneration. These additional benefits take the form of defined contribution or defined benefit plans.

Under defined contribution plans, the Group is not obliged to make any additional payments beyond contributions already made. Contributions to these plans are expensed as incurred.

An actuarial valuation of defined benefit plans is carried out by independent experts. These benefits primarily concern mandatory supplementary pension plans (LPP) in Switzerland, a supplementary pension plan in the United Kingdom, statutory dismissal compensation (TFR) in Italy, and retirement termination payments and long-service bonuses in France.

- **Mandatory supplementary pension plans (LPP) – Switzerland**

In Switzerland, pension plans are defined contribution plans which guarantee a minimum yield and provide for a fixed salary conversion rate on retirement. However, the pension plans operated by the Group's entities in Switzerland offer benefits over and above those stipulated in the LPP/BVG pension law. Consequently, a provision is booked in respect of defined benefit plans for the amounts that exceed LPP/BVG pension law requirements.

These pension plans are generally operated as separate legal entities in the form of a foundation, which may be a collective institution or affiliated to a specific plan. The Board of Trustees of these foundations, comprising an equal number of employer and employee representatives, is responsible for administering the plan and bears the investment and longevity risks. Collective foundations insure some of their risk with an insurance company.

- **Final salary type supplementary pension plans – United Kingdom**

In the United Kingdom, the Group operates two pension plans: a standard defined contribution plan along with a defined benefit plan which was closed to new entrants in 2006.

The defined benefit plan is subject to the minimum funding requirement introduced in the United Kingdom by the Pensions Act 2004. The value of the plan is assessed at least once every three years to determine if the minimum funding requirement is satisfied.

This plan is managed by a Board of Trustees appointed by plan participants. The Board is responsible for obtaining plan valuations, fixing the desired funding threshold and the contributions payable by the Company, managing benefit payments, investing plan assets and determining investment strategy after consulting with the Company.

- **Statutory dismissal compensation (TFR) in Italy**

The TFR (*Trattamento di Fine Rapporto*) plans in Italy were created by Act no. 297 adopted on May 29, 1982 and are applicable to all workers in the private sector on termination of employment for whatever reason (resignation, termination at the employer's initiative, death, incapacity, retirement).

Since 2007, companies with at least 50 employees have had to transfer their TFR funding to an external fund manager. This concerns the large majority of plans operated by Kering group companies.

- **Retirement termination benefits and long-service bonuses – France**

In France, retirement termination benefits are fixed and paid by the company to the employee on retirement. The amount paid depends on the years of service on retirement and is defined in the collective bargaining agreement. The payments do not confer any vested entitlement to employees until they reach retirement age. Retirement termination benefits are not related to other statutory retirement benefits such as pensions paid by social security bodies or top-up pension funds such as ARRCO and AGIRC in France, which are defined contribution plans.

Long-service bonuses are not compulsory in France (there is no legal obligation to pay such awards to employees), but hold a symbolic value. Nevertheless, some of Kering's French entities choose to pay long-service bonuses after 20, 30, 35 and 40 years of service.

26.2. Changes in provisions for pensions and other post-employment benefits

(in € millions)	2017						
	Present value of obligation	Fair value of plan assets	Financial position	Change	Provision	Other comprehensive income	Expense recognised
As of January 1	**304.9**	**154.1**	**150.8**		**150.8**	**76.3**	
Current service cost	17.5		17.5		17.5		(17.5)
Curtailments and settlements	0.1		0.1		0.1		
Interest cost	2.9		2.9		2.9		(2.9)
Interest income on plan assets		1.5	(1.5)		(1.5)		1.5
Past service cost	(0.1)		(0.1)		(0.1)		0.1
Actuarial gains and losses	(18.0)	4.6	(22.6)		(22.6)	(22.6)	
Impact of changes in demographic assumptions	*0.2*		*0.2*		*0.2*	*0.2*	
Impact of changes in financial assumptions	*(12.6)*		*(12.6)*		*(12.6)*	*(12.6)*	
Impact of experience adjustments	*(5.6)*		*(5.6)*		*(5.6)*	*(5.6)*	
Return on plan assets (excluding interest income)		*4.6*	*(4.6)*		*(4.6)*	*(4.6)*	
Benefits paid	(14.1)	(8.9)	(5.2)		(5.2)		
Contributions paid by beneficiaries	5.1	5.1					
Contributions paid by employer		8.3	(8.3)		(8.3)		
Changes in Group structure	6.9	2.2	4.7		4.7		
Insurance contract	(1.1)	(1.1)					
Administrative expense		(0.5)	0.5		0.5		(0.5)
Translation adjustments	(12.1)	(9.7)	(2.4)		(2.4)		
As of December 31	**292.0**	**155.6**	**136.4**		**136.4**	**53.7**	**(19.3)**
o/w continuing operations					*136.4*		*(19.3)*
o/w discontinued operations							

As of December 31, 2017, the present value of the benefit obligation amounted to €292.0 million, (€304.9 million as of December 31, 2016), breaking down as:

- €64.3 million in respect of wholly unfunded plans (€59.6 million as of end-2016);
- €227.7 million in respect of fully or partially funded plans (€245.3 million as of end-2016).

(in € millions)	2016						
	Present value of obligation	Fair value of plan assets	Financial position	Change	Provision	Other comprehensive income	Expense recognised
As of January 1	**282.5**	**140.2**	**142.3**		**142.3**	**71.1**	
Current service cost	16.7		16.7		16.7		(16.7)
Curtailments and settlements	(4.0)	(3.4)	(0.6)		(0.6)		
Interest cost	4.3		4.3		4.3		(4.3)
Interest income on plan assets		2.3	(2.3)		(2.3)		2.3
Past service cost	(2.6)		(2.6)		(2.6)		2.6
Actuarial gains and losses	18.7	13.5	5.2		5.2	5.2	
Impact of changes in demographic assumptions	*(9.1)*		*(9.1)*		*(9.1)*	*(9.1)*	
Impact of changes in financial assumptions	*30.0*		*30.0*		*30.0*	*30.0*	
Impact of experience adjustments	*(2.2)*		*(2.2)*		*(2.2)*	*(2.2)*	
Return on plan assets (excluding interest income)		*13.5*	*(13.5)*		*(13.5)*	*(13.5)*	
Benefits paid	(8.0)	(4.1)	(3.9)		(3.9)		
Contributions paid by beneficiaries	5.4	5.4					
Contributions paid by employer		7.2	(7.2)		(7.2)		
Changes in Group structure	(0.5)	(0.2)	(0.3)		(0.3)		
Insurance contract	(1.3)	(1.3)					
Administrative expense		(0.6)	0.6		0.6		(0.6)
Translation adjustments	(6.3)	(4.9)	(1.4)		(1.4)		
As of December 31	**304.9**	**154.1**	**150.8**		**150.8**	**76.3**	**(16.7)**
o/w continuing operations					*150.8*		*(16.7)*
o/w discontinued operations							

26.3. Breakdown of the present value of the benefit obligation by country

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Supplementary pension plans (LPP) – Switzerland	152.2	171.3
Supplementary pension plans – United Kingdom	41.5	41.6
Statutory dismissal compensation (TFR) – Italy	31.8	34.7
Retirement termination benefits – France	23.3	21.8
Other	43.2	35.5
Present value of benefit obligations as of December 31	**292.0**	**304.9**

26.4. Contributions payable in 2018 by country

(in € millions)	Total	Switzerland	Italy	France	Other
Contributions for 2018	6.8	5.2	-	-	1.6

26.5. Fair value of plan assets by type of financial instrument

(in € millions)	Dec. 31, 2017	%	Dec. 31, 2016	%
Debt instruments	40.7	26.2%	52.4	34.0%
Equity instruments	27.1	17.4%	27.9	18.1%
Real estate	21.7	13.9%	22.3	14.5%
Investment funds	18.5	11.9%	17.2	11.1%
Insurance contracts	17.2	11.1%	15.5	10.0%
Derivatives	15.6	10.0%	8.4	5.4%
Cash and cash equivalents	3.1	2.0%	3.1	2.0%
Other assets	11.7	7.5%	7.3	4.9%
Fair value of plan assets as of December 31	**155.6**		**154.1**	

26.6. Actuarial assumptions

	France		Switzerland		Italy		United Kingdom	
	2017	2016	2017	2016	2017	2016	2017	2016
Average maturity of plans	13.8	10.3	17.4	16.3	12.8	12.5	24.6	24.2
Discount rate	1.75%	1.25%	0.70%	0.35%	1.75%	1.25%	2.60%	2.80%
Expected rate of increase in salaries	3.17%	3.18%	1.14%	1.07%	3.00%	3.00%	1.00%	1.00%
Inflation rate	1.75%	1.75%	0.70%	0.60%	1.75%	1.75%	2.40%	2.50%

Based on the sensitivity tests of actuarial assumptions, the impact of a 50 basis-point increase or decrease in the discount rate would not be material and would represent less than 0.2% of consolidated equity.

note 27 – provisions

(in € millions)	Dec. 31, 2016	Charge	Reversal (utilised provision)	Reversal (surplus provision)	Translation adjustments	Other	Dec. 31, 2017
Provision for restructuring costs	9.5	0.6	(6.6)	-	(0.6)	(2.9)	-
Provision for claims and litigation	11.2	3.3	(4.9)	(0.1)	(0.1)	(0.5)	8.9
Other provisions	53.3	5.0	(0.7)	-	(3.7)	(7.3)	46.6
Other non-current provisions	**74.0**	**8.9**	**(12.2)**	**(0.1)**	**(4.4)**	**(10.7)**	**55.5**
Provision for restructuring costs	24.1	11.0	(12.6)	(3.8)	(0.6)	3.4	21.5
Provision for claims and litigation	34.4	42.8	(7.1)	(1.9)	(0.4)	(12.9)	54.9
Other provisions	85.2	27.7	(15.3)	(2.9)	(0.3)	11.6	106.0
Other current provisions	**143.7**	**81.5**	**(35.0)**	**(8.6)**	**(1.3)**	**2.1**	**182.4**
TOTAL	**217.7**	**90.4**	**(47.2)**	**(8.7)**	**(5.7)**	**(8.6)**	**237.9**
Impact on income	**(55.0)**	**(90.4)**		**8.7**			**(81.7)**
– on recurring operating income	(32.7)	(64.0)		3.8			(60.2)
– on other non-recurring operating income and expenses	(23.9)	(24.8)		3.5			(21.3)
– on net finance costs		(0.1)					(0.1)
– on income taxes				1.4			1.4
– on income (loss) from discontinued operations	1.6	(1.5)					(1.5)

The "Other provisions" line mainly corresponds to vendor warranties granted within the scope of disposals in previous periods.

note 28 – cash and cash equivalents

28.1. Breakdown by category

Cash and cash equivalents break down as follows:

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Cash	1,588.8	1,040.4
Cash equivalents	547.8	9.2
TOTAL	**2,136.6**	**1,049.6**

As of December 31, 2017, cash equivalents include money-market funds, certificates of deposit and term deposits and accounts with a maturity of less than three months.

The items classified by the Group as cash and cash equivalents strictly comply with the AMF's position published in 2008 and updated in 2011 and 2013. In particular, cash investments are reviewed on a regular basis in accordance with Group procedures and in strict compliance with the eligibility criteria set out in IAS 7 and with the AMF's recommendations. As of December 31, 2017, no reclassifications were made as a result of these reviews.

28.2. Breakdown by currency

(in € millions)	Dec. 31, 2017	%	Dec. 31, 2016	%
EUR	1,065.4	49.9%	260.6	24.8%
CNY	274.0	12.8%	150.4	14.4%
USD	142.8	6.7%	120.8	11.5%
KRW	118.7	5.6%	104.0	9.9%
HKD	72.4	3.4%	52.7	5.0%
GBP	63.2	2.9%	51.6	4.9%
CHF	47.4	2.2%	61.8	5.9%
Other currencies	352.7	16.5%	247.7	23.6%
TOTAL	**2,136.6**		**1,049.6**	

note 29 – borrowings

29.1. Breakdown of borrowings by maturity

(in € millions)	Dec. 31, 2017	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond
Non-current borrowings	**4,245.5**		**609.3**	**769.1**	**699.6**	**539.7**	**1,627.8**
Bonds	3,596.6		498.7	623.9	623.1	497.0	1,353.9
Other bank borrowings	190.6		49.2	127.1	3.1	1.0	10.2
Obligations under finance leases	76.8		35.8	5.3	5.3	7.2	23.2
Other borrowings	381.5		25.6	12.8	68.1	34.5	240.5
Current borrowings	**939.7**	**939.7**					
Bonds	499.5	499.5					
Drawdowns on unconfirmed lines of credit	20.5	20.5					
Other bank borrowings	127.9	127.9					
Obligations under finance leases	7.1	7.1					
Bank overdrafts	237.3	237.3					
Commercial paper							
Other borrowings	47.4	47.4					
TOTAL	**5,185.2**	**939.7**	**609.3**	**769.1**	**699.6**	**539.7**	**1,627.8**
%		**18.1%**	**11.8%**	**14.8%**	**13.5%**	**10.4%**	**31.4%**

(in € millions)	Dec. 31, 2016	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond
Non-current borrowings	**4,185.8**		**608.0**	**597.9**	**723.3**	**648.0**	**1,608.6**
Bonds	3,831.3		498.8	497.9	640.7	639.8	1,554.1
Other bank borrowings	212.2		97.8	38.4	61.1	2.7	12.2
Obligations under finance leases	89.4		8.2	36.3	5.3	5.5	34.1
Other borrowings	52.9		3.2	25.3	16.2		8.2
Current borrowings	**1,234.5**	**1,234.5**					
Bonds	349.6	349.6					
Drawdowns on unconfirmed lines of credit	23.4	23.4					
Other bank borrowings	122.9	122.9					
Obligations under finance leases	7.5	7.5					
Bank overdrafts	292.1	292.1					
Commercial paper	350.1	350.1					
Other borrowings	88.9	88.9					
TOTAL	**5,420.3**	**1,234.5**	**608.0**	**597.9**	**723.3**	**648.0**	**1,608.6**
%		**22.8%**	**11.2%**	**11.0%**	**13.3%**	**12.0%**	**29.7%**

All gross borrowings as of December 31, 2017 are recognised at amortised cost based on an effective interest rate determined after taking into account any identified issue costs and redemption or issue premiums relating to each liability.

