KERING

Reference document
2016

CHAPTER 1
Kering in 2016 3

CHAPTER 2
Our activities 17

CHAPTER 3
Sustainability 57

CHAPTER 4
Corporate governance 141

CHAPTER 5
Financial information 221

CHAPTER 6
Share capital and ownership structure 367

CHAPTER 7
Additional information 379

This is a free translation into English of the 2016 Reference Document issued in French and is provided solely for the convenience of the English speaking users.

chapter 1
kering in 2016

1. History 4

2. Key consolidated figures 6

3. Group strategy 8

4. Kering Group simplified organisational chart as of December 31, 2016 15

1. history

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

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

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

Having fully aligned the Group around its Luxury and Sport & Lifestyle activities, since 2014 Kering has continued its growth story aimed at unlocking the potential of its brands.

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

1988
- Flotation on the Paris Stock Market's Second Market of Pinault SA, a company specialising in timber trading, distribution and processing.

1990
- Acquisition of Cfao, a group specialising in electrical equipment distribution (through CDME, which became Rexel in 1993) and in trading with Africa.

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

1992
- The Pinault-Printemps Group is born with the takeover of Au Printemps SA, which held 54% of La Redoute and Finaref.

1994
- La Redoute is merged into Pinault-Printemps, and the Group is subsequently renamed Pinault-Printemps-Redoute.
- Takeover of Fnac.

1995
- Launch of the Group's first website, laredoute.fr.

1996
- Creation of Orcanta, a women's lingerie chain.

1997
- Takeover by Redcats (Kering's home shopping business) of Ellos, the leader on the Scandinavian mail order market.
- Creation of Fnac Junior, a concept store for children under 12.

1998
- Takeover of Guilbert, the European leader in office supplies and furnishings.
- Acquisition by Redcats of 49.9% of Brylane, the fourth-largest home shopping company in the US.
- Creation of Made in Sport, a chain of stores dedicated to sports enthusiasts.

1999
- Purchase of the remaining stake in Brylane.
- The Group enters the Luxury Goods sector with the acquisition of 42% of Gucci Group NV.
- First steps towards the creation of a multi-brand Luxury Goods group, with the acquisition by Gucci Group of Yves Saint Laurent, YSL Beauté and Sergio Rossi.
- Launch of Fnac.com, the Fnac website.

2000
- Acquisition of Surcouf, a specialised PC retailer.
- Acquisition by Gucci Group of Boucheron.
- Launch of Citadium, the new Printemps sports store.

2001
- Gucci Group acquires Bottega Veneta and Balenciaga and signs partnership agreements with Stella McCartney and Alexander McQueen.
- Pinault-Printemps-Redoute raises its stake in Gucci Group to 53.2%.

2002
- The Group raises its stake in Gucci Group to 54.4%.
- Sale of the Guilbert home shopping business to Staples Inc.
- Partial disposal of the Credit and Financial Services division in France and Scandinavia to Crédit Agricole SA (61% of Finaref) and BNP Paribas (90% of Facet).

2003
- The Group raises its stake in Gucci Group to 67.6%.
- Sale of Pinault Bois & Matériaux to the Wolseley group in the UK.
- Sale of an additional 14.5% stake in Finaref.

2004
- The Group raises its stake in Gucci Group to 99.4% further to a tender offer.
- Sale of Rexel.
- Sale of the residual 24.5% stake in Finaref.

2005
- Change of corporate name: Pinault-Printemps-Redoute becomes PPR.
- Sale of the residual 10% stake in Facet.

2006
- Sale of 51% of France Printemps to RREEF and the Borletti group.
- Sale of Orcanta to the Chantelle group.
- Sale of the Bernay industrial site (YSL Beauté Recherche et Industrie).
- Discontinuation of Fnac Service's activities.
- Acquisition by Conforama of a majority stake in Sodice Expansion.
- Acquisition by Redcats group of The Sportsman's Guide, Inc.

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

2008
- Sale of YSL Beauté to L'Oréal.
- Sale of Conforama Poland.
- Sale by Redcats UK of Empire Stores and by Redcats USA of the Missy division.
- Acquisition of a 23% stake in Girard-Perregaux.

2009
- Acquisition by PUMA of Dobotex International BV.
- Acquisition by PUMA of Brandon AB.
- Sale of Bédat & Co.
- Sale of Surcouf.
- Flotation of 58% of Cfao.

2010
- Acquisition by PUMA of a 20% stake in Wilderness Holdings Ltd.
- Acquisition by PUMA of COBRA.
- Sale of Fnac éveil & jeux.
- Sale of the controlling stake in Conforama to Steinhoff.

2011
- Closing of the sale of Conforama to Steinhoff.
- Acquisition of Volcom.
- Increased stake (50.1%) in Sowind Group (Girard-Perregaux and JEANRICHARD).
- Announced acquisition of Brioni.

2012
- Closing of the acquisition of Brioni.
- Sale of the remaining 42% stake in Cfao to TTC.
- Creation of a joint venture with Yoox S.p.A. dedicated to e-commerce for several Luxury brands of the Group.
- Announced project to demerge and list Fnac.
- Sale of Fnac Italy.
- Sale of Redcats USA business (The Sportsman's Guide and The Golf Warehouse, announced sale of OneStopPlus).
- Announced acquisition of a majority stake in Chinese fine jewelry brand Qeelin.

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.
- Closing of the sale of OneStopPlus.
- Sale of the Children and Family division of Redcats, Cyrillus and Vertbaudet.
- Acquisition of a majority stake in tannery France Croco.
- Sale of the Nordic brands of Redcats, Ellos and Jotex.
- Listing of Groupe Fnac.
- Change of corporate name: PPR becomes Kering.
- Acquisition of a majority stake in Italian jewelry group Pomellato.
- Kering enters into exclusive negotiations for the disposal of La Redoute and Relais Colis.

2014
- Closing of the sale of La Redoute and Relais Colis.
- Announced project of internalisation of the Eyewear business value chain.
- Acquisition of the *Haute horlogerie* brand Ulysse Nardin.

2015
- Sale of the industrial property rights of the Tretorn group (which include trademark rights, patents and designs) by PUMA.
- Launch of Kering Eyewear.
- Sale of the Italian luxury shoemaker Sergio Rossi.

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.

2. key consolidated figures

(in € millions)	2016	2015	Change
Revenue	**12,385**	**11,584**	**+6.9%**
EBITDA	**2,318**	**2,056**	**+12.7%**
EBITDA margin (as a % of revenue)	*18.7%*	*17.8%*	*+0.9pt*
Recurring operating income	**1,886**	**1,647**	**+14.5%**
Recurring operating margin (as a % of revenue)	*15.2%*	*14.2%*	*+1.0pt*
Net income attributable to owners of the parent	**814**	**696**	**+16.9%**
o/w continuing operations excluding non-recurring items	**1,282**	**1,017**	**+26.0%**
Gross operating investments (1)	**611**	**672**	**-9.1%**
Free cash flow from operations (2)	**1,189**	**660**	**+80.2%**
Net debt (3)	**4,371**	**4,679**	**-6.6%**
Average number of employees (full time equivalent)	**35,877**	**34,697**	**+3.4%**

Per share data *(in €)*	2016	2015	Change
Earnings per share attributable to owners of the parent	6.46	5.52	+17.0%
o/w continuing operations excluding non-recurring items	10.17	8.07	+26.0%
Dividend per share (4)	4.60	4.00	+15.0%

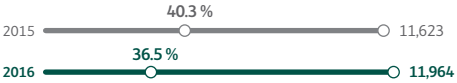
dividend per share
(in €)



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



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



** Net debt (3) / equity.*

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



net debt (3)
(in € millions)

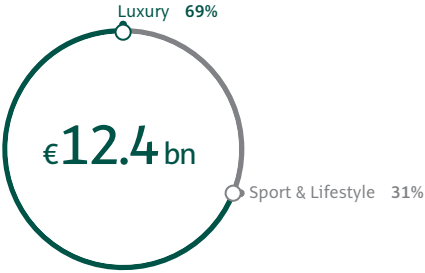


solvency ratio
(Net debt(3)/EBITDA)



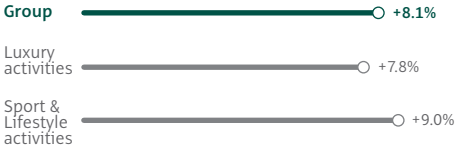
(1) Purchases of property, plant and equipment and intangible assets.
(2) Net cash flow from operating activities less net acquisitions of property, plant and equipment and intangible assets.
(3) Net debt is defined on page 222.
(4) Subject to the approval of the Annual General Meeting to be held on April 27, 2017.

revenue breakdown by activity

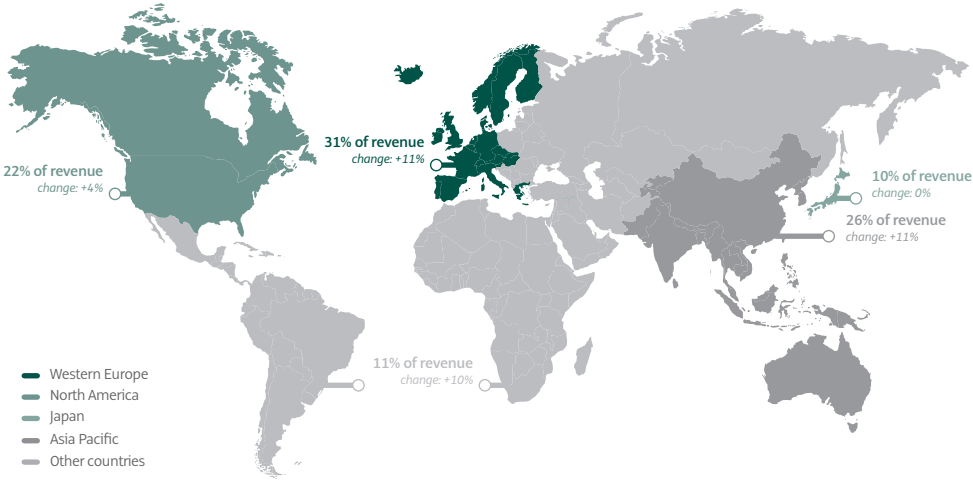


group revenue

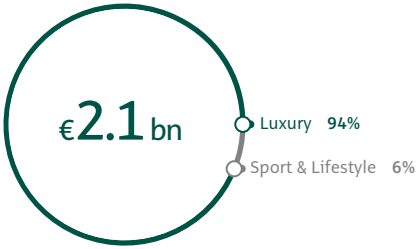
2016 vs 2015 comparable[1] change, in %



revenue breakdown and comparable[1] change by region



recurring operating income breakdown by activity[2]



recurring operating income change and margin

(in € millions)	Recurring operating income	Reported change (in %)	Recurring operating margin (in %)
Luxury	1,936	+13.3%	22.9%
Sport & Lifestyle	123	+30.0%	3.2%
Corporate and other	(173)	-10.8%	-
Group	**1,886**	**+14.5%**	**15.2%**

(1) Comparable revenue is defined on page 222.
(2) Excluding corporate and others.

3. group strategy: empowering imagination

Since its inception in 1963, Kering (then PPR) has continuously transformed itself, constantly seeking growth and creating value with an entrepreneurial spirit.

Between 2005 and 2014, Kering undertook an in-depth strategic transformation, from a diverse conglomerate into a cohesive international group entirely dedicated to a complementary ensemble of apparel and accessories brands.

The change in the name of the Group from PPR to Kering in 2013 reflects this new identity. Pronounced "caring", the new corporate identity symbolises the way in which the Group nurtures its brands, employees and customers, as well as the environment.

from ppr to kering: building a group on a global scale

The Group began extensively transforming its portfolio in 2005 with the aim of gradually phasing out its mass-retail businesses located mainly in France and Europe, in order to become a Luxury Group boasting top global Luxury brands along with iconic brands in the Sport & Lifestyle segment.

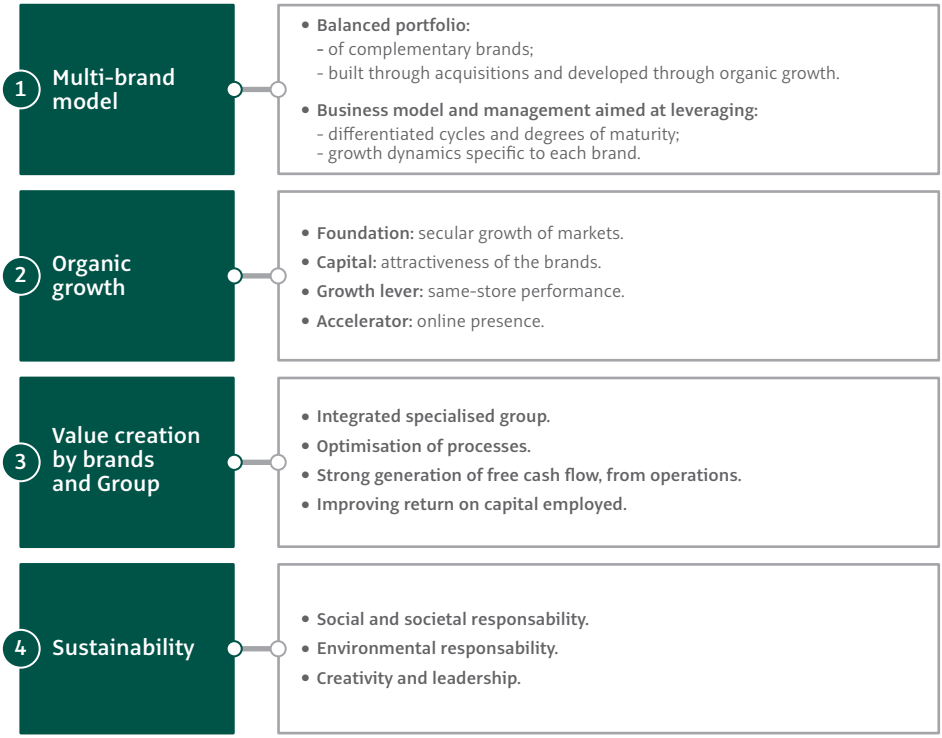
This transformation chimed with the Group's intention to focus its development on new growth drivers by capitalising on changes in the global economy and harnessing the maximum potential of each of its markets. These growth drivers include:

- a global economy, which will continue to be led by mature markets but will also be shaped by the growing influence of emerging markets;
- emerging market growth, underpinned by demographic trends and rapid urbanisation, gradually creating new population segments with access to consumer discretionary goods;
- a gradual convergence in consumer patterns, propelled by growing aspirational demand in new markets for global brands, and supported by the development of international tourism and the digital economy;
- robust demand in both mature and emerging markets for branded Sport & Lifestyle and Luxury products, a segment in which the Group has been well positioned since its 1999 acquisition of Gucci Group.

From 2005 onwards, the Group began refocusing its activities, gradually withdrawing from mass-market retailing activities with the sale of Printemps, Cfao, Conforama, Surcouf, certain international businesses and the children's division of Redcats, listing of Fnac on the stock market and sale of La Redoute.

At the same time, the Group embarked upon an ambitious expansion programme to grow its portfolio of Luxury and Sport & Lifestyle brands. The first phase of the Group's transformation, through 2015, involved expanding and strengthening Kering's brand portfolio, both through organic growth and targeted acquisitions, with the aim of building a complementary ensemble of powerful brands.

four key pillars underscore the group's strategy



a multi-brand model: a complementary ensemble of powerful brands

Adopting a multi-brand strategy is virtuous in many regards. Taken individually, each brand has its own distinctive identity, know how, positioning and growth potential enabling it to reach critical mass at a global level. Together, they form a coherent and complementary ensemble, particularly in terms of market segments, stages of maturity and geographic base. There is no competition across the brands but rather a focus on identifying and harnessing synergies.

From a financial and operational standpoint, Kering's balanced and diversified business model helps the Group weather changes in the economic environment affecting a given activity or region. It combines growth and profitability, as the Group allocates operating investments on the basis of each brand's business cycle, enabling them to preserve exclusivity while maximising growth.

Kering has strengthened its portfolio in recent years through the acquisition of brands set to play a key role in the Group's development and value creation. As part of this strategy, Brioni, Pomellato group, Qeelin, Christopher Kane and Ulysse Nardin have joined the Group.

These acquisitions were driven by the following strategic goals and financial criteria:

- Potential targets must enjoy exceptional brand identity, strong values and a sought-after heritage; a unique scope of expression through lasting codes and language that represents the brands' DNA; and an ability to broaden their geographic footprint and to gradually expand their market coverage.
- Targets must have genuine potential for significant improvements in financial performance that Kering is able to identify and deploy in the long term, above and beyond the potential specific to each. As well as seeking revenue synergies derived from the increased capacity of newly acquired brands to expand their geographic presence or product categories once they join the Group, Kering also looks for synergies arising from brand expertise in terms of technical, commercial and innovation know-how. Finally, the Group evaluates the potential for savings at operational (purchasing, supply chain, real estate, etc.) and financial levels. These synergies are analysed and appraised during the acquisition process, giving rise to a financial and operational roadmap to value creation drawn up at the outset of the integration process.

Kering has built up a harmonious ensemble of brands and its priority today is to invest in order to develop these brands.

priority focus on organic growth

The worldwide standing, desirability and huge consumer appeal of Kering's brands are key assets, which drive their organic growth potential.

The growth of these brands is underpinned by a series of clearly identified drivers:

(i) Launching new product categories and refining existing lines

The Group's brands work continuously to produce creative, attractive and innovative products for existing ranges and to introduce new product categories with untapped potential. They are careful to constantly adapt and improve the structure and performance of their collections to meet the specific needs of their clientele in terms of functionality, trends and pricing, and to draw in new generations of customers.

(ii) Improving performance in existing sales networks

In their network of directly operated stores, the brands deploy initiatives to boost sales performance, capitalising on increasingly effective merchandising, in-store operational excellence, an in-depth knowledge of their customers, customer loyalty and development programmes, and targeted communications.

(iii) Strengthening distribution channels through the selective expansion of directly operated store networks, close relationships with third-party retailers, and the implementation of a dynamic e-commerce strategy

The Group is permanently fine-tuning its network of directly operated stores to optimise the distribution of its brands and seize growth opportunities around the globe. Taking into account the characteristics and maturity of each brand, this strategy translates into targeted store openings to broaden penetration in certain markets, or store relocations to occupy the very best locations available. Adapting the Group's retail network also entails store renovation and expansion projects, as well as occasional store closures when brand criteria are no longer met. In addition, the Group's brands are constantly seeking to enhance the quality of their third-party distribution, a channel that has strategic significance for Sport & Lifestyle activities. Kering also invests in e-commerce platforms alongside traditional channels in response to new consumer and purchasing practices. Lastly, the growth potential in the Travel Retail channel is gradually being tapped.

an integrated group, structured to tap into the potential for growth and value creation

Kering sets the strategic and financial framework within which the brands operate, and provides the structures, organisations and means to protect and support the sustainable growth of its brands.

Kering initially deployed a number of horizontal functions and services for its Luxury brands, including real estate, e-commerce, indirect purchasing, intellectual property, strategic marketing and media buying, to allow them to focus on their individual business objectives and support their growth, especially internationally.

Shared services platforms have been set up in the Group's three biggest regions – Europe, America, and Asia Pacific. These centres employ experts in communications, audit, human resources, tax, property, legal affairs, IT systems, accounting and cash management, providing brands with appropriate support for the local context.

More recently, important additional steps have been taken in order to transform Kering into a more tightly integrated Group. The finalisation of the Group's transformation, combined with recent changes in its markets, consumer trends and the competitive environment, have led to new milestones.

(i) Kering has adapted its organisation to better reflect the areas of activity of the Group's Luxury brands and strengthen the operational oversight of its businesses. Two new divisions were set up:

- Luxury – Couture & Leather Goods, comprising Gucci, Bottega Veneta, Saint Laurent, Balenciaga, as well as emerging brands Alexander McQueen, Brioni, Christopher Kane, McQ and Stella McCartney;
- Luxury – Watches & Jewelry, encompassing Boucheron, Girard-Perregaux, Pomellato, Dodo, Qeelin and Ulysse Nardin.

(ii) From 2013, the Group strengthened its upstream positioning in the Luxury value chain, with the targeted acquisition of leather tanneries to secure raw materials sourcing. Logistics activities for its Couture & Leather Goods brands have long been centralised, much like ready-to-wear prototyping, which is pooled in a shared unit in Italy. To ensure that this vertical integration is as relevant, effective and efficient as possible in terms of services, synergies and scale at all times, all of these operations have been placed under the direct governance and oversight of Kering.

(iii) In 2014, Kering launched a key strategic initiative aimed at growing in-house expertise in Eyewear for its Luxury and Sport & Lifestyle brands. The worldwide market for frames and sunglasses is vast and its premium segment is enjoying substantial growth. To maximise the development of its portfolio of brands in this important category, Kering has decided to internalise the value chain for its Eyewear activities, from product creation and development to supply chain management, brand strategy, sales and marketing. This innovative management model will give rise to significant value creation opportunities and help the brands step up the pace of growth in the Eyewear category.

(iv) The digital challenge: Digital is a strategic priority for Kering, not only for the business the Group's brands conduct online but also because it influences demand across all sales channels. Gucci is a pioneer in Luxury e-commerce. Launched in 2002 and completely revamped in 2015, its website sets the standard in this field and the brand's digital know-how is widely recognised. Since the Other Luxury brands did not enjoy internal capabilities comparable to Gucci's, in 2012 the Group set up a Kering e-commerce platform to provide the Couture & Leather Goods division brands with the necessary technical competence to develop their online business and digital strategy. All the brand sites now feature mobile- and tablet-optimised browsing, shared performance-measurement tools and a dedicated team of specialists to help continuously improve site performance, conversion rates and customer satisfaction.

Our customers are increasingly connected, geographically mobile and sensitive to the fluidity of their shopping experience spanning bricks-and-mortar stores and online boutiques. In this context, the Group's e-commerce teams set out cross-channel service strategies adapted to the characteristics of each brand. These include allowing customers to check in-store availability online, make online purchases, collect online product purchases in stores, and reserve goods online, etc. A host of additional features are in the pipeline. Kering is also encouraging its brands to try out new solutions, with pilot projects to help brands test new technologies. The results are then shared with the other brands within the division as a prelude to Group-wide rollout.

With the aim of ultimately offering a seamless omni-channel approach covering both physical stores and online boutiques, Kering is currently assessing a large-scale project to establish a single shared customer database across distribution channels and to modernise, harmonise and optimise its information systems and operational processes.

The Sport & Lifestyle brands are also working on optimising and revitalising e-commerce, against the backdrop of extremely rapid online growth in the sector.

(v) In late 2016, the Group created a new Chief Client and Marketing Officer role to help brands better anticipate and meet customer needs and fulfil their desires in an increasingly competitive Luxury market. The brands' success going forward will depend on their ability to provide customers with a rewarding and consistent experience across all channels, and on enhancing relationships with customers to optimise customer satisfaction and loyalty. Kering's Chief Client and Marketing Officer is responsible for monitoring the value and image of each of the Group's brands over the long term, for building a comprehensive, measurable and profitable customer culture for each brand as well as for the Group and for accelerating omni-channel distribution across the Group.

(vi) Recognising that its teams are the driving force behind its future success, Kering has developed an ambitious, integrated, worldwide human resources framework, based on ever-greater mobility across the brands. Kering's HR strategy is aimed at helping its brands flourish through access to a shared talent pool, expertise, standards, information systems and best practices.

sustainability at the heart of kering's group and brand strategy

Kering believes that sustainable business is smart business. Sustainability is both a business and leadership opportunity for Kering, allowing the Group to create value. It stimulates growth, innovation and competitive advantage in the medium to long term, whilst simultaneously reducing costs. It also constitutes a motivational factor for employees, enabling the Group to attract and retain the best talents.

Sustainability is a key component of the Group brands' strategy. Kering empowers all its brands to develop products that meet the utmost standards of innovation, quality and sustainability.

Kering's Sustainability Department supports each of the Group's brands with the development and operational rollout of their brand-specific action plans. Comprising around 15 experts, the team's expertise encompasses everything from environmental footprint analysis, responsible raw material sourcing, ecosystem conservation, energy efficiency and social compliance. The department drives change within the Group by providing the brands with the necessary know-how, guidance, collaboration and economies of scale needed to develop more sustainable business models. The Chief Sustainability Officer sits on Kering's Executive Committee and ensures a cohesive and integrated approach to sustainability across the Group.

2016 was a turning point for Kering in terms of sustainable development. Delivering on its commitment to transparency and following the 2014 publication of a mid-term progress report, in 2016 Kering unveiled its definitive sustainability report detailing the progress made and the results of the targets it had set for 2012-2016. These targets had driven and structured Kering's strategy, with the Group choosing to go beyond a traditional approach and extend its goals and action to all of its supply chains. This is reflected in its Environmental Profit and Loss account (E P&L), the cornerstone of its initiative.

At the same time, under the aegis of the Group's Chairman and Chief Executive Officer, Kering's teams worked on a new chapter of the sustainable development strategy through 2025. François-Henri Pinault wished that the Group's Luxury brands be involved in writing this new chapter and met with all management teams and creative staff during a period of over a year. The goal was to define a strategy that met the specific needs of each brand, to ensure that targets were duly implemented from an operational standpoint and to embed sustainability concerns more deeply at all levels of the Group. These efforts culminated in a ten-year strategy based around the three pillars of environment, social responsibility and innovation. The strategy sets concrete targets for the period up to 2025 on which the Group is to report its progress every three years.

Kering also continued to work on its ambitious social responsibility goals. It set up a single, centralised integrated organisation to manage its suppliers and oversee the Luxury brands' compliance with social imperatives; published the results of its 2015 E P&L; set an ambitious target to reduce greenhouse gas emissions which was approved by the Science Based Targets Initiative – a first in the Luxury sector and for a French company; and put in place a proactive parental policy for Group employees worldwide.