Bond issues represented 79.0% of gross borrowings as of December 31, 2017 versus 77.1% as of end-2016.

Borrowings with a maturity of more than one year represented 81.9% of total gross borrowings as of December 31, 2017 and 77.2% as of December 31, 2016.

The total amount of confirmed lines of credit was €3,747.1 million at the end of the reporting period, including €56.8 million available in the form of short-term loans.

Short-term drawdowns on facilities backed by confirmed lines of credit maturing in more than one year are included in non-current borrowings.

Accrued interest is recorded in "Other borrowings".

29.2. Breakdown by repayment currency

(in € millions)	Dec. 31, 2017	Non-current borrowings	Current borrowings	%	Dec. 31, 2016	%
EUR	4,403.3	3,780.6	622.7	84.9%	4,523.2	83.5%
JPY	377.3	145.7	231.6	7.3%	435.0	8.0%
USD	303.0	286.4	16.6	5.9%	368.0	6.8%
CHF	31.2	16.6	14.6	0.6%	33.2	0.6%
GBP	11.3	11.0	0.3	0.2%	11.3	0.2%
HKD	11.0	4.7	6.3	0.2%	8.5	0.1%
Other currencies	48.1	0.5	47.6	0.9%	41.1	0.8%
TOTAL	**5,185.2**	**4,245.5**	**939.7**		**5,420.3**	

Borrowings denominated in currencies other than the euro are distributed to Group subsidiaries for local financing purposes.

29.3. Breakdown of gross borrowings by category

The Kering group's gross borrowings break down as follows:

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Bonds	4,096.1	4,180.9
Other bank borrowings	318.5	335.1
Drawdowns on unconfirmed lines of credit	20.5	23.4
Commercial paper		350.1
Obligations under finance leases	83.9	96.9
Bank overdrafts	237.3	292.1
Other borrowings	428.9	141.8
TOTAL	**5,185.2**	**5,420.3**

Group borrowings primarily consist of bonds, bank borrowings and commercial paper issues, which accounted for 93.4% of gross borrowings as of December 31, 2017 (92.4% as of December 31, 2016).

As of December 31, 2017, the Group's other borrowings include €386.3 million in respect of put options granted to non-controlling interests, mainly concerning the Eyewear activity (€95.3 million as of December 31, 2016) (see Note 2.3.2 – Use of estimates and judgement).

29.4. Description of the main bond issues

Kering bond issues

The Group has a Euro Medium Term Notes (EMTN) programme capped at €6,000 million as of December 31, 2017.

This programme was signed and approved by the French financial markets authority (AMF) on November 24, 2017. The programme in place as of December 31, 2017 expires on November 24, 2018.

As of December 31, 2017, the bonds issued under this programme totalled €4,100.2 million, of which €250.2 million were issued in US dollars.

All of these borrowings are covered by the rating assigned to the Kering group by Standard & Poor's ("BBB" with a positive outlook) and are not subject to any financial covenants.

Kering euro bond issues

(in € millions)

Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	Dec. 31, 2017	Dec. 31, 2016
150.0[(1)]	6.50% fixed	6.57%	06/29/2009	-	06/29/2017		149.8
200.0[(2)]	6.50% fixed	6.57%	11/06/2009	-	11/06/2017		199.8
500.0[(3)]	3.125% fixed	3.31%	04/23/2012	-	04/23/2019	**498.7**	497.9
500.0[(4)]	2.50% fixed	2.58%	07/15/2013	-	07/15/2020	**499.0**	498.6
500.0[(5)]	1.875% fixed	2.01%	10/08/2013	-	10/08/2018	**499.5**	498.8
500.0[(6)]	2.75% fixed	2.81% & 2.57% & 2.50% & 2.01% & 1.87%	04/08/2014 & 05/30/2014 & 06/26/2014 & 09/22/2015 & 11/05/2015	-	04/08/2024	**511.0**	512.6
500.0[(7)]	1.375% fixed	1.47%	10/01/2014	-	10/01/2021	**498.2**	497.7
500.0[(8)]	0.875% fixed	1.02%	03/27/2015	-	03/28/2022	**497.0**	496.3
50.0[(9)]	1.60% fixed	1.66%	04/16/2015	-	04/16/2035	**49.6**	49.5
500.0[(10)]	1.25% fixed	1.35%	05/10/2016	-	05/10/2026	**496.1**	495.7
300.0[(11)]	1.50% fixed	1.61%	04/05/2017	-	04/05/2027	**297.2**	

(1) *Issue price: bond issue on June 29, 2009, comprising 3,000 bonds with a par value of €50,000 each under the EMTN programme.*
Redemption: in full on June 29, 2017.
(2) *Issue price: bond issue on November 6, 2009, comprising 4,000 bonds with a par value of €50,000 each under the EMTN programme. Redemption: in full on November 6, 2017.*
(3) *Issue price: bond issue on April 23, 2012, comprising 500,000 bonds with a par value of €1,000 each under the EMTN programme. Redemption: in full on April 23, 2019.*
(4) *Issue price: bond issue on July 15, 2013, comprising 5,000 bonds with a par value of €100,000 each under the EMTN programme. Redemption: in full on July 15, 2020.*
(5) *Issue price: bond issue on October 8, 2013, comprising 5,000 bonds with a par value of €100,000 each under the EMTN programme. Redemption: in full on October 8, 2018.*
(6) *Issue price: bond issue on April 8, 2014, comprising 1,000 bonds with a par value of €100,000 each under the EMTN programme, 1,000 additional bonds issued on May 30, 2014, 1,000 additional bonds issued on June 26, 2014, 1,500 additional bonds issued on September 22, 2015 and 500 additional bonds issued on November 5, 2015, thereby raising the issue to 5,000 bonds. Redemption: in full on April 8, 2024.*
(7) *Issue price: bond issue on October 1, 2014, comprising 5,000 bonds with a par value of €100,000 each under the EMTN programme. Redemption: in full on October 1, 2021.*
(8) *Issue price: bond issue on March 27, 2015, comprising 5,000 bonds with a par value of €100,000 each under the EMTN programme. Redemption: in full on March 28, 2022.*
(9) *Issue price: bond issue on April 16, 2015, comprising 500 bonds with a par value of €100,000 each under the EMTN programme. Redemption: in full on April 16, 2035.*
(10) *Issue price: bond issue on May 10, 2016, comprising 5,000 bonds with a par value of €100,000 each under the EMTN programme. Redemption: in full on May 10, 2026.*
(11) *Issue price: bond issue on April 5, 2017, comprising 3,000 bonds with a par value of €100,000 each under the EMTN programme. Redemption: in full on April 5, 2027.*

Kering USD bond issues

(in € millions)

Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	Dec. 31, 2017	Dec. 31, 2016
125.1[(1)]	Floating USD Libor 3-month +0.73%	1.94%	03/09/2015	2.589% fixed-rate swap for the full amount *Documented under IFRS*	03/09/2020	**124.9**	142.1
125.1[(2)]	2.887% fixed	2.94%	06/09/2015	-	06/09/2021	**124.9**	142.1

(1) *Issue price: bond issue on March 9, 2015 in the form of floating-rate notes, comprising 150 notes with a par value of USD 1,000,000 each under the EMTN programme, i.e., representing a total of USD 150 million. Redemption: in full on March 9, 2020.*
(2) *Issue price: bond issue on June 9, 2015, comprising 150 bonds with a par value of USD 1,000,000 each under the EMTN programme, i.e., representing a total of USD 150 million. Redemption: in full on June 9, 2021.*

The bonds issued between 2012 and 2017 under the EMTN programme are all subject to change-of-control clauses entitling bondholders to request early redemption at par if Kering's rating is downgraded to non-investment grade following a change of control.

The corresponding amounts are recognised in the statement of financial position at amortised cost based on the effective interest rate, taking account of the fair value adjustment resulting from the hedging relationship documented in accordance with IAS 39.

Accrued interest is recorded in "Other borrowings".

29.5. Main bank borrowings and confirmed lines of credit

29.5.1. Breakdown of the main bank borrowings

The Group's bank borrowings include the following:

Long- and medium-term borrowings contracted by the Luxury activities

(in € millions)

Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	Dec. 31, 2017	Dec. 31, 2016
33.8[1]	Floating JPY Tibor +0.38%	-	04/15/2014	-	04/15/2017		26.6
29.6[2]	Floating JPY Tibor +0.40%	-	12/14/2014	-	12/14/2018	**29.6**	32.4
37.0[3]	Floating JPY Tibor +0.40%	-	04/15/2015	-	04/15/2020	**37.0**	40.5
14.8[4]	Floating JPY Tibor +0.35%	-	03/31/2016	-	03/31/2020	**14.8**	16.2
14.8[5]	Floating JPY Tibor +0.25%	-	03/31/2016	-	03/31/2021	**10.4**	14.6
27.9[6]	Floating JPY Tibor +0.29%	-	09/30/2016	-	09/30/2019	**21.2**	28.7
22.2[7]	Floating JPY Tibor +0.27%	-	03/31/2017	-	03/31/2020	**22.2**	
23.1[8]	Floating JPY Tibor +0.29%	-	04/17/2017	-	04/15/2020	**19.7**	
22.2[9]	Floating JPY Tibor +0.29%	-	11/27/2017	-	11/27/2020	**22.2**	

(1) Redeemable loan contracted in April 2014 for JPY 4,560 million (€33.8 million).
(2) Loan contracted in December 2014 for JPY 4,000 million (€29.6 million).
(3) Loan contracted in April 2015 for JPY 5,000 million (€37.0 million).
(4) Loan contracted in March 2016 for JPY 2,000 million (€14.8 million).
(5) Redeemable loan contracted in March 2016 for JPY 2,000 million (€14.8 million). The outstanding balance on this loan was JPY 1,400 million (€10.4 million) as of December 31, 2017.
(6) Redeemable loan contracted in September 2016 for JPY 3,771 million (€27.9 million). The outstanding balance on this loan was JPY 2,864 million (€21.2 million) as of December 31, 2017.
(7) Loan contracted in March 2017 for JPY 3,000 million (€22.2 million).
(8) Redeemable loan contracted in April 2017 for JPY 3,120 million (€23.1 million). The outstanding balance on this loan was JPY 2,666 million (€19.7 million) as of December 31, 2017.
(9) Loan contracted in November 2017 for JPY 3,000 million (€22.2 million).

29.5.2. Confirmed lines of credit available to the Group

As of December 31, 2017, the Group had access to €3,747.1 million in confirmed lines of credit versus €4,188.6 million as of December 31, 2016.

29.5.3. Breakdown of confirmed lines of credit

Kering and Kering Finance SNC: €3,450.0 million breaking down by maturity as follows:

(in € millions)	Dec. 31, 2017	Less than one year	One to five years	More than five years	Dec. 31, 2016
Confirmed lines of credit	**3,450.0**		3,450.0		**3,901.0**

The confirmed lines of credit include a syndicated facility for €2.5 billion signed on June 27, 2014 and initially maturing in June 2019. This facility provides for two one-year loan extension options. The Group confirmed that it would exercise the extension options in June 2015 and June 2016, respectively. As a result, €2,442.5 million of this syndicated facility now matures in June 2021 and the remaining €57.5 million in June 2019.

This June 2014 syndicated loan had not been drawn by the Group as of December 31, 2017. Total confirmed undrawn credit lines available to Kering and Kering Finance SNC as of December 31, 2017 amount to €3,450.0 million.

Other confirmed lines of credit: €297.1 million breaking down by maturity as follows:

(in € millions)	Dec. 31, 2017	Less than one year	One to five years	More than five years	Dec. 31, 2016
PUMA (1)	**297.1**	266.2	30.9		**287.6**

(1) PUMA: including €56.8 million drawn down in the form of bank borrowings as of the end of December 2017.

The Group's confirmed bank lines of credit are governed by the standard commitment and default clauses customarily included in this type of agreement: *pari passu* ranking, a negative-pledge clause that limits the security that can be granted to other lenders, and a cross-default obligation.

Kering and Kering Finance SNC confirmed lines of credit include a default clause (early repayment) in the event of failure to comply with the following financial covenant: Consolidated net debt/Consolidated EBITDA less than or equal to 3.75. This ratio is calculated based on pro forma data.

As of December 31, 2017, Kering and Kering Finance SNC had not drawn down any of the €3,450.0 million available under confirmed lines of credit subject to this covenant.

The Group was in compliance with all of these covenants as of December 31, 2017 and there is no foreseeable risk of breach.

The undrawn balance on these confirmed lines of credit as of December 31, 2017 was €3,690.3 million (€4,153.1 million as of December 31, 2016).

The undrawn confirmed lines of credit guarantee the Group's liquidity and mainly back the commercial paper issue programme which remained undrawn as of December 31, 2017 and on which a total of €350.1 million remained outstanding as of December 31, 2016.

note 30 – exposure to interest rate, foreign exchange, equity and precious metals price risk

The Group uses derivative financial instruments to manage its exposure to market risks.

Derivatives used by the Group as of December 31, 2017 are described below.

30.1. Exposure to interest rate risk

To manage interest rate risk on its financial assets and liabilities, and particularly on its borrowings, the Kering group uses instruments with the following outstanding notional amounts:

(in € millions)	Dec. 31, 2017	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond	Dec. 31, 2016
Swaps: fixed-rate lender	400.0	400.0						400.0
Swaps: fixed-rate borrower	134.3			125.1		9.2		152.9
Other interest rate instruments								
TOTAL	**534.3**	**400.0**		**125.1**		**9.2**		**552.9**

In accordance with the interest rate risk hedging policy, these instruments are chiefly designed to convert fixed interest rates on negotiable debt securities, fixed-rate borrowings and credit line drawdowns into floating rates.

The Group has also entered into fixed-rate lender swaps in an amount of €400 million.

These instruments also convert floating-rate bonds into fixed-rate debt.

As of December 31, 2017, fixed-rate borrower swaps for a notional amount of USD 150 million converted all USD bond debt initially issued at floating rates into fixed-rate debt.

In accordance with IAS 39, these financial instruments were analysed with respect to hedge accounting eligibility criteria.