Convinced that sustainability will play an ever more prominent role in fashion going forward, Kering is also committed to nurturing close ties with young talent and upcoming designers. This is the aim behind the various partnerships entered into across the globe, including in the UK with the Centre for Sustainable Fashion (part of the London College of Fashion), in China with Tsinghua University, and in the US with Parsons and the Fashion Institute of Technology. To raise the awareness of sustainability issues among future generations of designers, Kering has developed a mobile app based on

its E P&L methodology. Through the app, known as MyEP&L, Kering provides concrete examples of the environmental impact of product design. MyEP&L has already been unveiled to students at several fashion schools.

Through the Kering Foundation, launched in 2009 by François-Henri Pinault, Kering is also firmly committed to combatting violence against women. To enhance its impact across the globe, the Kering Foundation is active in three core regions, each of which provides a specific focus for its action: combating sexual violence in the Americas, harmful traditional practices in Western Europe, and domestic violence in Asia.

The Foundation supports local and international NGOs, awards grants to social entrepreneurs and seeks to raise awareness of various issues with the help of its employees. Its initiatives include the "White Ribbon for Women" campaign launched in 2012 on 25 November, the International Day for the Elimination of Violence Against Women. The 2016 campaign run in partnership with Condé Nast International attracted unprecedented interest and reached a potential global audience of over 1.1 billion people. Between 18 and 27 November 2016, 50,000 badges and 180,000 stickers designed by Stella McCartney, a member of the Kering Foundation's Board of Directors, were given away in more than 800 stores in 51 countries. At the same time, the Kering Foundation also ran a digital campaign with the hashtag #BeHerVoice and involving several well-known male figures in order to encourage everyone to play a part in ending violence against women.

In recognition of the Group's continued sustainability efforts, Kering is referenced as a leader by several bodies including the prestigious *Dow Jones Sustainability Index*, on which Kering has been listed for the past three years, and the Global 100 ranking of the world's most sustainable corporations.

in an economic environment both uncertain and fragile, kering is confident in its outlook

Global economic growth remained subdued in 2016, at an estimated 3.1%, amid a moderate slowdown in economic growth in certain key emerging markets such as China and the lack of any convincing recovery in the eurozone, notwithstanding the fairly robust performance of the US economy.

In a persistently uncertain environment shaped by geopolitical tensions and their ramifications, Kering has demonstrated the relevance of its multi-brand model. The Group's strategy is consistent: to nurture each brand's long-term potential, with priority given to organic growth and operating cash flow generation.

True to its entrepreneurial and responsible vision, Kering will continue to promote long-term value-creation, combining boldness and imagination, creativity and measured risk-taking, adaptability and agility.

Leveraging these values and its many other strengths to unlock the value and profitability potential of each of its brands, Kering faces a market in which:

- growth is normalising in the global Luxury segment;
- consumer habits and locations (tourism, Internet) are more changeable and less predictable than previously;
- all players had significantly increased their investments and operating costs until recently, in a drive to develop directly operated distribution networks.

Structured and organised to bring more expertise, value and operational support to its brands, Kering's priorities will be to increase return on capital employed, by improving profit margins and optimising capital allocation for investments and working capital.

Concrete action plans have already been implemented at brand level.

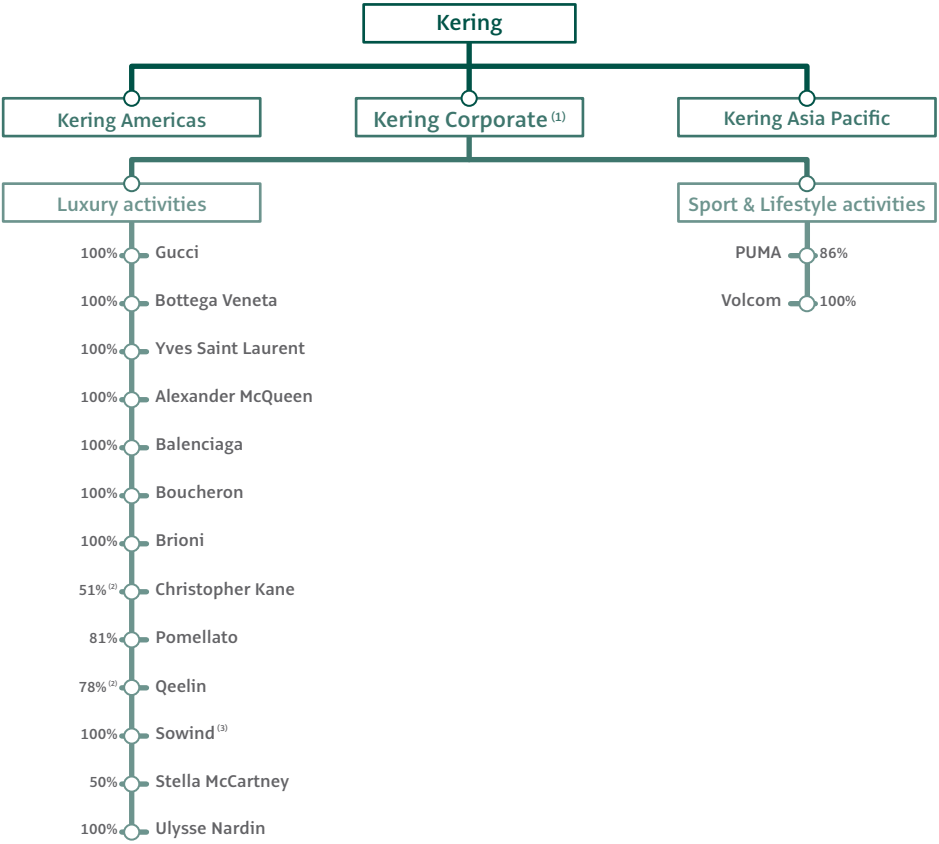
Gucci undertook a major transformation programme in early 2015 to overhaul its creative drive, organisation and collections. The results of its initiative in 2016 are proof of the ability of the soon-to-be 100-year-old brand to reinvent itself and rapidly return to the forefront of the Luxury industry. PUMA, under the direction of a new management team since 2013, continues to deploy its strategic plan, aimed at renewing and streamlining its product line-up and refocusing its positioning around Sport Performance. For the past two years, the results of these initiatives have been apparent in PUMA's robust top-line growth, now combined with profitability gains.

Across all Group brands, a range of cross-business initiatives has been drawn up and dedicated teams to optimise comparable-store sales performance. The emphasis is on strengthening store productivity through a series of upstream and downstream initiatives, including: improving supply chain capacity and the efficiency of product allocation criteria by region and type; redefining ranges

and their depth and breadth; training sales staff in best practices for customer service, loyalty and experience; and developing CRM and clienteling tools, etc. These initiatives will generate cost reductions, improve profitability and optimise capital employed. Complementing this effort, and depending on the brand, directly operated store networks will be reviewed and consolidated as necessary, as part of a broader alignment of the allocation of investments to strict return guidelines. These initiatives will also be rounded out by the realisation of additional revenue and cost synergies, especially in terms of sourcing, production and logistics. Lastly, Kering continues to promote its brands' digital strategies by coordinating e-commerce projects, encouraging knowledge sharing and driving new ambitious developments with the aim of increasing the share of Internet sales in the brands' revenue and leveraging e-commerce to drive growth.

In economic environment that remains fragile, 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 to its long-term performance.

4. kering group simplified organisational chart as of december 31, 2016



(1) Corporate is defined page 241.
(2) Excluding put options.
(3) The Sowind group owns the Girard-Perregaux and JEANRICHARD brands.

chapter 2
our activities

1. Worldwide personal Luxury Goods market overview 18

2. Luxury activities 24

Gucci 26
Bottega Veneta 29
Saint Laurent 32
Other brands 35

3. Worldwide Sport & Lifestyle market overview 46

4. Sport & Lifestyle activities 50

PUMA 52
Other brands 56

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 2016, completed by data from the full report published in December 2016. 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 has enjoyed significant growth over the past few years (double-digit reported growth in 2010, 2011 and 2012). Since 2013, the market has gradually decelerated to enter into 2015 a more "normalised" growth phase. In 2016, it generated revenue of €249 billion, down 1% as reported and flat at comparable exchange rates.

Worldwide personal Luxury Goods market trend (2009-2016e, in € billions)

Annual change at reported or comparable exchange rates

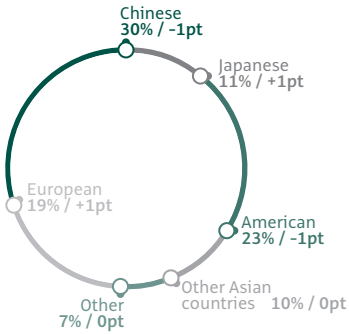
reported	+13%	+11%	+10%	+3%	+3%	+13%	-1%
comparable	+8%	+13%	+5%	+7%	+3%	+1-2%	0%



2016 has been characterised by:

- less currency volatility compared to 2015, with yet some selective movements affecting local and tourist consumption patterns (British pound's depreciation driving growth in the United Kingdom, Chinese yuan's slow but steady slide and Japanese yen's appreciation) and some currencies staying at an absolute low level after the depreciation experienced in 2015 (Russian rouble and Brazilian real);
- geopolitical tensions, political events and uncertainties affecting consumer confidence, tourism flows and consumption trends (terrorism in Europe, US election year, Brexit);
- trend of repatriation of consumer spending in their home country/region, with a meaningful impact in Mainland China after 3 years of stagnation, even though the recovery of spending in Mainland China did not fully offset the decline of Chinese consumption overseas, resulting in a decline of Chinese spending globally (Chinese consumers accounted for 30% of total market, -1pt vs 2015).

2016e Luxury market by nationality



/pts: Market share change (2016e vs 2015) .

In addition to these cyclical factors, the market is currently facing some more structural changes, among which:

- the Chinese consumption, that drove market growth over the last years, will likely not feed future growth to the same extent;
- true core luxury consumers are enlarging their spending from personal Luxury Goods to experiences (hotels, cruises, restaurants, etc.); while some new luxury consumers are entering the market rather by the "accessible" segment, looking for entry price items and brands;
- luxury consumption and patterns are getting more value sensitive, digital-oriented and eager in more innovation and newness;
- most of the key players & 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 will shape the industry in the years to come:

- Chinese consumers will still drive growth, with the increase mostly coming from the boost of the rising middle class;
- recovery of mature market consumer spending can be expected thanks to tailored and customer-oriented strategies implemented by luxury brands;
- rebalancing of local/tourists spending through management of international pricing strategy and the reduction of price differentials across regions;
- management of the generational shift of consumers.

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

- positive demographic trends, especially in emerging markets;
- the emerging middle-class in these countries, where the average disposable income and purchasing power of consumers has continued to grow;
- 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 is exposed to some short-term disruptions that could include:

- macroeconomic uncertainties and currency volatility;
- geopolitical tensions, security threats, epidemic/disease outbreak;
- 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 (2016e)

	Size *(in € billions)*	Reported YoY change	YoY change at comparable exchange rates	% of total market
Europe	82	-1%	+1%	33%
Americas	82	-3%	-2%	33%
Japan	22	+10%	-1%	9%
China	18	-2%	+4%	7%
Rest of Asia	32	-3%	0%	13%
Rest of the world	13	-1%	0%	5%
Total	**249**	**-1%**	**0%**	**100%**

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

2016 Rank	Country	Size *(in € billions)*	Reported YoY change	YoY change at comparable exchange rates
1	United States	73	-3%	-3%
2	Japan	22	+10%	-1%
3	Italy	18	+4%	+4%
4	Mainland China	17	-2%	+4%
5	United Kingdom	15	0%	+11%
6	France	15	-8%	-8%
7	South Korea	11	+9%	+13%
8	Germany	11	-2%	-2%
9	Hong Kong	7	-17%	-16%
10	Switzerland	5	-3%	-1%

In 2016, the Americas region was the co-largest market alongside Europe, with the United States accounting for the vast majority of revenue (c. 89%). The region was down -2% at comparable exchange rates. As in 2015, the momentum in the US was mainly held back by the strong dollar, which had a negative effect on tourism flows, triggering a significant drop in tourist spending, insufficiently counterbalanced by local consumption. In the other countries (Canada, Mexico, Brazil), the trends were clearly more positive with some repatriation of local spending.

Europe represented 33% of the total worldwide market, with revenue up +1% vs. 2015 at comparable exchange rates. In 2016, the region registered a modest performance with a decline of tourist consumption due to terrorist attacks and more constraining visa rules for Chinese visitors. Inside the Eurozone, France was hit the most while Italy and Spain performed well. Outside the Eurozone, the United Kingdom benefited from the depreciation of the pound sterling post Brexit, prompting a surge of tourist spending.

Japan represented 9% of the global personal Luxury Goods market in 2016. Japan is the second largest single country in terms of personal Luxury Goods consumption after the United States, and posted a mixed performance, up 10% reported but down -1% at comparable exchange rates. Japan has become a key destination for Chinese tourists, but in 2016 the strong yen impacted tourism spending while local consumption was uneven.

China was up 4% at comparable exchange rates, and represented 7% of the global personal Luxury Goods market. Mainland China is recovering after 3 years of stagnation, with a clear trend of repatriation of spending locally driven by a decrease in price differentials, government measures, tourist spending hindered by the weakening of Chinese yuan throughout 2016 and tourist flows decreasing in Europe as an aftermath of terrorist attacks. Spending by locals in their domestic market now represents 22% of total spending by Chinese nationals, up 2pts compared to last year. Hong Kong and Macau remained under pressure, down 16% at comparable exchange rates, suffering from decreasing popularity among Chinese tourists, but the rate of decline has eased vs. 2015. South Korea has been more dynamic thanks to Chinese tourist flows rebounding after the MERS outbreak in 2015.

The rest of the world – including the Middle East, African markets and Australia- represented 5% of the personal Luxury Goods market, with €13 billion in revenue in 2016. In the Middle East, the most oil-dependent economies registered the worst performance after the fall in oil prices, while the United Arab Emirates outperformed. Australia was up 8% at comparable exchange rates, maintaining a positive trend thanks to Chinese tourist spending.

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 (2016e)

	Market value 2016e *(in € billions)*	Reported YoY change	% of total market
Accessories	75	+1%	30%
Apparel	58	-4%	23%
Hard luxury	54	-5%	22%
Perfume and cosmetics	52	+4%	21%
Other	10	-2%	4%
Total	**249**	**-1%**	**100%**

Accessories

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

In 2016, this category represented 30% of the total personal Luxury Goods market with total sales of €75 billion.

The two main sub-categories were:

a) Leather goods, with estimated revenue of €44 billion in 2016. This sub-category grew at a rate of 2% between 2015 and 2016 (on a reported basis), driven by the outperformance of entry-price offering and volumes growth. 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 2016 revenue of €16 billion, with 2% growth year-on-year as reported. Growth is in line with leather goods, the current trend of the market is the "sneaker" phenomenon and the good dynamic in women's category. 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.

Eyewear

The eyewear category represented 4% of the total personal Luxury Goods market in 2016 and was worth an estimated €11 billion, up 1% in reported terms. Almost all group brands propose some eyewear in their product assortment, under a license model. At the end of 2014, Kering decided to internalise this category, 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 2016, totalling an estimated €58 billion, a slight decline vs. 2015 (-4%). Men's ready-to-wear was driven by fashion daywear and casualwear (i.e., outerwear, denim and cashmere) 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, and Christopher Kane, in addition to Brioni for menswear.

Hard luxury

The hard luxury category generated revenue of €54 billion in 2016, representing 22% of the total personal Luxury Goods market, and decreased by 5% between 2015 and 2016 as reported. This category mainly includes watches, weighting €36 billion in 2016 and jewelry, weighting €16 billion in 2016. In 2016, there was a significant polarized performance across the two main sub-categories with watches down 8% and jewelry up 2% year-on-year as reported. High-end watches were hit by a negative Asian performance, especially in Hong Kong, 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, and Ulysse Nardin for watches, and Boucheron, Pomellato, Dodo and Qeelin for jewelry.

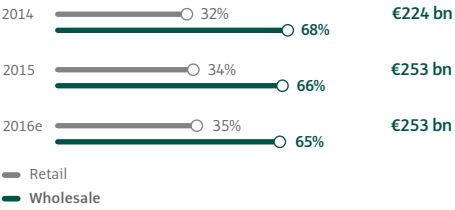
Perfume and cosmetics

The perfume and cosmetics category represented 21% of the total personal Luxury Goods market in 2016 and was worth an estimated €52 billion.

Kering operates in this product category through royalty licencing 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 (2014-2016e)



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 2016 the retail channel accounted for sales amounting to 35% of the total global personal Luxury Goods market.

In the case of Kering Luxury brands, the share of retail sales is far higher (72%), 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 65% of the total global personal Luxury Goods market in 2016. The wholesale 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.

These two distribution channels can also be split into six sales formats. Some of these formats could be operated through retail or wholesale.



/ pts: Market share change (2016e vs 2015).

E-commerce

Online sales of Luxury Goods reached a new record of around €19 billion in 2016 (up 12% at comparable exchange rates), representing about 8% of total global personal Luxury Goods sales. This includes sales done through brand websites, e-tailers and retailers.com. Online is the fastest growing channel globally, thanks to the growing share of mobile, driving over half of e-commerce sales of top performing brands and off-price segment (e-tailers and retailers.com).

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

Kering brands are also distributed online by selected partners.

market outlook

For 2017, Bain and Altagamma forecast overall growth of 1% to 2% excluding currency effects for the personal Luxury Goods markets.

Key trends for 2017 include:

- recovering consumption in the US, leaving behind the uncertainty of the election year;
- the rebound of Chinese global spending, with local sales in Mainland China expected to capture lost sales in international markets;
- consistent positive trajectory of Europe driven by local consumption and a weak euro expected to bring back tourists.

By 2020, the market is expected to reach €280-285 billion, at a compound annual growth rate (CAGR) of 3-4% from 2017, driven by:

- emerging countries: in addition to South East 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 should account for 54% of urban households and 56% of urban private consumption (up from 14% and 20% in 2012 respectively);
- the development of distribution channels such as outlets, travel retail or e-commerce. The latter is expected to grow at an annual average rate of 15% over the 2016-2020 period;
- 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

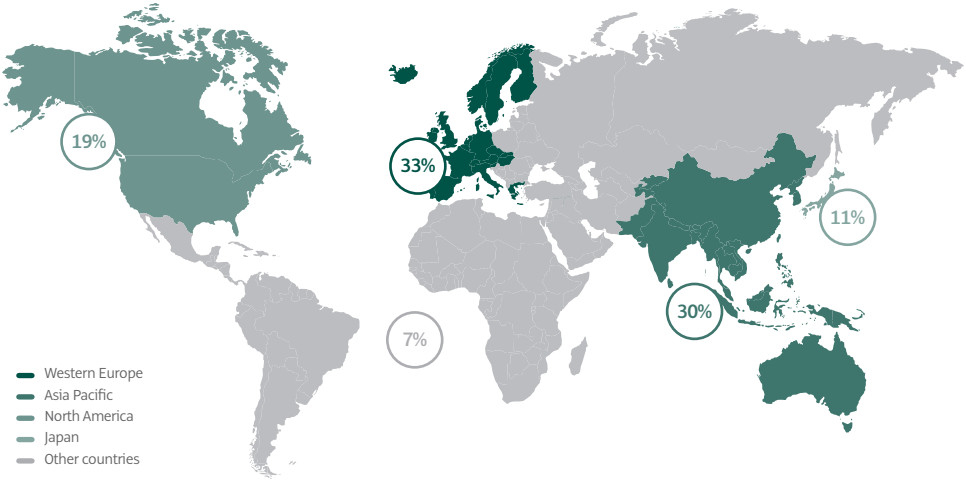
2016 key figures

€8,469 million
in revenue

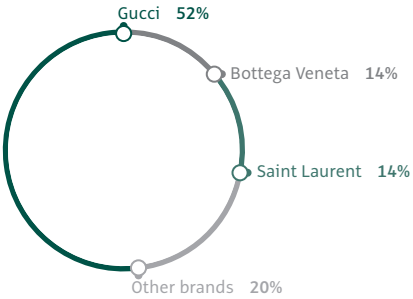
Revenue (in € millions)



Breakdown by region



Breakdown by brand



Breakdown by product category

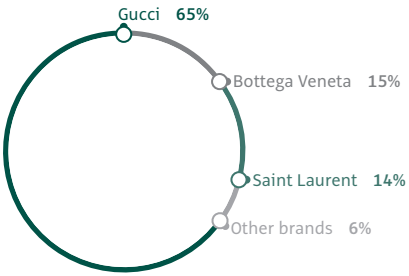


€1,936 million
in recurring operating income

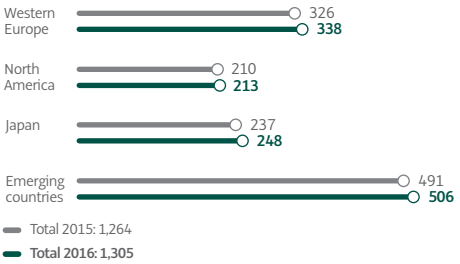
Recurring operating income
(in € millions)



Breakdown by brand



1,305
directly operated stores



21,559
average number of employees (full time equivalent)

GUCCI

2016 key figures

€4,378 million
in revenue

€1,256 million
in recurring operating income

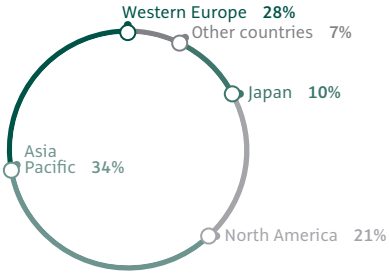
10,253
average number of employees (full time equivalent)

520
directly operated stores

Breakdown of 2016 revenue by product category



Breakdown of 2016 revenue by region



business concept

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

From its origins in the 1920s through to the late 1970s, the brand stayed loyal to its values of superior Italian craftsmanship and innovation, and as a result Gucci soon became the expression of Italian-made luxury.

Throughout the 1950s, 1960s and 1970s, Gucci's reputation began to grow around the world thanks in large part to the «jet set», socialites and celebrities, particularly from Hollywood, who wore the brand internationally. It was in the 1990s, under the creative direction of Tom Ford, that Gucci became synonymous with fashion and acquired the reputation of being a true fashion authority and leader.

Early in the new Millennium, against the backdrop of the world economic crisis, consumers once again began to turn to traditional luxury values. It was at this time that Gucci introduced its «Forever Now» philosophy, emphasising both its fashion authority and its Florentine heritage and craftsmanship.

At the beginning of 2015, Gucci embarked on the next 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 quickly re-established its reputation as one of the world's most influential luxury fashion brands. Eclectic, romantic, and above all contemporary, Gucci is currently inventing a wholly modern approach to fashion and thereby redefining luxury for the 21st century.

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 520 directly operated boutiques, a directly operated online store (in 28 markets), a limited number of franchises and selected department and specialty stores.

At the end of the year, Gucci retail sales represented approximately 83% of the brand's total revenue (up from approximately 70% in 2009).

competitive environment

Gucci is one of the few luxury brands with truly worldwide operations, alongside Hermès, 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

Gucci has once again established its position as a pivotal Italian luxury fashion brand leading the industry by setting the tone with innovative runway collections and ground-breaking creativity. The strategic vision conceived by CEO Marco Bizzarri identified a new image for Gucci, more in line with today's world and more relevant and appealing for new, younger luxury consumers. This vision is underpinned by clear business goals designed to ensure above average growth in revenues and improved profits in a market that is more competitive than it has ever been.

In terms of products, the offer has been fully transitioned in all main categories to the new brand aesthetic by reinterpreting the key iconic signs of the brand and combining them with new distinctive signs of the new creative direction.

The *Dionysus* bag, which combines the iconic GG logo with floral (blooms) or animal details (bee) and a buckle coming from the archives, and the Princetown shoe, a reinterpretation of the Gucci loafer, are among the most successful product launches both in terms of sales and image.

The product offering has been repositioned by gradually substituting all the units not consistent with the new creative vision, reducing the number of product models and variations in each store, while balancing the price clusters by rationalising entry prices and exploiting opportunities in the high price range.

In terms of distribution, the company has focused on optimising its existing network, driving organic growth and profitability. This is being achieved by aligning the store network with the new brand aesthetic, through the implementation of a comprehensive retail excellence programme aimed at improving customer experience and by increasing sales density across the network. Online sales continue to grow exponentially as the new Gucci.com has been progressively rolled out around the world, with its unique approach to combining e-commerce with brand narrative.

2016 highlights and outlook for 2017

Following a year of reinvention for Gucci in 2015, the increased interest in the brand and the conversation around it began to translate into growing market share in 2016, fuelled by both a re-engaged existing customer base and a newly-engaged clientele, especially among Millennials. The progressive roll out of Creative Director Alessandro Michele's new store concept, together with the introduction of new visual tools in certain stores as an alternative to full renovation, continued on a worldwide basis, helping to create further visibility for the new brand positioning and collections, thereby driving traffic and revenues in store.

The resulting impressive acceleration of full-price sales registered since March 2016 across all product categories and distribution channels is now demonstrating the impact of the new vision. Alessandro Michele's collections in the last quarter of 2016 represented over 85% of Gucci fourth quarter 2016 total revenue compared to slightly over 30% in the last quarter of 2015.

In terms of products, the leather goods and shoes offer has been strategically structured by establishing new iconic pillars while introducing new seasonal products to ensure a well balanced mix between carry over and newness. The strong performance of handbags is in fact mostly driven by the new iconic pillars – *Dionysus* (GG Supreme logo), *Gucci Signature* (leather GG logo), *Marmont* (Soft leather bags) and *Sylvie* (structured leather bags) – which are «animated» each season with the introduction of new functions and new colours.

The ready-to-wear collections have been developed to further establish and sustain Gucci's new positioning as «fashion influencer» while ensuring consistency and continuity season after season to sustain the business and retain and gain clientele.

The omni-channel structure, implemented in early 2015, is helping to promote synergies across the different distribution channels, enhancing a customer centric approach and the pivotal role of the digital strategy. As a further testament to its digital leadership, Gucci has been recognised as the first brand in the Fashion Digital IQ Index, thanks to its revamped website, superior customer service, unrivaled visibility on category search terms, and best-in-class visibility on retailer sites and social platforms.