As of December 31, 2017, documented and non-documented financial instruments can be analysed as follows:

(in € millions)	Dec. 31, 2017	Fair value hedges	Cash flow hedges	Non-documented hedges
Swaps: fixed-rate lender	400.0			400.0
Swaps: fixed-rate borrower	134.3		134.3	
TOTAL	**534.3**		**134.3**	**400.0**

These interest rate derivatives are recognised in the statement of financial position at their market value as of the end of the reporting period.

The accounting treatment of fair value movements depends on the purpose of the derivative instrument and the resulting accounting classification.

In the case of interest rate derivatives designated as fair value hedges, fair value movements are recognised in net income for the year, fully or partly offsetting symmetrical changes in the fair value of the hedged debt. The ineffective portion impacts net finance costs for the year.

In the case of interest rate derivatives designated as cash flow hedges, the effective portion of changes in fair value is initially recognised in other comprehensive income and subsequently taken to income when the hedged position itself affects income. The ineffective portion impacts net finance costs for the year.

Movements in the fair value of non-documented derivative instruments are recognised directly in income, with an impact on net finance costs for the year.

As of December 31, 2017, these derivative instruments that did not qualify for hedge accounting under IAS 39 primarily comprised options in the form of interest rate swaps intended to hedge revolving financing issued at fixed rates.

The Group's exposure to interest rate risk **before the impact of hedging** is presented below, with a distinction made between:

- Fixed-rate financial assets and liabilities, exposed to a price risk before hedging:

(in € millions)	Dec. 31, 2017	2017 maturities			Dec. 31, 2016
		Less than one year	One to five years	More than five years	
Fixed-rate financial assets	**55.3**	**22.9**	**32.4**		**56.6**
Bonds	3,971.1	499.5	2,117.7	1,353.9	4,038.8
Commercial paper					350.1
Other borrowings	13.5		13.3	0.2	39.0
Fixed-rate financial liabilities	**3,984.6**	**499.5**	**2,131.0**	**1,354.1**	**4,427.9**

- Floating-rate financial assets and liabilities, exposed to a cash flow risk before hedging:

(in € millions)	Dec. 31, 2017	2017 maturities			Dec. 31, 2016
		Less than one year	One to five years	More than five years	
Floating-rate financial assets	**2,198.0**	**2,147.5**	**33.0**	**17.5**	**1,138.8**
Bonds	125.0		125.0		142.1
Commercial paper					
Other borrowings	1,075.6	440.2	361.7	273.7	850.3
Floating-rate financial liabilities	**1,200.6**	**440.2**	**486.7**	**273.7**	**992.4**

The Group's exposure to interest rate risk **after the impact of hedging** is presented below, with a distinction made between:

- Fixed-rate financial assets and liabilities, exposed to a price risk after hedging:

(in € millions)	Dec. 31, 2017	2017 maturities			Dec. 31, 2016
		Less than one year	One to five years	More than five years	
Fixed-rate financial assets	**55.3**	**22.9**	**32.4**		**56.6**
Bonds	3,696.1	99.5	2,242.7	1,353.9	3,980.9
Commercial paper					150.1
Other borrowings	22.7	1.4	21.1	0.2	49.6
Fixed-rate financial liabilities	**3,718.8**	**100.9**	**2,263.8**	**1,354.1**	**4,180.6**

- Floating-rate financial assets and liabilities, exposed to a cash flow risk after hedging:

(in € millions)	Dec. 31, 2017	2017 maturities			Dec. 31, 2016
		Less than one year	One to five years	More than five years	
Floating-rate financial assets	**2,198.0**	**2,147.5**	**33.0**	**17.5**	**1,138.8**
Bonds	400.0	400.0			200.0
Commercial paper					200.0
Other borrowings	1,066.4	438.8	353.9	273.7	839.7
Floating-rate financial liabilities	**1,466.4**	**838.8**	**353.9**	**273.7**	**1,239.7**

Financial assets and liabilities consist of interest-bearing items recorded in the statement of financial position.

The breakdown of gross borrowings by type of interest rate before and after hedging transactions is as follows:

		Before hedging		After hedging	
(in € millions)	Dec. 31, 2017	Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
Gross borrowings	**5,185.2**	**3,984.6**	**1,200.6**	**3,718.8**	**1,466.4**
%		76.8%	23.2%	71.7%	28.3%

		Before hedging		After hedging	
(in € millions)	Dec. 31, 2016	Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
Gross borrowings	**5,420.3**	**4,427.9**	**992.4**	**4,180.6**	**1,239.7**
%		81.7%	18.3%	77.1%	22.9%

Analysis of sensitivity to interest rate risk

Based on the fixed/floating rate mix after hedging, a sudden 50 basis-point increase or decrease in interest rates would have a full-year impact of €3.2 million on pre-tax consolidated net income. As of December 31, 2016, the impact of a sudden 50 basis-point increase or decrease in interest rates was estimated at €2.2 million (assumption consistent with relative interest rate levels observed at the end of the reporting period).

Based on market data at the end of the reporting period, and the particularly low benchmark interest rates for the Group, the impact of interest rate derivatives and financial liabilities carried at fair value through income was determined assuming a sudden increase or decrease of 50 basis points in the euro and US dollar yield curve as of December 31, 2017.

(in € millions)	Impact on reserves	Impact on income
As of December 31, 2017		
Increase of 50 basis points	1.3	(0.4)
Decrease of 50 basis points	(1.4)	0.4
As of December 31, 2016		
Increase of 50 basis points	2.2	(0.4)
Decrease of 50 basis points	(2.3)	0.4

All other market variables were assumed to remain unchanged for the purpose of the sensitivity analysis.

The impact on equity is generated by interest rate instruments eligible for cash flow hedge accounting.

The impact on net finance costs is generated by interest rate instruments not eligible for hedge accounting.

These amounts are shown before tax.

30.2. Exposure to foreign exchange risk

The outstanding notional amounts of instruments used by the Kering group to manage its foreign exchange risk are shown below:

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Currency forwards	(2,800.4)	(3,253.2)
Cross currency swaps	(98.5)	(107.8)
Currency options – export tunnels	(406.7)	(204.2)
Currency options – purchases	(13.5)	(90.6)
TOTAL	**(3,319.1)**	**(3,655.8)**

The Group primarily uses forward currency contracts and/or currency/cross currency swaps to hedge commercial import/export risks and to hedge the financial risks stemming in particular from inter-company refinancing transactions in foreign currencies.

The Group may also implement plain vanilla option strategies (purchases of options or tunnels) to hedge future exposures.

These derivative financial instruments were analysed in light of IAS 39 hedge accounting eligibility criteria. The Group has no derivatives eligible for net investment hedge accounting.

As of December 31, 2017, documented and non-documented derivative instruments were as follows:

(in € millions)	Dec. 31, 2017	USD	JPY	GBP
Cash flow hedges				
Forward purchases and forward purchase swaps	**1,347.0**	1,267.9		38.9
Forward sales and forward sale swaps	**(2,930.4)**	(677.1)	(394.2)	(357.1)
Currency options – purchases of export tunnels	**(406.7)**	(192.6)	(87.8)	(77.2)
Currency options – purchases	**(13.5)**	(5.8)		(3.4)
Fair value hedges				
Forward purchases and forward purchase swaps	**675.9**	309.7	86.1	47.1
Forward sales and forward sale swaps	**(1,271.4)**	(246.3)	(98.0)	(171.8)
Not documented				
Forward purchases and forward purchase swaps	**118.8**	111.4	0.4	1.7
Forward sales and forward sale swaps	**(740.3)**	(345.2)	(52.3)	(45.4)
Cross currency swaps	**(98.5)**		(98.5)	
Maturity				
Less than one year				
Forward purchases and forward purchase swaps	**1,896.7**	1,445.1	86.5	87.7
Forward sales and forward sale swaps	**(4,795.2)**	(1,268.6)	(509.3)	(547.0)
Cross currency swaps	**(98.5)**		(98.5)	
Currency options – purchases of export tunnels	**(406.7)**	(192.6)	(87.8)	(77.2)
Currency options – purchases	**(13.5)**	(5.8)		(3.4)
More than one year				
Forward purchases and forward purchase swaps	**245.0**	243.9		
Forward sales and forward sale swaps	**(146.9)**		(35.2)	(27.3)
Cross currency swaps				

Foreign exchange derivatives are recognised in the statement of financial position at their market value as of the end of the reporting period.

Derivatives qualifying as cash flow hedges are used to hedge highly probable future cash flows (not yet recognised) based on a budget for the current budget period (season, quarter, half-year, etc.) or certain future cash flows not yet recognised (firm orders).

As of December 31, 2017, the majority of foreign exchange derivatives qualifying as cash flow hedges had a residual maturity of less than one year and are used to hedge cash flows expected to be realised and recognised in the coming reporting period.

Derivatives qualifying as fair value hedges are used to hedge items recognised in the consolidated statement of financial position as of the end of the reporting period, or certain future cash flows not yet recognised (firm orders). Hedges of items recognised in the statement of financial position chiefly concern Luxury activities brands.

Certain foreign exchange derivatives treated as hedges for management purposes are not documented in accordance with IAS 39 hedge accounting and are therefore recorded as derivatives, with any changes in their fair value impacting net finance costs.

These derivatives mainly hedge items recorded in the statement of financial position and future cash flows which do not satisfy the "highly probable" criteria required by IAS 39.

CHF	HKD	CNY	SGD	TWD	KRW	Other	Dec. 31, 2016
3.3						36.9	**1,202.6**
	(228.3)	(479.0)	(61.5)	(56.6)	(259.7)	(416.9)	**(2,907.6)**
	(49.1)						**(204.2)**
	(4.3)						**(90.6)**
23.4	33.3	74.3	7.9	6.0	36.9	51.2	**530.1**
(20.8)	(143.9)	(181.9)	(48.8)	(25.9)	(73.0)	(261.0)	**(1,267.4)**
	2.3					3.0	**131.1**
(292.1)	(2.3)					(3.0)	**(942.0)**
							(107.8)
25.6	35.6	74.3	7.9	6.0	36.9	91.1	**1,640.5**
(312.9)	(370.2)	(644.4)	(107.6)	(78.7)	(319.4)	(637.1)	**(4,892.4)**
	(49.1)						**(204.2)**
	(4.3)						**(90.6)**
1.1							**223.3**
	(4.3)	(16.5)	(2.7)	(3.8)	(13.3)	(43.8)	**(224.6)**
							(107.8)

As of December 31, 2017, the exposure to foreign exchange risk on the statement of financial position was as follows:

(in € millions)	Dec. 31, 2017	USD	JPY	GBP
Monetary assets	3,419.3	969.5	265.8	245.8
Monetary liabilities	1,650.8	727.3	392.6	26.8
Gross exposure in the statement of financial position	1,768.5	242.2	(126.8)	219.0
Forecast exposure	2,001.2	(399.1)	482.0	398.8
Gross exposure before hedging	**3,769.6**	**(156.9)**	**355.2**	**617.9**
Hedging instruments	(3,319.1)	222.0	(644.3)	(567.2)
Gross exposure after hedging	**450.5**	**65.1**	**(289.1)**	**50.7**

Monetary assets comprise loans and receivables, bank balances, and investments and cash equivalents maturing within three months of the acquisition date.

Monetary liabilities comprise borrowings, operating payables and other payables.

Most of these monetary items are denominated in the functional currencies in which the subsidiaries operate or are converted into the Group's functional currency using foreign exchange derivatives in accordance with applicable procedures.

Analysis of sensitivity to foreign exchange risk

This analysis excludes the impact of translating the financial statements of each Group entity into the presentation currency (euro) and the measurement of the foreign exchange position on the statement of financial position, not considered material as of the end of the reporting period.

Based on market data as of December 31, 2017, the impact of foreign exchange derivative instruments in the event of a sudden 10% increase or decrease in the euro exchange rate against the principal currencies to which the Group is exposed (USD, JPY and CNY) would be as follows:

As of December 31, 2017	Impact on reserves		Impact on income	
(in € millions)	10% increase	10% decrease	10% increase	10% decrease
USD	(35.7)	52.2	0.5	(4.3)
JPY	43.8	(48.8)	(0.7)	(1.6)
CNY	43.5	(53.2)	(0.7)	0.8

As of December 31, 2016	Impact on reserves		Impact on income	
(in € millions)	10% increase	10% decrease	10% increase	10% decrease
USD	(16.1)	18.5	2.2	0.9
JPY	50.0	(56.5)	(0.9)	(2.1)
CNY	34.8	(42.5)	(1.2)	1.4

All other market variables were assumed to remain unchanged for the purpose of the sensitivity analysis.

The impact on equity is generated by foreign exchange instruments eligible for cash flow hedge accounting.

The impact on net finance costs arises from foreign exchange instruments not eligible for hedge accounting and from the change in the ineffective portion of cash flow hedges.

These amounts are shown before tax.

CHF	HKD	CNY	SGD	TWD	KRW	Other	Dec. 31, 2016
349.6	171.7	415.1	50.8	46.3	157.7	747.0	3,309.2
45.2	14.3	24.0	3.3	11.9	3.4	402.0	1,433.9
304.4	157.4	391.1	47.5	34.4	154.3	345.0	1,875.3
(3.3)	281.7	479.0	61.5	56.6	259.8	384.2	1,991.0
301.0	**439.1**	**870.1**	**109.0**	**91.0**	**414.1**	**729.1**	**3,866.3**
(286.2)	(392.3)	(586.6)	(102.4)	(76.5)	(295.8)	(589.8)	(3,650.5)
14.8	**46.8**	**283.5**	**6.6**	**14.5**	**118.3**	**139.3**	**215.8**

30.3. Exposure to equity risk

In the normal course of its business, the Group enters into transactions involving shares in consolidated companies or shares issued by Kering.

Shares held in connection with non-consolidated investments represent a low exposure risk for the Group and are not hedged.

As of December 31, 2017, no equity risk hedging transaction had been recognised as a derivative instrument in accordance with IAS 39.

30.4. Exposure to precious metals price risk

The Group may be exposed to fluctuations in the price of certain precious metals, particularly gold, within the scope of its brands' activities in the Watches and Jewelry segments. Hedges may therefore be put in place by contracting derivative financial instruments to fix the production cost or by negotiating prices with refiners or manufacturers of semi-finished products.

As of December 31, 2017, these hedging transactions with a residual maturity of less than one year are treated as forward purchases for a notional amount of €10.4 million. Their market value is not material.