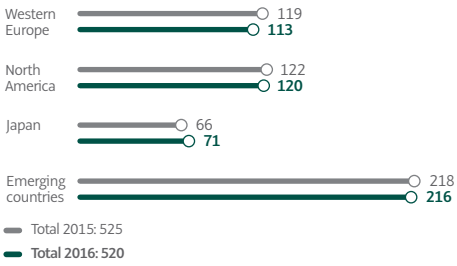
Maintaining the brand's digital leadership through innovation remains one of the pillars of the brand's ambition. Prioritizing incremental investment in digital activities, exploiting newsworthy collaborations to generate native content stories, and continuous social media innovation are the key drivers to keep and further reinforce this leadership position.

The highly original vision of Creative Director Alessandro Michele, which combines a unique understanding and appreciation of the historical codes of the brand, with a uniquely contemporary sensibility, received a series of accolades throughout the year, including the 2016 International Award from the Council of Fashion Designers of America, the British GQ 2016 Designer of the Year Award and the British Fashion Council's 2016 International Accessories Designer of the Year Award for the second year in a row. Marco Bizzarri's achievements were also recognised by the British Fashion Council with the 2016 International Business Leader Award.

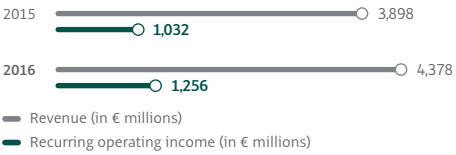
In 2017, Gucci will build on 2016 successful results completing the product transition for all categories and seeking to capture all growth opportunities across product categories and channels of distribution. Increased sales density and the progressive roll-out of Gucci.com across regions will be among the key drivers of sustainable growth for next year and the years to come.

Despite the low rate of growth expected for the industry, the brand's ambition is to grow at more than twice the rate of the sector, setting an ambition to reach 6 billion euro revenues in the long term.

Number of directly operated stores by region



Revenue and recurring operating income



BOTTEGA VENETA

2016 key figures

€1,173 million
in revenue

€297 million
in recurring operating income

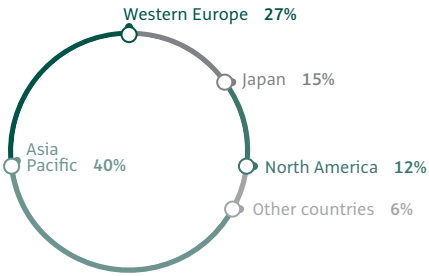
3,417
average number of employees (full time equivalent)

255
directly operated stores

Breakdown of 2016 revenue by product category



Breakdown of 2016 revenue by region



business concept

Founded in 1966 in the Veneto Region of Italy, Bottega Veneta began as a leather goods House and was made famous through its signature *intrecciato*, a distinctive, crosshatched design developed by Bottega Veneta's artisans with luxury and understated elegance in mind. *Intrecciato* is eminently adaptable, reinterpreted each season in different colours and materials. The brand led the way in introducing soft, deconstructed handbags – as opposed to the usual rigid structure that originated with the French school – and quickly became well recognised and appreciated in the market. Bottega Veneta has evolved 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 the customer 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 license agreements (Coty Prestige for fragrances) and supply partnerships (Poltrona Frau for seating, KPM for porcelain).

Bottega Veneta's products are sold through a distribution network of directly operated stores, complemented by exclusive franchise stores and strictly-selected department and specialty stores worldwide. In addition, Bottega Veneta's products are now available through the brand's online store in 50 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 customers. This places the brand at the top of the luxury pyramid in terms of positioning, in competition with a limited number of brands.

strategy

On October 4, 2016, Claus-Dietrich Lahrs was appointed Bottega Veneta Chief Executive Officer. Under his leadership and the creative direction of Tomas Maier, Bottega Veneta's strategy aims to reinforce its position as a high-end and exclusive luxury lifestyle brand, for which consistency and continuity are the key elements to maintaining differentiation in the industry. Business and creativity will continue to work together as an essential part of Bottega Veneta's success, as they always did in the past.

Historically, the brand's core business was leather goods (86% of sales), characterised by attention to detail and the use of the highest quality materials. A wider range of products appealing to an international clientele of men and women was gradually integrated, with the emphasis on contemporary functionality and timeless yet innovative design.

The brand's predominant trait of exclusivity has been transferred to the distribution network. Through its worldwide expansion, Bottega Veneta has consolidated its presence in emerging markets, without compromising its investments in mature markets, particularly the United States, but also Europe, where Bottega Veneta's story and craftsmanship began.

2016 highlights and outlook for 2017

2016 was a challenging year for Bottega Veneta, with a general macro and political environment that specifically impacted the performance of the brand across key markets.

In this context, leather goods, key category for the brand, has been revived thanks to a renewed offer in terms of shapes and functions of full *intrecciato* products, as well as an accurate search and development of new seasonal items that further enrich the *intrecciato* offer with seasonal variations and craftsmanship, also within the precious skin segment.

Shoes, for both men's and women's, performed particularly well during the year while the brand is strongly investing to broaden the range of this product category and to roll out new display tools and dedicated shoe areas in selected stores.

Throughout 2016, Bottega Veneta focused on consolidating its existing retail network, continuing its efforts to enhance its boutiques through both refurbishments and expansions to ensure the best possible experience. It also pursued selective store openings, bringing its total network up to 255 at the end of the year. The new stores openings were quite evenly balanced between emerging and mature markets.

During the year, Bottega Veneta opened its second Maison in Beverly Hills designed by Creative Director Tomas Maier to center upon the idea of lightness, spaciousness and intimacy in perfect balance, with the aim to reflect the House's universe in a location that both honours and represents the beauty and discretion of the local architecture. Bottega Veneta also inaugurated its newly expanded boutique at Plaza 66 in Shanghai, becoming the city's new flagship and introducing an evolution of its store concept. Finally in October, the first Bottega Veneta store in the Netherlands opened in Amsterdam.

In terms of events, in April, during the Salone del Mobile 2016 in Milan, Bottega Veneta presented its new Home Collection pieces against the quietly elegant backdrop of its Home boutique in via Borgospesso in Milan. During the same month, the House also launched *Parco Palladiano*, the collection of six fragrances for women and men inspired by the Palladian gardens of the Veneto region.

This year, Bottega Veneta celebrated its 50th anniversary and the 15th anniversary of Tomas Maier's appointment as Creative Director with a special fashion show during September's fashion week. The House presented the women's and men's Spring/Summer 2017 collections at the historical Accademia di Belle Arti di Brera in Milan, for the first time outside Bottega Veneta's own venues. The event also marked Bottega Veneta's commitment to support an academy's educational program by providing scholarships for students, encouraging the creativity of future generations.

In 2017, under new management, Bottega Veneta will continue building on its reputation for excellence, its achievements and positioning supported by further strategic retail openings worldwide. Further investments will be made to reinforce the existing retail network, especially in EMEA and America. In particular, the House will concentrate on the renewal of its stores to greet the clientele in the most welcoming atmosphere while offering personalised services in line with the artisanal roots of the brand.

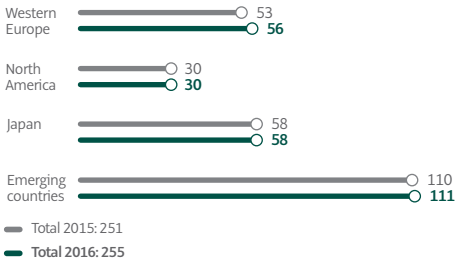
Embracing the current changes in consumer behaviour, Bottega Veneta will further begin a new era with regards to its digital presence and activities aiming to recruite new audiences, entertain clients and provide them with a deeper omnichannel experience.

In terms of products, 2017 marks the return to the brand's heritage, with the main focus on leather goods and timeless iconic bags in seasonal variations accompanied by new styles, both in *intrecciato* and plain leather, inspired by Bottega Veneta's archive and interpreted with a contemporary and fresh attitude. The House will also continue to straighten its offer of women's and men's shoes aiming to reinforce its brand awareness in this category.

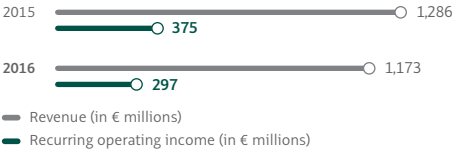
Moreover, in 2017, Bottega Veneta will present its collections with two annual combined women's and men's fashion shows, one for Fall/Winter and the other one for the Spring/Summer seasons, held during the February and September Milan women's fashion weeks respectively, in line with the approach taken in 2016.

The brand is also committed to ensure the future of Italian craftsmanship and artisanal tradition of the Veneto region. In 2017, following the last initiative held in 2015, Bottega Veneta will celebrate the new collaboration between La Scuola dei Maestri Pellettieri and The University IUAV of Venice concerning the post-graduate level course in bag design and accessories development.

Number of directly operated stores by region



Revenue and recurring operating income



SAINT LAURENT
PARIS

2016 key figures

€1,220 million
in revenue

€269 million
in recurring operating income

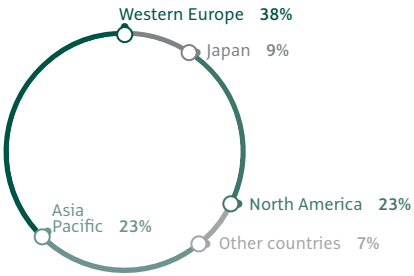
2,204
average number of employees (full time equivalent)

159
directly operated stores

Breakdown of 2016 revenue by product category



Breakdown of 2016 revenue by region



business concept

Founded in 1961, Yves Saint Laurent is one of the most prominent fashion houses of the 20th century. Originally an haute couture House, 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, that impeccably balances elements of provocative femininity and sharp masculinity in his silhouettes is the perfect fit for the House.

As of December 31, 2016, the Saint Laurent retail network consists of 159 directly operated boutiques, which together generated 68% of total revenue for the year and includes flagship stores in Paris, London, New York, Hong Kong, Shanghai, Beijing, Tokyo, Miami and Los Angeles. The House is also present in select multi-brand boutiques and department stores around the world.

At the end of 2016, the Saint Laurent business was very well balanced in terms of both geographic markets and product categories, with leather goods and shoes accounting for 68% of business and ready-to-wear representing 23% of total revenue.

competitive environment

Since its inception, Yves 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 other French high-end exclusive luxury brands and occupies a leading position in ready-to-wear, fashion and leather goods sectors. Saint Laurent 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 is to create and market highly desirable products, that embody the core values of the brand through innovation and unparalleled quality and design.

Thanks to the implementation of a highly consistent strategy in terms of products, distribution and communication, the brand has built solid foundations for its present and future development. The execution of the strategy will continue to be focused 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 newness.

2016 highlights and outlook for 2017

Under the leadership of Francesca Bellettini, the company's CEO, 2016 was another year of expansion for Saint Laurent.

In April 2016, Yves 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.

On September 27, 2016, during Paris Fashion Week, Anthony Vaccarello presented his first women's ready-to-wear collection (Summer 2017) at rue de Bellechasse in the 17th-century former abbey that will be Saint Laurent's future headquarters. A collection characterised by free femininity and a boyish attitude, incorporating references to the House's heritage. From this thread, Anthony Vaccarello has drawn a contemporary look, a sensitive and personal collage, revising the classic form of the tuxedo and transposing the desirability of eighties dresses inspired by the archives into the present.

Since his appointment, Anthony Vaccarello launched, in 2016, four new advertising campaigns for the House, clearly affirming his sharp, 360 degrees vision for Saint Laurent.

During the year, the brand's sales were fuelled by extremely strong growth across the main product categories. Overall growth was driven by the success of both permanent and new successful introductions across all channels and categories.

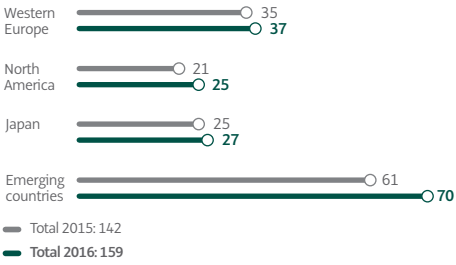
Saint Laurent also made 2016 another year of investment, enhancing its retail network with selective store openings worldwide, in both emerging and mature markets, and key refurbishments and relocations. Throughout the year the brand opened 17 (net) directly operated stores worldwide, including the entry into new countries, Canada and Malaysia.

Yves Saint Laurent e-commerce business, as part of the overall cross channel strategy, was particularly dynamic during the year. As of December 2016 Saint Laurent is present on line in approximately 60 countries worldwide including the USA, all major countries in Europe, South Korea and Hong Kong.

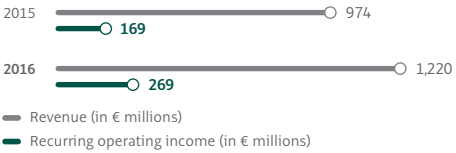
Social media initiatives were met with extraordinary success as social platforms were fully integrated into global communications practices and strategies. As of December 2016, Yves Saint Laurent had more than 2.6 million fans on Facebook and was one of the most popular luxury brands on Twitter with over 3.8 million followers. Since June 2016, moreover, the House implemented a new Instagram strategy, fastly over-reaching its first 1 million followers mark.

In line with its current strategy, in 2017 the brand will continue to expand its retail distribution network, opening stores in Europe, the Middle East, Latin America and the United States, as well as across the Asia Pacific region.

Number of directly operated stores by region



Revenue and recurring operating income



other brands

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

2016 key figures

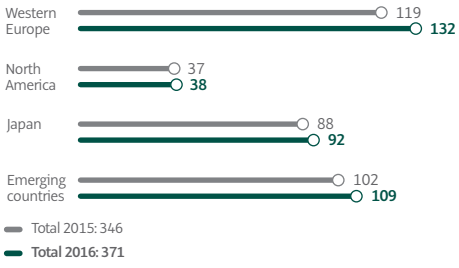
€1,698 million
in revenue

€114 million
in recurring operating income

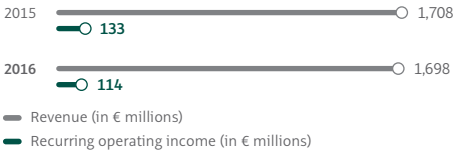
5,685
average number of employees (full time equivalent)

371
directly operated stores

Number of directly operated stores by region



Revenue and recurring operating income



ALEXANDER McQUEEN

Founded in 1992 by Lee Alexander McQueen, the 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 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 for having made an impact on the international stage.

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. 2016 saw the launch of the inaugural fragrance from Alexander McQueen. In partnership with Coty, *McQueen Parfum* and *Eau de Parfum*, a scent for women, were introduced with great success.

Having expanded internationally through both wholesale and retail channels in the past few years, the Alexander McQueen brand has strengthened its presence and position in the luxury sector. Its retail network is made up of 45 directly operated Alexander McQueen stores worldwide, including two net openings in 2016.

The brand has also reinforced its wholesale channel and its franchise business, with significant franchise openings in Dubai, Jeddah and Jakarta. The Alexander McQueen brand is 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 has quickly established itself in the popular contemporary market. The McQ brand is distributed in many countries, primarily as a wholesale business internationally with a total of more than 500 doors. Franchises represent an important part of the business. At the end of 2016, McQ had 19 franchise stores located in Asia and in the Middle East, as well as four directly operated stores in Europe.

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.

2017 will see some new selective store openings in Asia for the Alexander McQueen brand. During the year the company will move to its new headquarters in the centre of London's Clerkenwell district, merging both brands under one roof and establishing a new era for the brands' future success.

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, which 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*. And, 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.

On December 5, 2016, in London, Demna Gvasalia received the prestigious award from the British Fashion Council as the International Ready-to-Wear Designer of the year.

Over the past years Balenciaga has been consolidating its directly operated store network worldwide. Today Balenciaga has a well-developed retail network of 114 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 2016, Balenciaga pursued its retail expansion strategy with the opening of its retail operations in Germany, the take-over of a franchisee in Hong Kong and the relocation of its Los Angeles store in Rodeo Drive. Several stores were renovated in line with its concept during the year. 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 2016. The online store is now part of the top performing directly operated stores and traffic is increasing strongly, reflecting the increased interest in the brand. Today there are nine localised versions of balenciaga.com, in languages including Chinese, Korean and Russian. The website is e-commerce enabled in over 95 countries, including South Korea, China and Hong Kong. Further openings are planned for the Middle East next year.

On social media, as of December 2016, Balenciaga had more than 1.2 million fans on Facebook and is increasingly popular on Instagram with over 2.9 million followers.

In 2017 the brand will benefit from the momentum provided by the new creative vision and the new product launches. While franchises and selective distribution remain important contributors to the brand's activity, retail and e-commerce development will continue to be the priority for the brand. In particular, new store openings are planned for the year in strategic locations in mature markets and in Asia. In addition, a complete redesign of the website is planned for 2017 in the concept of the new Artistic Designer. Also in the roadmap for next year is an enlargement of the online product offer and further 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 nearly 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 39 directly operated stores across the world, including its flagship Place Vendôme store, 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 its first boutiques (franchisees) in Kuwait City (The Avenues), in Riyad and in Istanbul, while the existing Doha and Dubai boutiques (franchisees) underwent a complete refurbishment. In Asia, Boucheron opened one new directly operated store in Tokyo (Omotesando).

The House new high jewelry collection, *26 Vendôme*, was launched in 2016 as a contemporary expression of Boucheron's legacy. Designed by Creative Director Claire Choisne, the collection reflects three important stylistic themes in Boucheron's archives: couture, nature and architecture. The collection of around 60 pieces was revealed in Paris in July during a one-of-a-kind live presentation mise-en-scene by Olivier Saillard, Curator of the Palais Galliera, the Paris' Fashion Museum. On this occasion, Boucheron's unveiled its new salons inside its historical building in Place Vendôme. The collection was then presented in Cannes, Tokyo, Hong Kong and Dubai.

During the year, Boucheron's iconic line, *Quatre*, was extended with the worldwide launch of new references, using two signature motifs, *Grosgrain* and *Clou de Paris*. The *Serpent Bohème* jewelry collection and *Animaux de Collection* continued to perform very well as iconic pillars of the brand in terms of both image and sales contribution.

A new feminine round watchcase was launched during Baselworld 2016 along with new *Reflet* variations that enlarged Boucheron's existing watch offering.

In 2017, Boucheron plans to further reinforce its distribution network in key areas such as Asia and Europe while, in terms of products, extend its iconic jewelry lines and launch a new very broad high jewelry collection.

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 couture 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 recognition in America, 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 bespoke – made-to-measure – service.

Timeless sophistication, sartorial excellence and innovation are Brioni's guiding values. The brand's ambition is to further manifest and sustain its position as a world leader of masculine elegance, addressing a self-confident, internationally minded and charismatic man in the age range of 35 and 65, who is looking for excellence and a distinctive style.

All of the brand's products are manufactured in Italy and meticulously handcrafted by expert artisans. Most of the production is made in-house at 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 the genuine workmanship of Brioni's tailors. These men and women, with many years of experience, shape each garment with the rigorous observance of the Brioni method. The brand's tailoring tradition is preserved at the Scuola di Alta Sartoria tailoring school, founded by the company in 1985 to perpetuate its sartorial expertise and train new generations of tailors.

While wholesale still represents an important distribution channel, Brioni is continuously expanding its retail network by opening new strategic stores.

At the end of 2016, Brioni had 49 directly operated stores, mainly located in Western Europe, North America and Japan.

2016 marked an important year in Brioni's retail strategy with the debut of its new store concept. Developed by David Chipperfield Architects, the concept was introduced with the opening of the Paris and New York flagship stores.

Moving forward, Brioni's ambitions for 2017 include consolidating business in the United States and Asia as well as strengthening brand awareness and visibility worldwide. During the year, the company will reinforce its retail ambitions by continuing the roll out of its new store concept in order to reaffirm Brioni's leading position in the sartorial luxury menswear industry.

CHRISTOPHER KANE

Founded in 2006, Christopher Kane is a brand which is widely acknowledged to have spearheaded a revival of British high fashion, through the launch of 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 2016, Christopher Kane was nominated again by the BFC for two prestigious awards: Womenswear Designer of the Year and the Red Carpet Award. In addition, for the 5th year running, Christopher Kane has been awarded the «Designer of the Year» at the 11th annual Scottish Fashion Awards.

On the distribution side, Christopher Kane's collections are currently distributed in over 30 countries across more than 120 wholesale points of sale. The brand's primary product category is women's ready-to-wear, with expansion into menswear, accessories and shoes.

Christopher Kane's first retail store, on Mount Street in Mayfair, London which opened two 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 June 2016 the brand launched its own e-commerce site with the goal to have a truly global reach and exploit the potential of its direct online business.

In 2017, the brand will aim at further strengthening its wholesale presence.

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 2016 the company celebrated its 225th anniversary and seized this opportunity to revamp and relaunch several signature collections that embody the brand's heritage, craftsmanship and watchmaking culture. The *Girard-Perregaux 1966* collection is now offered in a steel edition, while Girard Perregaux's iconic complication, *Three Gold Bridges* has been elevated from a complication to a complete product collection, inspired by classic or contemporary design. In addition, during the year Girard-Perregaux introduced limited editions of the *Laureato* and the *1957* iconic models.

Haute Horlogerie continues to be the brand's emblematic segment. In 2016, the brand capitalised on the success of the products that had been honoured at the *Grand Prix d'Horlogerie de Genève* (GPHG), introducing a full titanium version of the *Minute Repeater Tourbillon* and re-engineered the *Constant Escapement* into a 46mm version. The key highlight was the introduction of the *Three Gold Bridges Esmeralda Tourbillon*, inspired by the iconic historical pieces that won the Paris Exhibition in 1889, but re-interpreted as a wristwatch.

Lastly, Girard-Perregaux ended the year very successfully with two awards, at the 2016 *Grand Prix d'Horlogerie de Genève*: the Ladies' High Mech Watch prize, with the *Cat's Eye Tourbillon with Gold Bridge*, and the Tourbillon Watch prize with *La Esmeralda Tourbillon*.

Girard-Perregaux is 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 13 mono-brand franchise stores located primarily in Asia and Europe.

In 2017, the brand will mainly capitalise on the re-organisation of its distribution network. In terms of products, in 2017 Girard-Perregaux plans to introduce a unique sport-chic collection in respect of its codes and DNA.

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 United Kingdom.

Pomellato

DoDo

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

Pomellato's creations – unique in their blend of colourful stones, 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, who transform the spirit of the brand into outstanding creations.

The *Nudo*, *Capri*, *Tango*, *Sabbia*, *Victoria* and *M'ama non m'ama* collections represent Pomellato's pillars and embody the message of the brand that is «the first global luxury Italian fashion fine jeweler, unconventional, colourful».

In 2016, Pomellato launched the new *Nudo* pendant and *Nudo* earrings, that add new functionalities to the collection in the 15th anniversary year of this iconic line. In addition, during the year Pomellato enriched the *Tango*, *Capri* and *Sabbia* collections with a mix of new materials and colours that incentive spreading the character and the storytelling of the Maison.

In 2016, Pomellato completed a 360° digital strategy including its website, social media and a newsletter. As part of this process, the new Pomellato website with an integrated e-commerce platform was launched at the end of 2015.

Following its strategic international expansion, the Pomellato brand currently has a distribution network that includes 39 directly operated stores, 22 franchise boutiques and approximately 500 wholesale points of sale.

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 2016, Dodo launched its new website combined with a new social media strategy and a cross media project, and in this context the launch of the new *Rings* collection has been supported by many videos posted on the main social media platforms.

For the *Christmas* collection, Dodo reinvented its most iconic charms through new silhouettes and styles that express the perfect blend of valued artisan workmanship and creative Italian design.

The Dodo distribution network currently includes 20 directly operated stores, 14 franchise boutiques and over 400 wholesale partners, most of which are shared with the Pomellato brand.

In 2017, the brands' strategies will focus on consolidating and protecting their distinctive positioning, as well as boosting their brand awareness, product strategy and communication. In addition, they plan new selective openings to increase their retail presence in international markets, particularly in Japan and Mexico, while the wholesale expansions will focus on the main American and European 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 and wholesale channels.

Its boutique network expansion continued in 2016 primarily in Mainland China with Qeelin now counting 25 stores (16 directly operated boutiques and nine franchise stores). To reinforce its international expansion, the brand has recently taken its first steps in the US market, where business development is driven by a selective network of independent retailers and department stores.

2016 was an important milestone for Qeelin as it marked the 10th anniversary of *Bo Bo*, one of the brand's most successful and iconic collections. To celebrate this anniversary, Qeelin collaborated with acclaimed Chinese photographer and visual artist Chen Man to design the limited edition *Monkey King Bo Bo*, featuring the Chinese mythological figure Sun Wukong in a contemporary design.

In 2017, Qeelin will continue to invest in its expansion, primarily focusing on the Chinese market. The product offering aims to maximise the icons through further extensions of the existing lines. During the Fall 2017, a new collection will be introduced to express the brand's DNA with a focus on playfulness and Chinese emotions.

STELLA McCARTNEY

Stella McCartney is a luxury lifestyle brand that was launched under the designer's name in partnership with Kering in 2001. Since then, the brand has experienced strong and sustained development, building a very distinctive positioning and a strong identity in the luxury world.

Since the brand's foundation, ready-to-wear represents Stella McCartney's core business, although throughout its whole life, the company has been successfully developing and extending its portfolio to include other product categories such as bags, shoes and kids. Product diversification has also been guaranteed 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.

2016 also saw a further product portfolio expansion with the launch of Stella McCartney's first men's collection.

Committed to reflecting the designer's ethical values, the brand is continuously looking for new ways to operate a business that reduces its environmental impact, and takes very seriously its responsibility to be a sustainable company, from the design phase to store openings and product manufacturing. In this regard, in 2016, for the first time, Stella McCartney officially presented its Environmental Profit and Loss (EP&L) account.

Since its establishment, the brand has been primarily represented through its wholesale channel, which today includes approximately 700 doors. The brand will continue to optimise wholesale distribution by nurturing and fine-tuning it while engaging with key online players.

Most recently and for several years, the brand has focused its strategy on the expansion of its retail channel worldwide. Over the last few years though, the brand has mostly concentrated on consolidating the organic growth of its existing retail network with only a very few selective openings. For example in 2016, the brand took over the business in Hong Kong from its long-time wholesale partner, Lane Crawford, with the buyback of three directly operated stores, reinforcing its direct presence in Asia, a strategic market for the brand. At the end of 2016 the brand owned a retail network of 41 directly operated stores, with six net openings in the year taking place in Japan and in Hong Kong.