A sudden 1% increase or decrease in precious metals prices would have an impact of €0.1 million on the Group's hedging reserves excluding the tax impact.

30.5. Other market risks – Credit risk

The Group uses derivative instruments solely to reduce its overall exposure to foreign exchange, interest rate and equity risk arising in the normal course of business. All transactions involving derivatives are carried out on organised markets or over the counter with leading firms.

The Group has a large number of customers in a wide range of business segments and is therefore not exposed to any concentration of credit risk on its receivables. Generally, the Group considers that it is not exposed to any specific credit risk on these financial assets.

30.6. Derivative instruments at market value

As of December 31, 2017, and in accordance with IAS 39, the market value of derivative financial instruments is recognised in assets under the headings "Non-current financial assets" and "Other current financial assets", and in liabilities under the headings "Other non-current financial liabilities" and "Other current financial liabilities".

The fair value of derivatives hedging interest rate risk is recognised in non-current or current assets or liabilities depending on the maturity of the underlying debt.

The fair value of derivatives hedging the foreign exchange risk on commercial transactions is recognised in other current financial assets or liabilities.

The fair value of derivatives hedging the foreign exchange risk on financial transactions is recognised in non-current financial assets or liabilities if their term exceeds one year.

(in € millions)	Dec. 31, 2017	Interest rate risk	Foreign exchange risk	Other market risks	Dec. 31, 2016
Derivative assets	**149.2**	**0.7**	**148.5**		**121.9**
Non-current	**0.7**	**0.7**			
At fair value through income					
Cash flow hedges	0.7	0.7			
Fair value hedges					
Current	**148.5**		**148.5**		**121.9**
At fair value through income	7.0		7.0		1.6
Cash flow hedges	127.6		127.6		104.6
Fair value hedges	13.9		13.9		15.7
Derivative liabilities	**111.8**	**0.7**	**111.1**		**115.9**
Non-current	**0.7**	**0.7**			**19.6**
At fair value through income					18.0
Cash flow hedges	0.7	0.7			1.6
Fair value hedges					
Current	**111.1**		**111.1**		**96.3**
At fair value through income	10.0		10.0		5.2
Cash flow hedges	84.0		84.0		81.6
Fair value hedges	17.1		17.1		9.5
TOTAL	**37.4**		**37.4**		**6.0**

The effective portion of derivatives hedging future cash flows is recorded against equity.

Changes in the cash flow hedging reserve in 2017 are presented in Note 14 – Other comprehensive income.

In accordance with IFRS 13, derivatives were measured as of December 31, 2017 taking into account credit and debit value adjustments (CVA/DVA). The probability of default used is based on market data where this is available for the counterparty. The impact of this revised measurement was not material for the Group as of the end of the reporting period.

30.7. Liquidity risk

Liquidity risk management for the Group and each of its subsidiaries is closely monitored and periodically assessed by Kering within the scope of Group financial reporting procedures.

In order to guarantee its liquidity, the Group holds confirmed lines of credit totalling €3,747.1 million. As of December 31, 2017, this includes an amount of €3,690.3 million not yet drawn and available cash of €2,136.6 million.

The following table shows contractual commitments relating to borrowings and trade payables. It includes accrued interest payable and excludes the impact of netting agreements. The table also shows Group commitments relating to derivative instruments recorded in assets or liabilities.

Forecast cash flows relating to accrued interest payable are included in "Other borrowings" and calculated up to the maturity of the borrowings to which they relate. Future floating-rate interest is set by reference to the last coupon for the current period, based on fixings applicable as of the end of the reporting period for flows associated with subsequent maturities.

The future cash flows presented have not been discounted.

Based on data available as of the end of the reporting period, the Group does not expect that the cash flows indicated will materialise before the scheduled date or that the amounts concerned will differ significantly from those set out in the maturity schedule.

This analysis excludes non-derivative financial assets in the statement of financial position and in particular, the cash and cash equivalents and trade receivables line items, which amounted to €2,136.6 million and €1,366.5 million, respectively, as of December 31, 2017.

	Dec. 31, 2017				
(in € millions)	Carrying amount	Cash flow	Less than one year	One to five years	More than five years
Non-derivative financial instruments					
Bonds	4,096.1	(4,100.2)	(500.0)	(2,250.2)	(1,350.0)
Commercial paper					
Other borrowings	1,089.1	(1,422.3)	(482.1)	(577.0)	(363.2)
Trade payables	1,240.7	(1,240.7)	(1,240.7)		
Derivative financial instruments					
Interest rate hedges					
Interest rate swaps		(1.2)	(0.4)	(0.8)	
Other interest rate instruments					
Foreign exchange hedges	**(37.4)**				
Currency forwards and currency swaps					
Outflows		(6,562.4)	(6,199.7)	(362.7)	
Inflows		6,579.4	6,214.4	365.0	
Other foreign exchange instruments					
Outflows		(461.4)	(461.4)		
Inflows		467.6	467.6		
TOTAL	**6,388.5**	**(6,741.2)**	**(2,202.3)**	**(2,825.7)**	**(1,713.2)**

	Dec. 31, 2016				
(in € millions)	Carrying amount	Cash flow	Less than one year	One to five years	More than five years
Non-derivative financial instruments					
Bonds	4,180.9	(4,184.6)	(350.0)	(2,284.6)	(1,550.0)
Commercial paper	350.1	(350.1)	(350.1)		
Other borrowings	889.3	(1,228.7)	(554.2)	(525.3)	(149.2)
Trade payables	1,098.5	(1,098.5)	(1,098.5)		
Derivative financial instruments					
Interest rate hedges	**1.6**				
Interest rate swaps		(4.9)	(1.5)	(3.3)	(0.1)
Other interest rate instruments					
Foreign exchange hedges	**(7.6)**				
Currency forwards and currency swaps					
Outflows		(6,890.1)	(6,456.7)	(433.4)	
Inflows		6,888.3	6,442.1	446.2	
Other foreign exchange instruments					
Outflows		(361.8)	(253.8)	(108.0)	
Inflows		346.8	256.5	90.3	
TOTAL	**6,512.8**	**(6,883.6)**	**(2,366.2)**	**(2,818.1)**	**(1,699.3)**

note 31 – accounting classification and market value of financial instruments

The basis of measurement for financial instruments and the market value of these instruments as of December 31, 2017 are presented below:

	Dec. 31, 2017		Breakdown by accounting classification					
(in € millions)	Carrying amount	Market value	Fair value through income	Available-for-sale financial assets	Loans and receivables	Amor-tised 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		

	Dec. 31, 2016		Breakdown by accounting classification					
(in € millions)	Carrying amount	Market value	Fair value through income	Available-for-sale financial assets	Loans and receivables	Amortised cost	Derivatives qualifying for hedge accounting	Derivatives not qualifying for hedge accounting
Non-current assets								
Non-current financial assets	480.4	480.4		167.0	313.4			
Current assets								
Trade receivables	1,196.4	1,196.4				1,196.4		
Other current financial assets	131.0	131.0			9.1		120.3	1.6
Cash and cash equivalents	1,049.6	1,049.6	9.2			1,040.4		
Non-current liabilities								
Non-current borrowings	4,185.8	4,381.6				4,185.8		
Other non-current financial liabilities	19.6	19.6					1.6	18.0
Current liabilities								
Current borrowings	1,234.5	1,250.7				1,234.5		
Other current financial liabilities	285.9	285.9				189.6	91.1	5.2
Trade payables	1,098.5	1,098.5				1,098.5		

As of December 31, 2017, the following methods were used to price financial instruments:

- Financial instruments other than derivatives recorded in assets:

Carrying amounts are based on reasonable estimates of market value, with the exception of marketable securities and investments in non-consolidated companies, whose market value was determined based on the last known stock market price as of December 31, 2017 for listed securities.

- Financial instruments other than derivatives recorded in liabilities:

The market value of listed bonds was determined on the basis of the last market price as of the end of the reporting period.

The market value of other borrowings was calculated using other valuation techniques such as discounted future cash flows, taking into account the Group's credit risk and interest rate conditions as of the end of the reporting period.

- Derivative financial instruments:

The market value of derivative financial instruments was provided by the financial institutions involved in the transactions or calculated using standard valuation methods that factor in market conditions as of the end of the reporting period.

The Group has identified three financial instrument categories based on the two valuation methods used (listed prices and valuation techniques). In accordance with international accounting standards, this classification is used as a basis for presenting the characteristics of financial instruments recognised in the statement of financial position at fair value through income as of the end of the reporting period:

Level 1: financial instruments quoted on an active market;

Level 2: financial instruments whose fair value is determined using valuation techniques drawing on observable market inputs;

Level 3: financial instruments whose fair value is determined using valuation techniques drawing on non-observable inputs (inputs whose value does not result from the price of observable market transactions for the same instrument or from observable market data available as of the end of the reporting period) or inputs which are only partly observable.

The table below shows the fair value hierarchy by financial instrument category as of December 31, 2017:

(in € millions)	Fair value hierarchy			Dec. 31, 2017
	Market price = Level 1	Models based on observable inputs = Level 2	Models based on non-observable inputs = Level 3	
Non-current assets				
Non-current financial assets	30.0	0.7	333.6	364.3
Current assets				
Trade receivables			1,366.5	1,366.5
Other current financial assets		148.5	7.1	155.6
Cash and cash equivalents		547.8	1,588.8	2,136.6
Non-current liabilities				
Non-current borrowings			4,245.5	4,245.5
Other non-current financial liabilities		0.7		0.7
Current liabilities				
Current borrowings			939.7	939.7
Other current financial liabilities		111.1	256.5	367.6
Trade payables			1,240.7	1,240.7

(in € millions)	Fair value hierarchy			Dec. 31, 2016
	Market price = Level 1	Models based on observable inputs = Level 2	Models based on non-observable inputs = Level 3	
Non-current assets				
Non-current financial assets	26.3		454.1	480.4
Current assets				
Trade receivables			1,196.4	1,196.4
Other current financial assets		121.9	9.1	131.0
Cash and cash equivalents		9.2	1,040.4	1,049.6
Non-current liabilities				
Non-current borrowings			4,185.8	4,185.8
Other non-current financial liabilities		19.6		19.6
Current liabilities				
Current borrowings			1,234.5	1,234.5
Other current financial liabilities		96.3	189.6	285.9
Trade payables			1,098.5	1,098.5

note 32 – net debt

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Gross borrowings	5,185.2	5,420.3
Cash and cash equivalents	(2,136.6)	(1,049.6)
Net debt	**3,048.6**	**4,370.7**

note 33 – statement of cash flows

33.1. Reconciliation of cash and cash equivalents as reported in the statement of financial position with cash and cash equivalents as reported in the statement of cash flows

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Cash and cash equivalents as reported in the statement of financial position	2,136.6	1,049.6
Bank overdrafts	(237.3)	(292.1)
Cash and cash equivalents as reported in the statement of cash flows	**1,899.3**	**757.5**

33.2. Breakdown of cash flow from operating activities

(in € millions)	2017	2016
Net income from continuing operations	**1,870.7**	**880.1**
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets	516.4	432.0
Other non-cash income and expenses:	72.1	295.0
o/w:		
Recurring operating income and expenses (Note 4):	*(6.3)*	*22.4*
- Fair value of foreign exchange rate hedges	*(62.7)*	*7.5*
- Other	*56.4*	*14.9*
Other income and expenses:	*78.4*	*272.6*
- Impairment losses on non-current operating assets	*185.4*	*296.6*
- Asset impairment	*10.6*	*53.2*
- Fair value of foreign exchange rate hedges in net finance costs	*64.8*	*(10.6)*
- Deferred tax	*(226.7)*	*(79.4)*
- Share in earnings (losses) of equity-accounted companies	*2.0*	*2.2*
- Other	*42.3*	*10.6*
Cash flow from operating activities	**2,459.2**	**1,607.1**

33.3. Debt issues and redemptions/repayments

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Bond issues	321.7	570.5
Debt redemptions/repayments	(410.1)	(51.9)
Increase/decrease in other borrowings	(363.4)	(1,054.7)
TOTAL	**(451.8)**	**(536.1)**

Borrowings issued in 2017 include Kering SA's new €300 million 1.50% bond which was settled and delivered on April 5, 2017.

Debt redemptions and repayments relate mainly to debt issued by Kering SA in 2009 which matured in June 2017 and November 2017 for €150 million and €200 million, respectively. This item also includes annual repayments on certain JPY bank loans.

Changes in other borrowings chiefly reflect issues and redemptions of Kering Finance commercial paper.

33.4. Reconciliation of changes in borrowings with net cash flows from (used in) financing activities

(in € millions)

	Bonds issues	Other bank borrowings	Confirmed lines of credit	Drawdowns on unconfirmed lines of credit
As of January 1, 2017	**4,180.9**	**335.1**	**-**	**23.4**
Increase/decrease in share capital and other transactions with owners				
Treasury share transactions				
Dividends paid to owners of the parent company				
Dividends paid to non-controlling interests				
Debt issues	297.2	24.5		
Debt redemptions/repayments	(349.6)	(60.5)		
Increase/decrease in other borrowings				2.1
Interest paid and equivalent				
Net cash from (used in) financing activities	(52.4)	(36.0)	-	2.1
Changes in Group structure		12.0		
Translation adjustments	(34.5)	(30.1)		(1.4)
Other movements	2.1	37.5		(3.6)
As of December 31, 2017	**4,096.1**	**318.5**	**-**	**20.5**

Borrowings					Equity		Total
Commercial paper	Obligations under finance leases	Bank overdrafts	Other borrowings		Equity attributable to owners of the parent	Non-controlling interests	
350.1	**96.9**	**292.1**	**141.8**				
					(27.8)		(27.8)
					0.2		0.2
					(580.9)		(580.9)
						(35.0)	(35.0)
							321.7
							(410.1)
(350.1)		(15.4)					(363.4)
	(3.5)	(10.4)	(189.6)				(203.5)
(350.1)	(3.5)	(25.8)	(189.6)		(608.5)	(35.0)	(1,298.8)
	(5.6)	(16.5)	(1.2)				
	(3.9)	(12.5)	477.9				
-	**83.9**	**237.3**	**428.9**				

note 34 – contingent liabilities, contractual commitments not recognised and other contingencies

34.1. Commitments given or received following asset disposals

Vendor warranties given or received by the Group on sales of companies in prior years are summarised below as of December 31, 2017:

Disposals	Vendor warranties
December 2010 Sale of Conforama	Vendor warranty covering tax-related claims expiring when the period becomes time barred, capped at €120 million. This disposal is related to an ancillary commitment by Kering to continue commercial relations between Conforama and the BNP Paribas group as regards customer loans.
December 2012 Sale of The Sportsman's Guide and The Golf Warehouse	Vendor warranties covering (i) certain fundamental representations (with respect to organisation, title ownership, capacity) which survive indefinitely, (ii) employment and benefit plans, and (iii) tax-related claims; (ii) and (iii) expiring when the period becomes time barred. These warranties are capped at USD 21.5 million.
February 2013 Sale of OneStopPlus	Specific vendor warranty covering three identified tax-related claims, expiring when the period becomes time barred.
March 2013 Sale of Redcats' Children and Family division	Vendor warranty covering certain fundamental representations (with respect to organisation and title/asset ownership), expiring in April 2018 and capped at the sale price. Specific warranty covering an occupancy fee capped at €400,000.
June 2013 Sale of Ellos	Customary vendor warranty covering certain fundamental representations (with respect to capacity, existence, title ownership and capitalisation), which survives indefinitely and is capped at the sale price. Vendor warranty covering tax-related claims, which expires on June 2, 2019 and is capped at SEK 350 million. This was accompanied by a commitment received as regards the continuation of commercial relations with Finaref, covered by a €70 million bank guarantee expiring in 2023.