In recent years, a very important 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 very well developed worldwide and represents a significant part of its total revenue.

Social and media activities were particularly dynamic in 2016 and Stella McCartney had over 3.6 million followers on Instagram, nearly 1 million on Twitter and approximately 0.9 million fans on Facebook, which all contributed to keep clients, particularly Millennials, engaged and connected with Stella's world.

In 2017, the brand will continue with its main strategic priority to increase retail productivity and organic growth. Stella McCartney will open for the first time three flagships in top cities (New York, Paris and London) in very high traffic prime locations. This will enable the brand to showcase the entire product portfolio and to reinforce synergies with the online business while aiming for one «universal» client experience. In addition, the brand plans to further expand its accessory lines and to keep increasing brand awareness, particularly in China and in Japan.

ULYSSE NARDIN
SINCE 1846 LE LOCLE - SUISSE

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

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

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

Product launches in the year included the acclaimed *Grand Deck Marine Tourbillon* timepiece, which won the public prize «Premio del Público» during the 2016 Salon International of *Haute Horlogerie* in Madrid, and was nominated «Watch of the Year» by a panel of specialised journalists and watch collectors in the Middle-East region. The introduction of the top-selling *Executive Tourbillon Skeleton* also contributed to the brand's innovative image.

Alongside its audacious inventions, Ulysse Nardin nurtured its historical marine heritage by reviving the artistic *Classico Schooner America*, and the *Classico Manufacture* both with a unique dial handcrafted in-house at Donzé Cadrans, a manufacturing subsidiary of Ulysse Nardin and a unique specialist in the delicate art of *Grand Feu* enamelled watch dials.

Within the Women's collection, in 2016 Ulysse Nardin introduced the *Lady Marine Chronometer*, and the *Lady Diver*. Additional releases in 2016 were the *Diver Chronograph Monaco* and the *Diver Chronograph Hammerhead Shark*.

To reinforce its image and positioning in the *Haute Horlogerie* world, the brand launched a new advertising campaign featuring the picture of a breaking wave underlined by its «Eternal Movement» motto. Marketing investment was primarily focused on digital media and on the launch of Ulysse Nardin's new official website. Ulysse Nardin continued to reaffirm its roots in the marine world thanks to the sponsorship of the Artemis Racing team, challengers in the 35th America's Cup races.

Ulysse Nardin's current distribution network includes 20 mono-brand boutiques (including one directly operated store) and over 500 selected points of sale around the world. Since January 2016, Ulysse Nardin directly manages its distribution network in Japan.

In 2017, Ulysse Nardin aims to further streamline its product portfolio, while expanding functionalities in each of its four product pillars, in preparation of its first attendance, in January, to the Geneva *Salon International de la Haute Horlogerie* in Geneva. In addition, the brand will extend the length of its warranty programme for the entire product portfolio to five years (previously it was 2-3 years) to offer an additional and highly valuable service to its clientele. Finally, Ulysse Nardin plans to pursue the consolidation and upgrading of its worldwide distribution network.

worldwide sport & lifestyle market overview

This section contains information which is derived from the «2015 Global Sport Market Report» conducted by NPD, an independent market research firm, and published in June 2016.

This study's estimates of the size of the global sport market are based on NPD's consumer panel tracking data, in 16 countries (in 2015), representing approximately 80% of the global sport market sales. For the remaining 20%, NPD estimates are based on assumptions related to gross domestic product development.

Note that year after year some countries are surveyed using panels instead of being estimated. As a result, historical data (typically from 2007 to 2015) are subject to update by NPD each year.

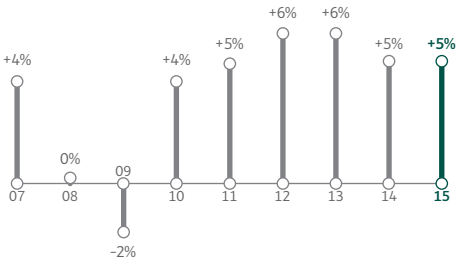
Also note that i) all growth rates are expressed in reported terms (unless stated otherwise); ii) the designation «Sport & Lifestyle» (SLS) refers to all types of sports from running and hiking to snowboarding; iii) the global sport market, as reported by NPD, includes four major segments: apparel, footwear, equipment, and bicycles for all types of sport usage.

market overview: size, trends and main growth drivers

According to NPD, the global Sport & Lifestyle market generated revenue of €356 billion in 2015, representing a 5% increase at comparable exchange rates compared to 2014.

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

Worldwide Sport & Lifestyle growth rate at comparable exchange rates (2007-2015)



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

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

Meanwhile, 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.

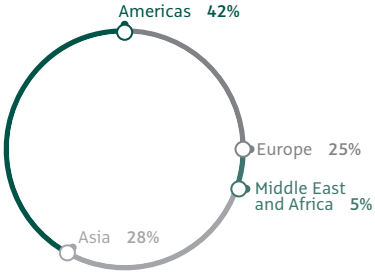
competitive environment

The Sport & Lifestyle market is a mass, global market. PUMA is currently one of the leading sporting goods brands after Nike and Adidas. In addition to these three major companies, there are several players specialised either in one specific category, or initially targeting a specific region, such as Under Armour, New Balance and Lululemon Athletica.

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

regional overview

Worldwide Sport & Lifestyle market: breakdown by region (2015)



The ten largest countries in terms of global revenue in 2015 are as follows (revenues by geography and not by nationality):

2015 rank	Country	Size *(in € billions)*	Year-on-year change 2015/2014	% of total market
1	United States	114.9	+8%	32%
2	China	33.9	+6%	10%
3	Germany	14.3	+5%	4%
4	Japan	14	+1%	4%
5	Canada	13.4	+7%	4%
6	France	12	+5%	3%
7	United Kingdom	11.9	+4%	3%
8	South Korea	11.2	0%	3%
9	India	9.1	+7%	3%
10	Italy	8.6	+5%	2%

In 2015, the United States and China remained the two largest markets, accounting for 32% and 10% of the global market respectively.

In 2015, in the United States, the Sport & Lifestyle market was driven by sport apparel, up 16%, confirming the trend initiated four years ago (i.e. consumers favoured sport products for casual and daily use). Footwear remained dynamic, with a 7% increase.

China shows a pretty linear growth rate by category, with the noteworthy outperformance of footwear, up 9%.

Western Europe growth is also driven by footwear, which grows twice faster than the global market in this region. France, Italy and the United Kingdom also benefit from a strong apparel market (+8-10%), while Germany's traction relies on bicycle (+6%).

India, which entered the top ten countries in 2015, saw a solid organic growth (+7%), driven by the footwear category (+10%).

product categories

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

In 2015, all categories grew, with apparel, up 7.3%, confirming the trend initiated in 2014 as the prime contributor to global sport market growth, being at the same time the biggest and fastest growing category alongside footwear.

Worldwide Sport & Lifestyle market: breakdown by category (in 2015)

	Market value *(in € billions)*	Reported year-on-year change 2015/2014	% of total market
Footwear	97	+6.7%	27%
Apparel	118	+7.3%	33%
Equipment	99	+2.1%	28%
Bicycle and accessories	42	+2%	12%
Total	**356**	**+5%**	**100%**

In 2015, fitness, swimming and basketball were the sports that enjoyed the highest growth rates.

Sport	2015 value *(in € billions)*	Reported year-on-year change 2015/2014
Cycling	45.2	+2%
Fitness	37	+8%
Walking/Hiking	29.5	+2%
Running	24.1	+5%
Football/Soccer	12.1	+1%
Swimming	12.8	+7%
Basketball	9.4	+8%

NB: as mentioned in the introduction to this section, NPD updates historical data each year (2014 data have been updated).

distribution channels

The Sport & Lifestyle industry predominantly operates through the wholesale channel. Key distributors of sporting goods brands include retailers such as Foot Locker and Finish Line in the United States, and Intersport and Decathlon in Europe. In the United States, action sports and outdoor brands are primarily distributed at Zumiez and Tilly's, 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 with the largest retailers.

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 2014, global online sales accounted for 7% of total sporting goods market sales. However, in the United States, e-commerce penetration is relatively higher and thus presents positive prospects for industry players.

market outlook

In the long term, NPD forecasts a CAGR (compound annual growth rate) of 4% from 2015 to 2020. The Sport & Lifestyle market is therefore expected to reach sales in excess of €428 billion by 2020, assuming continued positive global GDP growth. Therefore, 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 NPD, two trends will contribute equally to long-term growth:

- Consumer trends: the casual-use market will expand through increased penetration of branded sport-styled apparel and athletic footwear in daily life. The market for sport use will grow through increased concern for health considerations.
- Sports trends: within major sports, urbanisation will specifically foster running, basketball and all fitness activities. Paradoxically, urbanisation should also nurture a return in demand for outdoor activities and brands.

sport & lifestyle activities

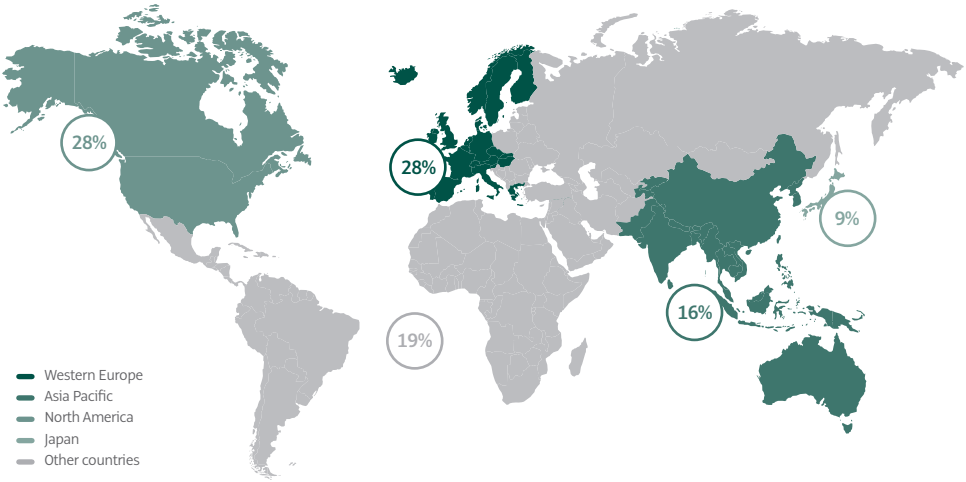
2016 key figures

€3,884 million
in revenue

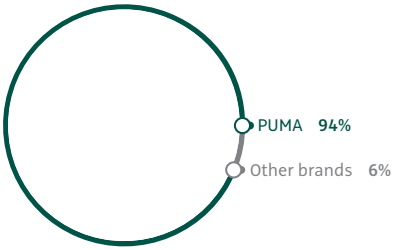
Revenue (in € millions)



Breakdown by region



Breakdown of 2016 revenue by brand

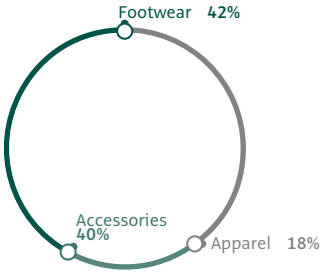


€123 million
in recurring operating income

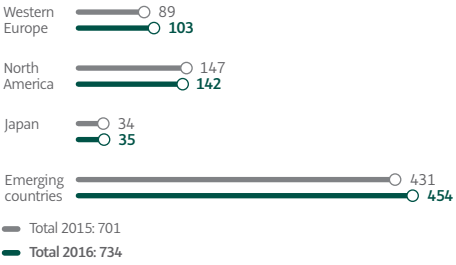
Recurring operating income
(in € millions)



Breakdown of 2016 revenue by product category



734
directly operated stores



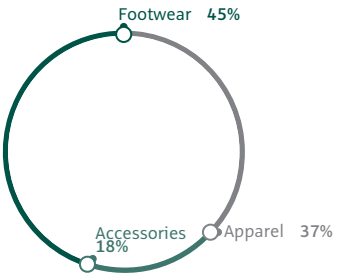
2016 key figures

€3,642 million
in revenue

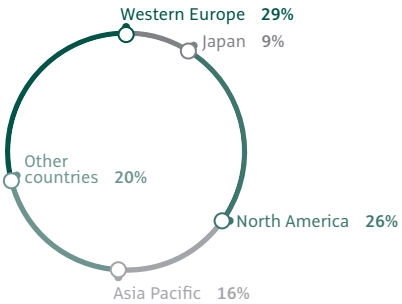
€127 million
in recurring operating income

11,128
average number of employees (full time equivalent)

Breakdown of 2016 revenue by product category



Breakdown of 2016 revenue by region



business concept

As one of the world's leading sports brands, PUMA designs, develops, and markets footwear, apparel and accessories. For over 65 years, the brand has established a reputation for fast and innovative product designs in its Performance categories such as Teamsport, Running and Training, Golf and Motorsport. In addition, PUMA offers innovative and commercial Sportstyle ranges that are inspired by the rich heritage of PUMA's roots in sports and engages in exciting collaborations with renowned design brands to bring compelling designs to the sports world.