Disposals	Vendor warranties
June 2014 Sale of La Redoute and Relais Colis	Customary vendor warranty covering certain fundamental representations (particularly with respect to the existence of the companies sold, the availability of the shares sold and the capacity and power to complete the sale), which expires when the period becomes time barred and is capped at €10 million. Vendor warranty covering tax-related claims and capped at €10 million, expiring when the period becomes time barred. Specific vendor warranties covering (i) the group's restructuring operations prior to its sale, which expire on December 31, 2021 and are not capped, and (ii) environmental risks, which expire on December 31, 2020 and are capped at €37 million.
December 2015 Sale of Sergio Rossi	Vendor warranties covering (i) tax-related or similar claims expiring when the period becomes time barred in each jurisdiction concerned and (ii) certain fundamental representations (particularly with respect to organisation, capitalisation, titles and authority) which survive indefinitely. These warranties are capped at €15 million with the exception of (ii), which is capped at the sale price. Specific vendor warranties covering (i) tax audits of the years 2010 to 2014; (ii) the tax impact of the group's restructuring operations prior to its sale; and (iii) intellectual property claims and potential disputes with certain managerial-grade employees (*cadres*), which survive indefinitely. These warranties are not capped.
March 2016 Disposal of Electric	Customary vendor warranty covering certain fundamental representations, particularly with respect to organisation, capitalisation and authority. The vendor warranties are limited to the seller's knowledge of insurance, litigation and tax-related matters. They are not capped.

In addition to the vendor warranties described above, minor vendor warranty agreements with standard terms were set up for the purchasers of the other companies sold by the Group.

34.2. Other commitments given

34.2.1. Contractual obligations

The table below shows all the Group's contractual commitments and obligations, excluding employee benefit obligations presented in Note 26 – Employee benefits.

	Payments due by period				
(in € millions)	Less than one year	One to five years	More than five years	Dec. 31, 2017	Dec. 31, 2016
Borrowings (Note 29)	939.7	2,617.7	1,627.8	5,185.2	5,420.3
Operating lease agreements	741.8	1,911.1	1,227.6	3,880.5	3,732.3
Binding purchase commitments	134.6	116.4	1.7	252.7	306.6
TOTAL COMMITMENTS GIVEN	**1,816.1**	**4,645.2**	**2,857.1**	**9,318.4**	**9,459.2**

Operating leases

The amount of contractual obligations presented on the line "Operating lease agreements" represents future minimum lease payments under operating lease agreements for the year, which cannot be cancelled by the lessee. These mainly include non-cancellable rental payments in respect of stores, logistics hubs and other buildings (head offices and administrative offices).

As of December 31, 2017, total future minimum lease payments which the Group expects to receive under non-cancellable sub-lease agreements amount to €14.5 million (€7.0 million as of December 31, 2016).

The rental expense for 2017 corresponding to minimum lease payments amounts to €808.9 million (€749.9 million in 2016). The contingent consideration expense, calculated on the basis of actual revenue, was €683.6 million (€413.9 million in 2016).

Sub-lease revenue totalled €3.3 million in 2017 and €2.7 million in 2016.

Finance leases

The present value of future lease payments included in "Borrowings" and relating to capitalised assets meeting the definition of a finance lease set out in IAS 17 is as follows:

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Less than one year	9.3	9.7
One to five years	61.4	65.3
More than five years	27.0	40.5
	97.7	**115.5**
Finance costs included	(13.8)	(18.6)
Present value of future minimum lease payments	**83.9**	**96.9**

As of December 31, 2017, the Group does not expect to receive future minimum lease payments under non-cancellable sub-lease agreements.

34.2.2. Guarantees and other collateral

(in € millions)	Pledge start date	Pledge expiry date	Amount of assets pledged as of Dec. 31, 2017	Statement of financial position total (carrying amount)	Corresponding %	Amount of assets pledged as of Dec. 31, 2016
Intangible assets				11,159.0		
Property, plant and equipment	06/08/2001	03/31/2028	31.1	2,267.6	1.4%	34.0
Non-current financial assets				364.3		
TOTAL NON-CURRENT ASSETS PLEDGED AS COLLATERAL			**31.1**	**13,790.9**	**0.2%**	**34.0**

34.2.3. Other commitments

	Payments due by period				
(in € millions)	Less than one year	One to five years	More than five years	Dec. 31, 2017	Dec. 31, 2016
Confirmed lines of credit (see Note 29)	266.2	3,480.9		3,747.1	4,188.6
Letters of credit	22.5	0.1	0.2	22.8	22.5
Other guarantees received	17.6	6.0	2.0	25.6	39.6
TOTAL COMMITMENTS RECEIVED	**306.3**	**3,487.0**	**2.2**	**3,795.5**	**4,250.7**
Guarantees given to banks responsible for cash pooling arrangements	2.5	0.3	1.7	4.5	2.2
Rent guarantees, property guarantees	1.8	9.7	2.7	14.2	17.5
Sponsoring and advertising commitments	185.6	545.6	367.6	1,098.8	490.1
Other commitments	39.2	23.9	1.7	64.8	42.8
TOTAL COMMITMENTS GIVEN	**229.1**	**579.5**	**373.7**	**1,182.3**	**552.6**

Other commitments given primarily include customs warranties and operating guarantees.

To the best of the Group's knowledge, there are no significant contingent liabilities other than the tax risk concerning Gucci described in Note 11.1.3 – Recurring tax rate.

As part of the various procedures set out in the shareholder agreement between Stella McCartney Ltd. and Luxury Fashion Luxembourg SA in 2013 to govern relations between the two parties, Ms. Stella McCartney has an option to repurchase Kering's stake in the company exercisable through March 31, 2018. After that date, Ms. Stella McCartney will have put options on these companies exercisable at dates specified contractually.

34.3. Dependence on patents, licences and supply contracts

The Group is not significantly dependent on any patents, licences or supply contracts.

34.4. Litigation

Group companies are involved in a number of lawsuits or disputes arising in the normal course of business, including litigation with tax, social security and customs authorities. Provisions have been set aside for the probable costs, as estimated by the Group's entities and their counsel.

According to the Group's legal counsel, no litigation currently in progress is likely to have a material impact on normal or foreseeable operations or the planned development of the Group or any of its subsidiaries.

The Group believes there is no known litigation likely to have a potential material impact on its net assets, earnings or financial position that is not adequately covered by provisions recorded as of the end of the reporting period. No individual claim against the Company and/or against any of its subsidiaries is material to the Company or the Group.

The Group is not aware of any other dispute or arbitration, which has had in the recent past, or is likely to have in the future, a material impact on the financial position, activity or earnings of the Company or Group.

note 35 – transactions with related parties

35.1. Related party controlling the Group

Kering SA is controlled by Artémis, which in turn is wholly owned by Financière Pinault. As of December 31, 2017, the Artémis group held 40.9% of Kering's share capital (40.9% as of end-2016) and 57.6% of its voting rights (57.4% as of December 31, 2016).

The main transactions carried out between Kering's consolidated companies and Artémis in 2017 are described below:

- payment of an interim dividend in respect of 2017 totalling €103.2 million in January 2018, approved on December 14, 2017;
- payment of the balance of the dividend for 2016 of €160.1 million, further to the payment of an interim dividend of €77.5 million in January 2017 (€206.5 million for the full 2015 dividend);
- recognition of fees totalling €4.0 million in 2017 (€3.2 million in 2016) for (i) business development consulting services and complex transaction support, and (ii) the supply of development opportunities, new business and cost reduction solutions. These fees are governed by an agreement reviewed by the Audit Committee and approved by the Board of Directors.

35.2. Associates

In the normal course of business, the Group enters into transactions with associates on an arm's length basis.

These transactions are not material.

35.3. Remuneration paid to members of the Board of Directors and the Group's Executive Committee

(in € millions)	2017	2016
Short-term benefits	69.8	25.2
Payroll taxes	4.3	5.2
Termination indemnities	1.9	2.2
Post-employment benefits	2.0	1.0
Other long-term benefits	40.0	10.6
Share-based payment	53.9	9.7
TOTAL	**171.9**	**53.9**

Short-term benefits, payroll taxes and termination benefits correspond to amounts paid during the year. Post-employment benefits, other long-term benefits and share-based payment correspond to the amounts recognised as expenses.

A list of the members of the Board of Directors and Executive Committee is provided in the "Corporate Governance" section of the Reference Document.

note 36 – list of consolidated subsidiaries as of december 31, 2017

Details of Group subsidiaries are provided below:

Consolidation method: Full consolidation: C

Equity method: E

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
KERING	**Parent company**			
LUXURY ACTIVITIES				
France				
ALEXANDER McQUEEN FRANCE SAS	C	100.00	C	100.00
ARCADES PONTHIEU SA	C	95.00	C	95.00
BALENCIAGA SA	C	100.00	C	100.00
BOTTEGA VENETA FRANCE SAS	C	100.00	C	100.00
BOUCHERON HOLDING SAS	C	100.00	C	100.00
BOUCHERON PARFUMS SAS	C	100.00	C	100.00
BOUCHERON SAS	C	100.00	C	100.00
BRIONI FRANCE SAS	C	100.00	C	100.00
C. MENDES SAS	C	100.00	C	100.00
CHRISTOPHER KANE FRANCE SA	C	80.00	C	80.00
DODO PARIS SAS	C	99.99	C	80.99
FRANCE CROCO SAS	C	100.00	C	100.00
GG FRANCE SERVICES SAS	C	100.00	C	100.00
GPO HOLDING SAS	C	100.00	C	100.00
GUCCI FRANCE SAS	C	100.00	C	100.00
GUCCI GROUP WATCHES FRANCE SAS	Merger		C	100.00
LES BOUTIQUES BOUCHERON SAS	C	100.00	C	100.00
POMELLATO PARIS SA	C	99.99	C	80.99
QEELIN FRANCE SARL	C	100.00	C	100.00
SOWIND FRANCE SAS	C	100.00	C	100.00
STELLA McCARTNEY FRANCE SAS	C	50.00	C	50.00
TANNERIE DE PERIERS SAS	C	100.00	C	100.00
YSL VENTES PRIVEES FRANCE SAS	C	100.00	C	100.00
YVES SAINT LAURENT BOUTIQUE FRANCE SAS	C	100.00	C	100.00
YVES SAINT LAURENT PARFUMS SAS	C	100.00	C	100.00
YVES SAINT LAURENT SAS	C	100.00	C	100.00
Germany				
BALENCIAGA GERMANY GmbH	C	100.00	C	100.00
BOTTEGA VENETA GERMANY GmbH	C	100.00	C	100.00
BRIONI GERMANY GmbH	C	100.00	C	100.00
DODO DEUTSCHLAND GmbH	C	100.00	C	81.00
GG LUXURY GOODS GmbH	C	100.00	C	100.00
KW LUXURY DISTRIBUTION GmbH	C	100.00	C	100.00
POMELLATO DEUTSCHLAND GmbH	C	100.00	C	81.00
TRADEMA GmbH	Liquidation		C	100.00
KERING WATCHES LUXURY DIVISION GmbH	C	100.00	C	100.00
YVES SAINT LAURENT GERMANY GmbH	C	100.00	C	100.00
Austria				
ALEXANDER MCQUEEN GmbH	C	100.00	C	100.00
BOTTEGA VENETA AUSTRIA GmbH	C	100.00	C	100.00
BRIONI AUSTRIA GMBH	C	100.00	C	100.00
GUCCI AUSTRIA GmbH	C	100.00	C	100.00
YVES SAINT LAURENT AUSTRIA GmbH	C	100.00	C	100.00
Belgium				
GUCCI BELGIUM SA	C	100.00	C	100.00
Cyprus				
BOWLINE INVESTMENTS Ltd	C	100.00	-	
PROPERTY4LIFE INVESTMENTS Ltd	C	100.00	-	
Spain				
BALENCIAGA SPAIN SL	C	100.00	C	100.00
BOTTEGA VENETA ESPAÑA SL	C	100.00	C	100.00
BRIONI RETAIL ESPAÑA SL	C	100.00	C	100.00
DODO SPAIN SA	C	100.00	C	81.00
LUXURY GOODS SPAIN SL	C	100.00	C	100.00
LUXURY TIMEPIECES ESPAÑA SL	C	100.00	C	100.00
SOWIND IBERICA SL	C	100.00	Formation	
STELLA McCARTNEY SPAIN SL	C	50.00	C	50.00
YVES SAINT LAURENT SPAIN SA	C	100.00	C	100.00

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
United Kingdom				
ALEXANDER McQUEEN TRADING Ltd	C	100.00	C	100.00
AUTUMNPAPER Ltd	C	100.00	C	100.00
BALENCIAGA UK Ltd	C	100.00	C	100.00
BIRDSWAN SOLUTIONS Ltd	C	100.00	C	100.00
BOTTEGA VENETA UK CO. Ltd	C	100.00	C	100.00
BOUCHERON UK Ltd	C	100.00	C	100.00
BRIONI UK Ltd	C	100.00	C	100.00
CHRISTOPHER KANE Ltd	C	80.00	C	80.00
DODO (UK) Ltd	C	100.00	C	81.00
GUCCI Ltd	C	100.00	C	100.00
LUXURY TIMEPIECES UK Ltd	C	100.00	C	100.00
LUXURY TIMEPIECES & JEWELLERY OUTLETS Ltd	C	100.00	C	100.00
PAINTGATE Ltd	C	100.00	C	100.00
POMELLATO (UK) Ltd	C	100.00	C	81.00
QEELIN UK Ltd	Liquidation		C	100.00
STELLA McCARTNEY Ltd	C	50.00	C	50.00
YVES SAINT LAURENT UK Ltd	C	100.00	C	100.00
Greece				
LUXURY GOODS GREECE AE	C	99.80	C	99.80
Hungary				
GUCCI HUNGARY KFT	C	100.00	C	100.00
Ireland				
GUCCI IRELAND Ltd	C	100.00	C	100.00
Italy				
ALEXANDER McQUEEN ITALIA SRL	C	100.00	C	100.00
ARDORA SRL	Merger		C	100.00
BALENCIAGA LOGISTICA SRL	C	100.00	C	100.00
BALENCIAGA RETAIL ITALIA SRL	C	100.00	C	100.00
BRIONI SpA	C	100.00	C	100.00
BRIONI OUTLET SRL	C	100.00	C	100.00
BRIONI GERMANICS HOLDING SRL	C	100.00	C	100.00
BRIONI RETAIL ITALIA SRL	C	100.00	C	100.00
BV CALZATURE SRL	Merger		C	100.00
BV ITALIA SRL	C	100.00	C	100.00
BV SERVIZI SRL	C	100.00	C	100.00
BOTTEGA VENETA SRL	C	100.00	C	100.00
CALZATURIFICIO CREST SRL	Merger		C	100.00
CALZATURIFICIO FLORA SRL	C	100.00	C	100.00
CARAVEL PELLI PREGIATE SpA	C	100.00	C	100.00

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
CHRISTOPHER KANE SRL	C	80.00	C	80.00
CONCERIA BLUTONIC SpA	C	51.00	C	51.00
DESIGN MANAGEMENT SRL	C	100.00	C	100.00
DESIGN MANAGEMENT 2 SRL	C	100.00	C	100.00
E_LITE SpA	C	51.00	C	51.00
GARPE SRL	C	100.00	C	100.00
GUCCI GARDEN SRL	C	100.00	C	100.00
G COMMERCE EUROPE SpA	C	100.00	C	100.00
G.F. LOGISTICA SRL	C	100.00	C	100.00
G.F. SERVICES SRL	C	100.00	C	100.00
GGW ITALIA SRL	C	100.00	C	100.00
GJP SRL	C	100.00	C	100.00
GPA SRL	C	100.00	C	100.00
GT SRL	C	100.00	C	100.00
GUCCI IMMOBILLARE LECCIO SRL	C	100.00	C	100.00
GUCCI LOGISTICA SpA	C	100.00	C	100.00
GUCCIO GUCCI SpA	C	100.00	C	100.00
LECCIO SRL	C	100.00	-	
LGM SRL	C	73.30	C	73.30
LUXURY GOODS ITALIA SpA	C	100.00	C	100.00
LUXURY GOODS OUTLET SRL	C	100.00	C	100.00
MANIFATTURA VENETA PELLETERIE SRL	C	100.00	C	100.00
PIGINI SRL	C	100.00	C	100.00
POMELLATO SpA	C	100.00	C	81.00
POMELLATO EUROPA SpA	C	100.00	C	81.00
ROMAN STYLE SpA	C	100.00	C	100.00
SAMMEZZANO OUTLET SRL	C	100.00	-	
SFORZA SRL	Merger		C	100.00
SOWIND ITALIA SRL	C	100.00	C	100.00
STELLA McCARTNEY ITALIA SRL	C	50.00	C	50.00
SL LUXURY RETAIL SRL	C	100.00	C	100.00
THE MALL SRL	C	100.00	C	100.00
TIGER FLEX SRL	C	100.00	C	100.00
TOMAS MAIER ITALIA SRL	E	51.00	-	
TRAMOR SRL	C	100.00	-	
ULYSSE NARDIN ITALIA SRL	C	100.00	C	100.00
SAINT LAURENT SHOES SRL	C	100.00	C	100.00
YVES SAINT LAURENT LOGISTICA SRL	C	100.00	C	100.00
Luxembourg				
BOTTEGA VENETA INTERNATIONAL SARL	C	100.00	C	100.00

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
CASTERA SARL	C	100.00	C	100.00
GUCCI GULF INVESTMENTS SARL	C	100.00	C	100.00
LUXURY FASHION LUXEMBOURG SA	C	50.00	C	50.00
QEELIN HOLDING LUXEMBOURG SA	C	100.00	C	100.00
Monaco				
BOUCHERON SAM	C	100.00	C	100.00
GUCCI SAM	C	100.00	C	100.00
KERING RETAIL MONACO SAM	C	100.00	C	100.00
SMHJ SAM	C	99.79	C	80.83
YVES SAINT LAURENT OF MONACO SAM	C	100.00	C	100.00
Netherlands				
BOTTEGA VENETA HOLDING BV	C	100.00	C	100.00
G DISTRIBUTION BV	C	100.00	C	100.00
GG MIDDLE EAST BV	C	51.00	C	100.00
GG OTHER TERRITORIES BV	C	100.00	C	100.00
KERING ASIAN HOLDING BV	C	100.00	C	100.00
GUCCI NETHERLANDS BV	C	100.00	C	100.00
YVES SAINT LAURENT NETHERLANDS BV	C	100.00	-	
Czech Republic				
BRIONI CZECH REPUBLIC SRO	C	100.00	C	100.00
LUXURY GOODS CZECH REPUBLIC SRO	C	100.00	C	100.00
Russia				
BOUCHERON RUSSIA OOO	C	100.00	C	100.00
GUCCI RUS OOO	C	100.00	C	100.00
ULYSSE NARDIN RUSSIA LLC	C	100.00	C	100.00
Serbia				
LUXURY TANNERY DOO	C	51.00	C	51.00
Switzerland				
BOTTEGA VENETA SA	C	100.00	C	100.00
BOUCHERON (SUISSE) SA	C	100.00	C	100.00
BRIONI SWITZERLAND SA	C	100.00	C	100.00
DONZE CADRANS SA	C	100.00	C	100.00
FABBRICA QUADRANTI SA	C	100.00	C	51.00
GT SILK SA	C	100.00	C	76.00
LUXURY FASHION SA	C	50.00	C	50.00
LUXURY GOODS INTERNATIONAL SA	C	100.00	C	100.00
LUXURY GOODS OUTLETS EUROPE SAGL	C	100.00	C	100.00
OCHS UND JUNIOR SA	E	32.80	E	32.80
SIGATEC SA	E	50.00	E	50.00
SOWIND GROUP SA	C	100.00	C	100.00
SOWIND SA	C	100.00	C	100.00
THE MALL LUXURY OUTLET SA	C	100.00	C	100.00
ULYSSE NARDIN LE LOCLE SA	C	100.00	C	100.00
UNCA SA	E	50.00	E	50.00
YVES SAINT LAURENT SWITZERLAND SA	C	100.00	Formation	
Aruba				
GEMINI ARUBA NV	C	100.00	C	100.00
Brazil				
BOTTEGA VENETA HOLDING Ltda	C	100.00	C	100.00
GUCCI BRASIL IMPORTACAO E EXPORTACAO Ltda	C	100.00	C	100.00
SAINT LAURENT BRASIL IMPORTACAO E EXPORTACAO Ltda	C	100.00	C	100.00
Canada				
BOTTEGA VENETA CANADA Ltd	C	100.00	Formation	
G. BOUTIQUES INC.	C	100.00	C	100.00
SAINT LAURENT CANADA BOUTIQUES INC.	C	100.00	C	100.00
Chile				
LUXURY GOODS CHILE SpA	C	51.00	C	51.00
United States				
ALEXANDER McQUEEN TRADING AMERICA INC.	C	100.00	C	100.00
741 MADISON AVENUE Corp.	C	100.00	C	81.00
BALENCIAGA AMERICA INC.	C	100.00	C	100.00
BOTTEGA VENETA INC.	C	100.00	C	100.00
BOUCHERON JOAILLERIE (USA) INC.	C	100.00	C	100.00
BRIONI AMERICA INC.	C	100.00	C	100.00
BRIONI AMERICA HOLDING INC.	C	100.00	C	100.00
CHRISTOPHER KANE INC.	C	80.00	C	80.00
E_LITE US INC.	C	51.00	C	51.00
G GATOR USA LLC	C	100.00	C	100.00
GUCCI AMERICA INC.	C	100.00	C	100.00
GUCCI CARIBBEAN INC.	C	100.00	C	100.00
GUCCI GROUP WATCHES INC.	C	100.00	C	100.00
JOSEPH ALTUZARRA	E	40.54	E	38.50
LUXURY HOLDINGS INC.	C	100.00	C	100.00
POMELLATO USA INC.	C	100.00	C	81.00

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
STELLA McCARTNEY AMERICA INC.	C	50.00	C	50.00
TOMAS MAIER LLC	E	51.00	-	
TOMAS MAIER DISTRIBUTION LLC	E	51.00	-	
TOMAS MAIER HOLDING LLC	E	51.00	E	51.00
TRADEMA OF AMERICA INC.	C	100.00	C	100.00
ULYSSE NARDIN INC.	C	100.00	C	100.00
WALL'S GATOR FARM II LLC	E	40.00	E	40.00
WG ALLIGATOR FARM LLC	E	40.00	E	40.00
YVES SAINT LAURENT AMERICA HOLDING INC.	C	100.00	C	100.00
YVES SAINT LAURENT AMERICA INC.	C	100.00	C	100.00
Mexico				
BOTTEGA VENETA MEXICO, S. DE R.L. DE C.V.	C	100.00	C	100.00
BOTTEGA VENETA SERVICIOS S. DE R.L. DE C.V.	C	100.00	C	100.00
D ITALIAN CHARMS S.A. DE C.V.	C	100.00	C	81.00
GUCCI IMPORTACIONES S.A. DE C.V.	C	100.00	C	100.00
GUCCI MEXICO S.A. DE C.V.	C	100.00	C	100.00
RETAIL LUXURY SERVICIOS S.A. DE C.V.	C	100.00	C	100.00
SAINT LAURENT MEXICO, S. DE R.L. DE C.V.	C	100.00	C	100.00
SAINT LAURENT SERVICIOS S. DE R.L. DE C.V.	C	100.00	C	100.00
Panama				
LUXURY GOODS PANAMA S DE RL	C	51.00	C	51.00
Australia				
BOTTEGA VENETA AUSTRALIA PTY Ltd	C	100.00	C	100.00
GUCCI AUSTRALIA PTY Ltd	C	100.00	C	100.00
SAINT LAURENT AUSTRALIA PTY Ltd	C	100.00	C	100.00
New Zealand				
GUCCI NEW ZEALAND Ltd	C	100.00	C	100.00
China				
1921 (SHANGHAI) RESTAURANT Ltd	C	100.00	C	100.00
ALEXANDER McQUEEN (SHANGHAI) TRADING Ltd	C	100.00	C	100.00
BALENCIAGA FASHION SHANGAI Co. Ltd	C	100.00	C	100.00
BOTTEGA VENETA (CHINA) TRADING Ltd	C	100.00	C	100.00

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
BOUCHERON (SHANGHAI) TRADING Ltd	C	100.00	C	100.00
BRIONI (SHANGHAI) TRADING Ltd	C	100.00	C	100.00
GUCCI (CHINA) TRADING Ltd	C	100.00	C	100.00
GUCCI WATCHES MARKETING CONSULTING (SHANGHAI) Ltd	C	100.00	C	100.00
LGI (SHANGHAI) ENTERPRISE MANAGEMENT Ltd	C	100.00	C	100.00
POMELLATO SHANGHAI Co. Ltd	C	100.00	C	81.00
QEELIN TRADING (SHANGHAI) Co. Ltd	C	100.00	C	100.00
STELLA McCARTNEY (SHANGHAI) TRADING Ltd	C	50.00	C	50.00
YVES SAINT LAURENT (SHANGHAI) TRADING Ltd	C	100.00	C	100.00
Korea				
ALEXANDER McQUEEN KOREA Ltd	C	100.00	Formation	
BALENCIAGA KOREA Ltd	C	100.00	C	100.00
BOTTEGA VENETA KOREA Ltd	C	100.00	C	100.00
BOUCHERON KOREA Ltd	C	100.00	C	100.00
GUCCI KOREA Ltd	C	100.00	C	100.00
YVES SAINT LAURENT KOREA Ltd	C	100.00	C	100.00
Guam				
BOTTEGA VENETA GUAM INC.	C	100.00	C	100.00
GUCCI GROUP GUAM INC.	C	100.00	C	100.00
Hong Kong				
ALEXANDER McQUEEN (HONG KONG) Ltd	C	100.00	C	100.00
BALENCIAGA ASIA PACIFIC Ltd	C	100.00	C	100.00
BOTTEGA VENETA HONG KONG Ltd	C	100.00	C	100.00
BOUCHERON HONG KONG Ltd	C	100.00	C	100.00
BRIONI HONG KONG Ltd	C	100.00	C	100.00
GUCCI (HONG KONG) Ltd	C	100.00	C	100.00
GUCCI ASIA COMPANY Ltd	C	100.00	C	100.00
LUXURY TIMEPIECES (HONG KONG) Ltd	C	100.00	C	100.00
MOVEN INTERNATIONAL Ltd	C	100.00	C	100.00
POMELLATO CHINA Ltd	C	100.00	C	81.00
POMELLATO PACIFIC Ltd	C	100.00	C	81.00
QEELIN Ltd	C	100.00	C	100.00
SOWIND ASIA Ltd	Liquidation		C	100.00
STELLA McCARTNEY HONG KONG Ltd	C	50.00	C	50.00

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
ULYSSE NARDIN (ASIA PACIFIC) Ltd	C	100.00	C	100.00
YVES SAINT LAURENT (HONG KONG) Ltd	C	100.00	C	100.00
India				
GUCCI INDIA PRIVATE Ltd	C	100.00	C	100.00
LUXURY GOODS RETAIL PRIVATE LIMITED LGR	C	51.00	C	51.00
Japan				
BALENCIAGA JAPAN Ltd	C	100.00	C	100.00
BOTTEGA VENETA JAPAN Ltd	C	100.00	C	100.00
BOUCHERON JAPAN Ltd	C	100.00	C	100.00
BRIONI JAPAN & Co. Ltd	C	100.00	C	100.00
E_LITE JAPAN Ltd	C	51.00	C	51.00
LUXURY TIMEPIECES JAPAN Ltd	C	100.00	C	100.00
POMELLATO JAPAN Co. Ltd	C	100.00	C	81.00
STELLA McCARTNEY JAPAN Ltd	C	50.00	C	50.00
SOWIND JAPAN KK	C	100.00	C	100.00
Macau				
ALEXANDER McQUEEN (MACAU) Ltd	C	100.00	C	100.00
BALENCIAGA MACAU Ltd	C	100.00	C	100.00
BOTTEGA VENETA MACAU Ltd	C	100.00	C	100.00
BRIONI MACAU Ltd	C	100.00	C	100.00
GUCCI MACAU Ltd	C	100.00	C	100.00
KERING (MACAU) WATCHES AND JEWELRY Ltd	C	100.00	Formation	
QEELIN MACAU Ltd	C	100.00	C	100.00
YVES SAINT LAURENT MACAU Ltd	C	100.00	C	100.00
Vietnam				
GUCCI VIETNAM Co. Ltd	C	100.00	C	100.00
Bahrain				
FLORENCE 1921 WLL	C	49.00	C	49.00
United Arab Emirates				
ATELIER LUXURY GULF LLC	C	49.00	C	49.00
LUXURY GOODS GULF LLC	C	49.00	C	49.00
LUXURY FASHION GULF LLC	C	49.00	C	49.00
Kazakhstan				
ULYSSE NARDIN KAZAKHSTAN LLP	E	50.00	E	50.00
Kuwait				
LUXURY GOODS KUWAIT WLL	C	26.01	C	49.00
Qatar				
SAINT LAURENT PARIS LLC	C	24.00	C	24.00
LUXURY GOODS QATAR LLC	C	25.50	C	49.00

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
Malaysia				
BOTTEGA VENETA MALAYSIA SDN BHD	C	100.00	C	100.00
GUCCI (MALAYSIA) SDN BHD	C	100.00	C	100.00
SAINT LAURENT (MALAYSIA) SDN BHD	C	100.00	C	100.00
Mongolia				
ULYSSE NARDIN MONGOLIA LLC	E	50.00	E	50.00
Singapore				
ALEXANDER McQUEEN (SINGAPORE) Pte Ltd	C	100.00	C	100.00
BALENCIAGA SINGAPORE Pte Ltd	C	100.00	Formation	
BOTTEGA VENETA SINGAPORE PRIVATE Ltd	C	100.00	C	100.00
GUCCI SINGAPORE Pte Ltd	C	100.00	C	100.00
SAINT LAURENT (SINGAPORE) Pte Ltd	C	100.00	C	100.00
Taiwan				
BOUCHERON TAIWAN Co. Ltd	C	100.00	C	100.00
GUCCI GROUP WATCHES TAIWAN Ltd	C	100.00	C	100.00
ULYSSE NARDIN (TAIWAN) Ltd	C	100.00	C	100.00
Turkey				
POMELLATO MUCEVHERAT VE AKSESUAR DAGITIM VE TICARET Limited SIRKETI	C	100.00	C	81.00
Thailand				
BOTTEGA VENETA (THAILAND) Ltd	C	75.00	Formation	
CLOSED-CYCLE BREEDING INTERNATIONAL Ltd	C	48.00	C	48.00
G-OPERATIONS FRASEC Ltd	C	49.00	C	49.00
GUCCI THAILAND Co. Ltd	C	100.00	C	100.00
LUXURY GOODS (THAILAND) Ltd	C	75.00	Formation	
SAINT LAURENT (THAILAND) Co.	C	100.00	C	100.00
South Africa				
GG LUXURY RETAIL SOUTH AFRICA Pte Ltd	C	62.00	C	62.00
PUMA				
France				
DOBOTEX FRANCE SAS	C	86.25	C	85.81
PUMA FRANCE SAS	C	86.25	C	85.81
Germany				
DOBOTEX DEUTSCHLAND GmbH	C	86.25	C	85.81
PUMA EUROPE GmbH	C	86.25	C	85.81

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
PUMA INTERNATIONAL TRADING GmbH	C	86.25	C	85.81
PUMA MOSTRO GmbH	C	86.25	C	85.81
PUMA SE	C	86.25	C	85.81
PUMA SPRINT GmbH	C	86.25	C	85.81
PUMA VERTRIEB GmbH	C	86.25	C	85.81
Austria				
AUSTRIA PUMA DASSLER GES MBH	C	86.25	C	85.81
DOBOTEX AUSTRIA GmbH	C	86.25	C	85.81
Cyprus				
SPORT EQUIPMENT TI CYPRUS Ltd	C	86.25	C	85.81
Croatia				
PUMA SPORT HRVATSKA DOO	C	86.25	C	85.81
Denmark				
PUMA DENMARK A/S	C	86.25	C	85.81
Spain				
DOBOTEX SPAIN SL	C	86.25	C	85.81
PUMA IBERIA SLU	C	86.25	C	85.81
Estonia				
PUMA ESTONIA OU	C	86.25	C	85.81
Finland				
PUMA FINLAND OY	C	86.25	C	85.81
United Kingdom				
ADMIRAL TEAMSPORTS Ltd	C	86.25	C	85.81
DOBOTEX UK Ltd	C	86.25	C	85.81
BRANDED SPORTS MERCHANDISING UK Ltd	C	86.25	C	85.81
GENESIS GROUP INTERNATIONAL Ltd	C	86.25	C	85.81
PUMA PREMIER Ltd	C	86.25	C	85.81
PUMA UNITED KINGDOM Ltd	C	86.25	C	85.81
Greece				
PUMA HELLAS SA	C	86.25	C	85.81
Israel				
PUMA SPORT ISRAEL Ltd	C	86.25	C	85.81
Italy				
DOBOTEX ITALIA SRL	C	86.25	C	85.81
PUMA ITALIA SRL	C	86.25	C	85.81
Malta				
PUMA MALTA Ltd	C	86.25	C	85.81
PUMA RACING Ltd	C	86.25	C	85.81
Norway				
PUMA NORWAY AS	C	86.25	C	85.81

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
Netherlands				
BRANDED SPORTS MERCHANDISING BV	C	86.25	C	85.81
DOBO LOGIC BV	C	86.25	C	85.81
DOBOTEX INTERNATIONAL BV	C	86.25	C	85.81
DOBOTEX LICENSING HOLDING BV	C	86.25	C	85.81
DOBOTEX BV	C	86.25	C	85.81
BRAND PLUS LICENSING BV	C	86.25	C	85.81
PUMA INTERNATIONAL SPORTS MARKETING BV	C	86.25	C	85.81
PUMA BENELUX BV	C	86.25	C	85.81
Philippines				
PUMANILA IT SERVICES INC.	C	86.25	C	85.81
Poland				
PUMA POLSKA SPOLKA ZOO	C	86.25	C	85.81
Czech Republic				
PUMA CZECH REPUBLIC SRO	C	86.25	C	85.81
Romania				
PUMA SPORT ROMANIA SRL	C	86.25	C	85.81
Russia				
PUMA-RUS Ltd	C	86.25	C	85.81
Slovakia				
PUMA SLOVAKIA SRO	C	86.25	C	85.81
Sweden				
DOBOTEX NORDIC AB	C	86.25	Formation	
PUMA NORDIC AB	C	86.25	C	85.81
NROTERT AB	C	86.25	C	85.81
NROTERT SWEDEN AB	C	86.25	C	85.81
Switzerland				
DOBOTEX SWITZERLAND AG	C	86.25	C	85.81
MOUNT PUMA AG (SWITZERLAND)	C	86.25	C	85.81
PUMA RETAIL AG	C	86.25	C	85.81
Ukraine				
PUMA UKRAINE TOV	C	86.25	C	85.81
Argentina				
UNISOL SA	C	86.25	C	85.81
Brazil				
PUMA SPORTS Ltda	C	86.25	C	85.81
Canada				
JANED CANADA LLC	C	43.99	C	43.76
PUMA CANADA INC.	C	86.25	C	85.81
PUMA KIDS APPAREL CANADA, LLC	C	43.99	C	43.76

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
Chile				
PUMA CHILE SA	C	86.25	C	85.81
PUMA SERVICIOS SpA	C	86.25	C	85.81
United States				
COBRA GOLF INC.	C	86.25	C	85.81
JANED LLC	C	43.99	C	43.76
PUMA KIDS APPAREL NORTH AMERICA, LLC	C	43.99	C	43.76
PUMA NORTH AMERICA INC.	C	86.25	C	85.81
PUMA NORTH AMERICA ACCESSORIES CANADA, LLC	C	86.25	Formation	
PUMA SUEDE HOLDING INC.	C	86.25	C	85.81
PUMA ACCESSORIES NORTH AMERICA LLC	C	73.31	C	72.94
British Virgin Islands				
LIBERTY CHINA HOLDING Ltd	C	86.25	C	85.81
Mexico				
DOBOTEX DE MEXICO S.A. DE C.V.	C	86.25	C	85.81
IMPORTATIONES BRAND PLUS LICENSING S.A. DE C.V.	C	86.25	C	85.81
IMPORTACIONES RDS S.A. DE C.V.	C	86.25	C	85.81
PUMA MEXICO SPORT S.A. DE C.V.	C	86.25	C	85.81
SERVICIOS PROFESIONALES RDS S.A. DE C.V.	C	86.25	C	85.81
Peru				
DISTRUIBUIDORA DEPORTIVA PUMA SAC	C	86.25	C	85.81
DISTRUIBUIDORA DEPORTIVA PUMA TACNA SAC	C	86.25	C	85.81
PUMA RETAIL PERU SAC	C	86.25	C	85.81
Uruguay				
PUMA SPORTS LA SA	C	86.25	C	85.81
Botswana				
WILDERNESS HOLDINGS Ltd	E	22.25	E	22.16
South Africa				
PUMA SPORTS DISTRIBUTORS Ltd	C	86.25	C	85.81
PUMA SPORTS SA	C	86.25	C	85.81
Australia				
KALOLA PTY Ltd	C	86.25	C	85.81
PUMA AUSTRALIA PTY Ltd	C	86.25	C	85.81
WHITE DIAMOND AUSTRALIA PTY Ltd	C	86.25	C	85.81
WHITE DIAMOND PROPERTIES PTY Ltd	C	86.25	C	85.81

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
New Zealand				
PUMA NEW ZEALAND Ltd	C	86.25	C	85.81
United Arab Emirates				
PUMA MIDDLE EAST FZ LLC	C	86.25	C	85.81
PUMA UAE LLC	C	86.25	C	85.81
Turkey				
PUMA SPOR GIYIM SANANYI VE TICARET AS	C	86.25	C	85.81
China				
DOBOTEX CHINA Ltd	C	86.25	C	85.81
GUANGZHOU WORLD CAT INFORMATION CONSULTING SERVICES Co Ltd	C	86.25	C	85.81
PUMA CHINA Ltd	C	86.25	C	85.81
Hong Kong				
DEVELOPMENT SERVICES Ltd	C	86.25	C	85.81
DOBOTEX Ltd	C	86.25	C	85.81
PUMA ASIA PACIFIC Ltd	C	86.25	C	85.81
PUMA HONG KONG Ltd	C	86.25	C	85.81
PUMA INTERNATIONAL TRADING SERVICES Ltd	C	86.25	C	85.81
WORLD CAT Ltd	C	86.25	C	85.81
India				
PUMA SPORTS INDIA PRIVATE Ltd	C	86.25	C	85.81
PUMA INDIA CORPORATE SERVICES PVT Ltd	C	86.25	C	85.81
WORLD CAT SOURCING INDIA Ltd	C	86.25	C	85.81
Indonesia				
PT PUMA CAT INDONESIA	C	86.25	C	85.81
Japan				
PUMA JAPAN KK	C	86.25	C	85.81
Korea				
DOBOTEX KOREA Ltd	C	86.25	C	85.81
PUMA KOREA Ltd	C	86.25	C	85.81
Malaysia				
PUMA SPORTS GOODS SDN BHD	C	86.25	C	85.81
Singapore				
PUMA SPORTS SEA TRADING Pte Ltd	C	86.25	C	85.81
PUMA SEA HOLDING Pte Ltd	C	86.25	C	85.81
Taiwan				
PUMA TAIWAN SPORTS Ltd	C	86.25	C	85.81

Company	% interest			
	Dec. 31, 2017		Dec. 31, 2016	
Vietnam				
WORLD CAT VIETNAM CO. Ltd	C	86.25	C	85.81
WORLD CAT VIETNAM SOURCING & DEVELOPMENT SERVICES CO. Ltd	C	86.25	C	85.81
VOLCOM				
United States				
LS&S RETAIL LLC	C	100.00	C	100.00
VOLCOM LLC	C	100.00	C	100.00
VOLCOM RETAIL LLC	C	100.00	C	100.00
VOLCOM RETAIL OUTLET LLC	C	100.00	C	100.00
Luxembourg				
VOLCOM LUXEMBOURG HOLDING SA	C	100.00	C	100.00
Switzerland				
VOLCOM INTERNATIONAL SARL	C	100.00	C	100.00
WELCOM DISTRIBUTION SARL	C	100.00	C	100.00
Spain				
VOLCOM DISTRIBUTION SPAIN SL	C	100.00	C	100.00
France				
VOLCOM SAS	C	100.00	C	100.00
VOLCOM RETAIL FRANCE	Merger		C	100.00
United Kingdom				
VOLCOM DISTRIBUTION (UK) Ltd	C	100.00	C	100.00
VOLCOM RETAIL (UK) Ltd	C	100.00	C	100.00
Australia				
VOLCOM AUSTRALIA HOLDING COMPANY PTY Ltd	C	100.00	C	100.00
VOLCOM AUSTRALIA PTY Ltd	C	100.00	C	100.00
Canada				
VOLCOM CANADA INC.	C	100.00	C	100.00
New Zealand				
VOLCOM NEW ZEALAND Ltd	C	100.00	C	100.00
Japan				
VOLCOM JAPAN GODOGAISHIYA	C	100.00	C	100.00
Hong Kong				
VOLCOM ASIA PACIFIC Ltd	C	100.00	C	100.00
HOLDING COMPANIES AND OTHER				
France				
CONSEIL ET ASSISTANCE	C	100.00	C	100.00
DISCODIS SAS	C	100.00	C	100.00
GG FRANCE 13 SAS	C	100.00	C	100.00
GG FRANCE 14 SAS	C	100.00	C	100.00
GG FRANCE HOLDING SAS	C	100.00	C	100.00
KERING EYEWEAR FRANCE SAS	C	63.00	C	80.00
KERING FINANCE SNC	C	100.00	C	100.00
KERING SIGNATURE	C	100.00	-	
MANUFACTURE CARTIER LUNETTES SAS	C	63.00	Acquisition	
SAPARDIS	C	100.00	C	100.00
SAPRODIS SERVICES SAS	C	100.00	C	100.00
Germany				
KERING EYEWEAR DACH GmbH	C	63.00	C	80.00
SAPARDIS DEUTSCHLAND SE	Liquidation		C	100.00
Spain				
KERING EYEWEAR ESPAÑA SA	C	63.00	C	80.00
KERING SPAIN SL	C	100.00	C	100.00
United Kingdom				
KERING EYEWEAR UK Ltd	C	63.00	C	80.00
KERING INTERNATIONAL Limited	C	100.00	C	100.00
KERING UK SERVICES Ltd	C	100.00	C	100.00
Italy				
KERING EYEWEAR SpA	C	63.00	C	80.00
KERING ITALIA SpA	C	100.00	C	100.00
KERING OPERATIONS & SERVICES ITALIA SRL	C	100.00	C	100.00
KERING SERVICE ITALIA SpA	C	100.00	C	100.00
Luxembourg				
BOUCHERON LUXEMBOURG SARL	Liquidation		C	100.00
KERING RE	C	100.00	C	100.00
KERING LUXEMBOURG SA	C	100.00	C	100.00
E-KERING LUX SA	C	100.00	C	100.00
PPR DISTRI LUX SA	C	100.00	C	100.00
PPR INTERNATIONAL	Liquidation		C	100.00
Netherlands				
K OPERATIONS BV	C	100.00	C	100.00
GUCCI INTERNATIONAL NV	C	100.00	C	100.00
GUCCI PARTICIPATION BV	C	100.00	C	100.00
KERING HOLLAND NV	C	100.00	C	100.00
KERING NETHERLANDS BV	Merger		C	100.00
KERING INVESTMENTS EUROPE BV	C	100.00	C	100.00

Company	% interest	
	Dec. 31, 2017	Dec. 31, 2016
Switzerland		
LUXURY GOODS SERVICES SA	C 100.00	C 100.00
LUXURY GOODS LOGISTICS SA	C 51.00	C 51.00
LUXURY GOODS OPERATIONS SA	C 51.00	C 51.00
China		
GUANGZHOU KGS CORPORATE MANAGEMENT & CONSULTANCY Ltd	C 100.00	C 100.00
KERING (CHINA) ENTERPRISE MANAGEMENT Ltd	C 100.00	C 100.00
KERING EYEWEAR SHANGHAI TRADING ENTERPRISES Ltd	C 63.00	C 80.00
REDCATS COMMERCE ET TRADING (SHANGHAI) Co Ltd	C 100.00	C 100.00
REDCATS SOURCING (SHANGHAI) Ltd	C 100.00	C 100.00
Korea		
KERING EYEWEAR KOREA Ltd	C 63.00	Formation
KERING KOREA Ltd	C 100.00	C 100.00
Hong Kong		
KERING ASIA PACIFIC Ltd	C 100.00	C 100.00
KERING EYEWEAR APAC Ltd	C 63.00	C 80.00
KERING HOLDING Ltd	Liquidation	C 100.00
KGS GLOBAL MANAGEMENT SERVICES Ltd	C 100.00	C 100.00
KGS SOURCING Ltd	C 100.00	C 100.00

Company	% interest	
	Dec. 31, 2017	Dec. 31, 2016
India		
KGS SOURCING INDIA PRIVATE Ltd	C 100.00	C 100.00
Singapore		
KERING EYEWEAR SINGAPORE Pte Ltd	C 63.00	C 80.00
KERING SOUTH EAST ASIA Pte Ltd	C 100.00	C 100.00
Taiwan		
KERING EYEWEAR TAIWAN Ltd	C 63.00	C 80.00
Turkey		
KGS SOURCING TURKEY Ltd	C 100.00	C 100.00
Japan		
GUCCI YUGEN KAISHA	C 100.00	C 100.00
KERING EYEWEAR JAPAN Ltd	C 63.00	C 80.00
KERING JAPAN Ltd	C 100.00	C 100.00
KERING TOKYO INVESTMENT Ltd	C 100.00	C 100.00
United States		
KERING AMERICAS INC.	C 100.00	C 100.00
KERING EYEWEAR USA INC.	C 63.00	C 80.00
Mexico		
KERING MEXICO S. DE R.L. DE C.V.	C 100.00	C 100.00

note 37 – statutory auditors' remuneration

Fees for fiscal year 2017	KPMG				Deloitte			
	Statutory Auditor: KPMG SA		Network		Statutory Auditor: Deloitte & Associés		Network	
(in € thousands)	Amount	%	Amount	%	Amount	%	Amount	%
Certification and half-year limited review of the parent company and consolidated financial statements								
• Issuer	327.8	22%	n/a	n/a	300.2	47%	n/a	n/a
• Fully-consolidated subsidiaries	1,057.7	70%	4,296.3	78%	209.7	33%	2,277.4	73%
Sub-total	**1,385.5**	**92%**	**4,296.3**	**78%**	**509.9**	**80%**	**2,277.4**	**73%**
Non-audit services								
• Issuer	66.0	4%	0.0	0%	128.0	20%	0.0	0%
• Fully-consolidated subsidiaries	67.0	4%	1,219.7	22%	0.0	0%	861.9	27%
Sub-total (1)	**133.0**	**8%**	**1,219.7**	**22%**	**128.0**	**20%**	**861.9**	**27%**
TOTAL	**1,518.5**	**100%**	**5,516.0**	**100%**	**637.9**	**100%**	**3,139.3**	**100%**

(1) Non-audit services provided by KPMG SA to the reporting entity and to its controlled subsidiaries chiefly concerned comfort letters, statements on financial information and agreed-upon procedures relating to financial data.
Non-audit services provided by Deloitte & Associés to the reporting entity and to its controlled subsidiaries chiefly concerned comfort letters and CSR procedures.

note 38 – subsequent events

At its January 11, 2018 meeting, Kering's Board of Directors decided to ask shareholders at the Annual General Meeting of April 26, 2018 held to approve the financial statements for the year ended December 31, 2017, to approve the payment of an exceptional stock dividend in the form of PUMA SE ("PUMA") shares, with the allocation of 1 PUMA share for 12 Kering shares held. If this stock dividend is approved, the ex-dividend date will be May 14, 2018 before market and the payment date will be May 16, 2018. Upon completion of this operation, Kering would retain 15.85% of PUMA's shares outstanding and voting rights. The main consequence of this distribution of PUMA shares will be that Kering will cease to exercise control over PUMA as of the dividend payment date.

This loss of control over PUMA results from a decision taken after the end of the reporting period and after Kering's Board of Directors had considered the various scenarios for selling or distributing the Group's stake in PUMA, based on favourable market conditions at this date. Accordingly, this transaction does not meet the criteria set out in IFRS 5. However, in accordance with IAS 10.21 and 10.22 (a) on material events after the reporting period, the estimated main impacts of this future loss of control over PUMA would be:

- the recognition of a capital gain or loss net of current and deferred taxes equal to (i) the number of PUMA shares distributed, multiplied by the PUMA share price as of May 16, 2018, the dividend payment date, less (ii) the share in the consolidated net carrying amount of PUMA as of this date, including transaction fees net of tax;
- the recognition of a capital gain or loss net of deferred taxes as a result of remeasuring the interest retained in PUMA at the opening price for PUMA shares as of May 16, 2018.

For example, based on the PUMA share price as of December 29, 2017 and a consolidated net carrying amount for PUMA as of December 31, 2017, the net capital gain realised would total €316.2 million. However, taking into account PUMA share price volatility in January 2018, the net capital gain or loss would fluctuate as shown below:

PUMA share price from 01/01/2018 to 01/31/2018	Net capital gain (loss) *(in € millions)*
High: €363.50 (01/05/2018)	322.4
Average: €341.54	51.0
Low: €318.50 (01/12/2018)	(233.8)

It should be noted that the net capital gain or loss that will be ultimately realised in Kering's consolidated financial statements as of June 30, 2018 will depend on the PUMA share price at the dividend payment date, i.e., the share price as of May 16, 2018, as well as changes in PUMA's net carrying amount between December 31, 2017 and May 16, 2018, including the impact of movements in the exchange rates to which PUMA is exposed in conducting its business.

The future classification and accounting treatment applicable to the interest retained in PUMA recorded within non-current assets will be determined based on PUMA's governance arrangements, to be finalised upon completion of the operation:

- in accordance with IFRS 9 applicable as of January 1, 2018, if no significant influence can be demonstrated, the interest retained in PUMA will be shown within "Available-for-sale financial assets" and remeasured to fair value, either directly against equity (other comprehensive income) or against financial income/loss, until that interest is sold;
- if significant influence can be demonstrated, the interest retained in PUMA will be shown within "Investments in equity accounted companies" for an amount relating to the Group's share in equity and net income.

The expected impact of the loss of control over PUMA on the operating lines of the consolidated income statement can be seen in the 2017 pro forma consolidated income statement set out below for illustrative purposes only. This pro forma consolidated income statement was drawn up based on the accounting records used to prepare the consolidated financial statements of Kering SA for the year ended December 31, 2017, and simulates the impacts of the loss of control over PUMA as though the operation had taken place as of January 1, 2017:

(in € millions)	2017 Reported	PUMA contribution	Other adjustments	2017 Pro forma
Revenue	**15,477.7**	**(4,151.7)**		**11,326.0**
Cost of sales	(5,344.7)	2,208.1		(3,136.6)
Gross margin	**10,133.0**	**(1,943.6)**		**8,189.4**
Payroll expenses	(2,443.6)	545.6		(1,898.0)
Other recurring operating income and expenses	(4,741.4)	1,154.1	(0.5)	(3,587.8)
Recurring operating income	**2,948.0**	**(243.9)**	**(0.5)**	**2,703.6**

The impact of the loss of control over PUMA on other financial lines of the consolidated statements of financial position and cash flows can be assessed in Note 4 – Operating segments.

3. extracts from the kering s.a. financial statements

The annual financial statements are prepared in accordance with the provisions of French accounting standards authority (*Autorité des normes comptables* – ANC) regulation no. 2014-03.

3.1. balance sheet – assets as of december 31, 2017 and 2016

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Investments	9,417.9	9,321.7
Other long-term investments [1]	270.5	304.6
Other non-current assets	135.1	79.2
NON-CURRENT ASSETS	**9,823.5**	**9,705.5**
Receivables [2] [3]	244.0	94.3
Marketable securities	0.0	0.0
Cash [3]	4,859.4	1,779.2
CURRENT ASSETS	**5,103.4**	**1,873.5**
TOTAL ASSETS	**14,926.9**	**11,579.0**
(1) o/w due in less than one year:	*19.6*	*19.8*
(2) o/w due in more than one year:	*0.0*	*0.0*
(3) o/w concerning associates:	*5,024.1*	*1,812.6*

3.2. balance sheet – shareholders' equity and liabilities as of december 31, 2017 and 2016

(in € millions)	Dec. 31, 2017	Dec. 31, 2016
Share capital	505.1	505.1
Additional paid-in capital	2,052.4	2,052.4
Reserves	1,585.5	1,585.5
Retained earnings	2,160.0	2,121.1
Net income for the year	3,915.0	682.9
SHAREHOLDERS' EQUITY	**10,218.0**	**6,947.0**
Provisions	**109.1**	**95.6**
Bonds [1]	4,100.1	4,184.6
Other borrowings [1] [3]	42.6	46.1
Other liabilities [2] [3]	457.1	305.7
Liabilities	**4,599.8**	**4,536.4**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**14,926.9**	**11,579.0**
(1) o/w due in more than one year:	*3,600.2*	*3,834.6*
(2) o/w due in more than one year:	*0.0*	*30.0*
(3) o/w concerning associates:	*83.1*	*17.2*

3.3. income statement for the years ended december 31, 2017 and 2016

(in € millions)	2017	2016
Operating income	**(21.5)**	**(32.5)**
Dividends	3,839.4	863.3
Other financial income and expenses	(95.6)	(97.0)
Net financial income	**3,743.8**	**766.3**
Recurring income before tax	**3,722.3**	**733.8**
Net non-recurring income (expense)	67.4	(75.5)
Employee profit-sharing	(3.9)	(2.8)
Income tax	129.2	27.4
Net income for the year	**3,915.0**	**682.9**

3.4. statement of cash flows for the years ended december 31, 2017 and 2016

(in € millions)	2017	2016
Dividends received	3,839.4	863.3
Interest on borrowings	(95.0)	(96.1)
Income tax received	105.1	27.1
Other	(63.2)	(79.6)
Change in cash resulting from operating activities	**3,786.3**	**714.7**
(Acquisitions)/disposals of operating assets	(69.5)	(64.5)
Change in long-term investments	(0.1)	(663.1)
Change in cash resulting from investing activities	**(69.6)**	**(727.6)**
Net change in borrowings	(55.6)	501.4
Share capital increases		
Dividends paid by Kering	(580.9)	(504.9)
Change in cash resulting from financing activities	**(636.5)**	**(3.5)**
Change in cash and cash equivalents	**3,080.2**	**(16.4)**
Cash and cash equivalents at beginning of year	**1,779.2**	**1,795.6**
Cash and cash equivalents at end of year	**4,859.4**	**1,779.2**

kering

Société anonyme (a French corporation) with a share capital of €505,117,288
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