The PUMA group owns the PUMA and COBRA Golf brands as well as the Dobotex subsidiary. The group distributes its products in more than 120 countries, employs more than 11,000 people worldwide, and is headquartered in Herzogenaurach, Germany. Since 2013, PUMA's mission is to be the fastest sports brand in the world, which is reflected in its brand positioning of being «*Forever Faster*». This mantra serves as the company's guiding principle, which is expressed through all of its actions and decisions. PUMA's objective is to be fast in reacting to new trends, fast in bringing new innovations to market, fast in decision-making and fast in solving problems for its partners and retailers.

competitive environment

The global sporting goods industry grew solidly in 2016. The main growth drivers were the increase in consumer spending based on rising wages as well as a higher sports participation around the world, including more women taking up sports. In addition, 2016 saw a continuation of the global athleisure trend.

From a distribution channel perspective, the e-commerce business continued to show rapid growth.

However, volatile currencies and a strong US dollar in particular continued to weigh on the profitability of some companies within the sporting goods industry.

strategy

PUMA's strategy consists of five priorities: repositioning PUMA as the world's fastest sports brand along with the creation of brand heat, improving the product engine with a pipeline full of exciting and commercial products, optimising PUMA's revenue and distribution quality, enhancing organisational speed and business processes as well as further strengthening PUMA's women's business. In 2016, PUMA has made further progress in all of these key strategic priorities.

In terms of further strengthening its position as a sports brand and creating more brand heat, PUMA capitalised on its partnerships with some of the most elite ambassadors. The world's fastest man Usain Bolt, star striker Sergio Agüero, golf star Rickie Fowler, Arsenal Football Club, Borussia Dortmund, the Jamaican and Cuban Olympic Federations, multi-platinum recording artist, designer and entrepreneur Rihanna as well as influencers Cara Delevingne, Kylie Jenner and many more have played major roles in increasing sell-through for PUMA in 2016. Furthermore, the year's great sporting events such as the Copa América, UEFA Euro 2016, and the Olympics in Rio all proved to be perfect stages to showcase PUMA as an innovative and design driven sports brand.

The strong demand for PUMA's Performance and Sportstyle product offering proved that the brand has successfully managed to increase the commercial appeal of its products. This success stems from the *IGNITE* franchise as well as *Fierce* and *Fenty* products within the Running, Training and Sportstyle categories. In PUMA's women's business, a series of styles for female consumers has been launched successfully. Key footwear styles sold out within weeks or days, which was accompanied by positive feedback from retailers around the world.

In terms of improving distribution quality, PUMA continued to consolidate its relationships with key strategic accounts and built new partnerships with strong retailers in both established and emerging markets. Furthermore, PUMA's retail sales developed quite strongly throughout the year thanks to healthy like-for-like sales growth, a higher number of own retail stores in operation as well as significant momentum in the e-commerce business. The roll-out of the «*Forever Faster*» store concept also continued worldwide for PUMA's owned-and-operated stores and contributed to this positive development.

Regarding the improvement of the group's organisational speed, PUMA continued to make progress in key areas, including the further standardisation of ERP systems, improvements to the overall IT infrastructure and the expansion in scope of the group's International Sourcing & Trading Organisation, which manages all global order and invoice flows centrally. Building enhanced capabilities and tools across product development, planning and reporting were also priorities, for example, in order to drive transparency and efficiency in managing product components such as materials and graphics.

In support of the brand's growing women's business, PUMA launched its «DO YOU» campaign, which aims to inspire confidence in women around the world. The campaign is spearheaded by international model, actress, and activist Cara Delevingne who has joined PUMA's growing list of influential female ambassadors. It features a cross-category product range from PUMA's Running and Training and Sportstyle collections. The «FENTY PUMA by Rihanna» fashion shows in New York and Paris also led to continued strong visibility for PUMA's women's category worldwide.

Social, economic and environmental sustainability remains a core value for PUMA. In January 2016, PUMA joined the Better Cotton Initiative (BCI), which is committed to developing better cotton as a sustainable mainstream commodity. Cotton has a significant environmental footprint because cotton farming requires enormous usage of land and water. As it is one of the most used materials in PUMA's apparel products, it is important for PUMA to integrate a commercially viable and more sustainable cotton solution into its production process, such as cotton from BCI.

In April 2016, PUMA and the International Finance Corporation (IFC), a member of the World Bank Group, entered into a partnership to provide financing to PUMA's suppliers in emerging markets. This innovative programme, which is the first a European brand has signed with the IFC, offers financial incentives for suppliers to improve environmental, health, safety and social standards. In its first phase, the program will be rolled out in Bangladesh, Cambodia, China, Indonesia, Pakistan and Vietnam.

2016 highlights and outlook for 2017

In January 2016, PUMA won the ISPO AWARD 2016 in the category Apparel Performance Products Outer Layer. As a constant driver of innovation in sports, PUMA invented a jacket with dynamic thermoregulation. The *evoTRG Vent Jacket* has ergonomically-placed inserts that adapt to football players' movements: they open to keep players cool when in motion and close to keep them warm when the movement stops.

During the summer, the UEFA Euro 2016 in France proved to be a great stage to showcase PUMA as an innovative and design-driven sports brand. With an on-field presence of almost 40% across all matches, PUMA's five participating teams secured the brand strong visibility with their kits featuring the *ACTV Thermo-R* apparel technology. While Switzerland and Slovakia reached the round of last sixteen following passionate and decisive appearances, Italy made it to the quarter-finals beating former European champion Spain. A clear highlight was France's Antoine Griezmann, who was voted Player of the Tournament by UEFA after being the top scorer. Stars like PUMA player Olivier Giroud, who was ranked third in the scoring table of the tournament, while Portugal's European champion Rui Patrício emerged as the Goalkeeper of the Tournament, sporting PUMA's yellow-pink boots or gloves on pitch.

In the Running category, PUMA continued to expand its successful *IGNITE* franchise with the all new *IGNITE Dual* for Autumn-Winter 2016 season. It provides ultimate flexibility and cushioning for mid-and long-distance runners, thanks to the special sole with *IGNITE FOAM*. A major highlight for the brand was the Summer Olympics in Rio, where PUMA sprint star Usain Bolt accomplished his «Triple Triple» by winning an Olympic Gold medal in each of the three sprinting events. In total, ten gold, five silver and nine bronze medals were the yield of the PUMA equipped Olympic national teams.

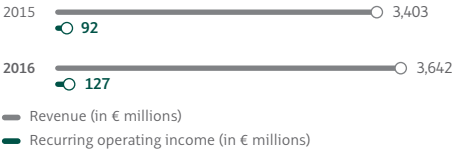
In the brand's Sportstyle and women's business, the first quarter of 2016 provided a lot of positive buzz, when Creative Director Rihanna presented her first «FENTY PUMA by Rihanna» collection at the New York Fashion Show in February. Her first collection hit the stores worldwide in September, while later that month, she presented her Spring/Summer 2017 «FENTY PUMA by Rihanna» collection at the Paris Fashion Week.

In the Motorsport category, PUMA released the latest addition to its *DISC* footwear franchise, the futuristic looking metallic silver *BMW X-CAT DISC*. This striking shoe showcases PUMA's reinvented *DISC* technology of internal wires that tighten the upper, which was originally launched in 1991 and provides ultimate comfort and a snug fit. In Formula One, Nico Rosberg was crowned F1 champion for the first time in his career, while PUMA-partnered teams MERCEDES AMG PETRONAS, Red Bull and Scuderia Ferrari claimed the first places in the Constructors' Championship.

PUMA's golf business also looks back on a successful 2016 and continued to deliver stylish, performance-ready golf apparel, footwear and accessories to the market, while COBRA Golf introduced technology-rich, game-changing equipment.

Looking ahead to 2017, the year promises to be another important step for the repositioning of PUMA as a sports brand and offers great opportunities to further tap the potential of partnerships with top athletes and brand ambassadors around the world. One focus will be the Africa Cup of Nations hosted by Gabon as of January as well as on the 16th edition of the IAAF World Championships scheduled to be held in London, where PUMA is excited to support the continuation of the amazing performances of the fastest man in the world, Usain Bolt. Furthermore, PUMA's Sportstyle category will see more exciting product launches under the umbrella of the brand's «DO YOU» communication platform. Another highlight will be the highly anticipated Spring/Summer 2017 «FENTY PUMA by Rihanna» collection, which will hit the stores in spring.

Revenue and recurring operating income



other brands

2016 key figures

€242 million
in revenue

745
average number of employees (full time equivalent)

Revenue
(in € millions)



Celebrating its 25-year anniversary in 2016, Volcom was founded 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 that relentlessly pursues their passion and lives for those intoxicating moments when they feel more than alive.

In a difficult retail environment in North America, negatively impacting Volcom's wholesale channel, the brand seized the opportunity to strengthen its position with key partners but also its product and marketing, with a heavy emphasis on understanding its consumer and how to effectively market to Millennial and Gen Z consumers. Volcom continues to challenge itself operationally including globalisation of its organisation where necessary and driving efficiencies in its supply chain.

For its retail channels, Volcom has experienced tremendous growth in e-commerce and will continue to leverage this under penetrated business in future years. Volcom has strengthened its retail store portfolio in key markets in the US, Europe and Asia Pacific: the brand opened a store at Disney Orlando in 2016 with other key openings in Switzerland, Australia and coastal Japan. For 2017, Volcom has secured a store location in the Bastille neighbourhood of Paris.

Volcom is continuously reinforcing its brand image through sponsorship of world-class athletes, targeted grassroots marketing events, key city marketing, distinctive advertising and the production of board sport and youth lifestyle-related films, art and music under the «True To This» brand mantra. In 2016, the brand signed key new athletes and brand ambassadors including the Australian surfer, Noa Deane and fashion icon, Georgia May Jagger. In 2016, Volcom launched its full length skate movie, «Holy Stokes.» During the year, Volcom also refocused on its core operations and sold its Electric brand.

chapter 3
sustainability

1. Sustainability at Kering 58

1.1. A long-standing commitment 58
1.2. 2016 highlights 59
1.3. Vision and strategic challenges 62
1.4. Recognition and inclusion in SRI indices 67
1.5. Key figures 67

2. Supporting our employees 68

2.1. The Group's human resources profile 68
2.2. Remuneration and employee benefits 71
2.3. Promotion and respect of ethics within the Group 72
2.4. Enhancement of talent and skills 73
2.5. Promotion of diversity 78
2.6. Quality of life at work 80
2.7. Social dialogue 83

3. Reducing our environmental impact 85

3.1. Environmental management 85
3.2. Environmental Profit & Loss account (EP&L) 89
3.3. Measurement and reduction of our carbon footprint 95
3.4. Circular economy 104
3.5. Protection of biodiversity 114

4. Supporting community development 116

4.1. Community impact 116
4.2. Stakeholder dialogue 118
4.3. Relationships with subcontractors and suppliers 120
4.4. From risk management to development of responsible products 127
4.5. Initiatives carried out by the Kering Foundation and sponsorship programmes 130

5. Cross-reference table pursuant to Articles R. 225-104 and R. 225-105 of the French Commercial Code (*Code de commerce*)/Global Compact/GRI G4 134

6. Report by one of the Statutory Auditors 137

Appendix 140

1. sustainability at kering

1.1. a long-standing commitment

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

1996
- Group's first Ethics Charter.

2001
- Creation of the *SolidarCité* association, promoting education and integration initiatives among employees.
- First employee opinion survey.

2003
- Creation of a Group Sustainability Department.
- Establishment of an environmental reporting platform.

2004
- Signature of the Diversity Charter by PPR's Chairman and creation of the Diversity Committee and the *Mission Handicap* project.

2005
- Signature of a partnership agreement with Agefiph, a French association promoting job placement and vocational training for the disabled.
- Deployment of the Code of Business Practices and creation of the Ethics and Corporate Social Responsibility Committee (ECSRC).

2006
- Definition of the Group's CSR commitments.

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

2008
- Membership of the UN *Global Compact*.
- Creation of the PPR Corporate Foundation for Women's Dignity and Rights.

2009
- Worldwide release of Yann Arthus-Bertrand's documentary *Home*, co-produced by EuropaCorp and Elzévir Films, and financed primarily by PPR.

2010
- Launch of PPR's Innovation and Sustainability Awards.
- Sustainability criteria included in performance evaluations of PPR group leaders.
- Adoption of the Charter of Commitments on the quality of life at work and the prevention of work-related stress for employees of the PPR group in Europe.

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

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

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

2014

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

2015

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

2016 was a turning point in terms of sustainability: following the firm commitment made between 2012 and 2016 and the publication of the Group's results on those objectives, the year was in large part devoted to developing the new chapter in the Group's 2025 Sustainability strategy and its objectives. At the same time, 2016 was also an opportunity to continue to deliver on Kering's deep-rooted social, environmental and societal commitments, as evidenced by the publication of the 2015 EP&L results, the ambitious greenhouse gas reduction target approved by the Science-Based Targets initiative and the proactive parenthood policy implemented for all Group employees worldwide.

1.2. 2016 highlights

Kering releases the final report on its 2012-2016 sustainability targets

True to its commitment to transparency, and following the publication of a mid-term progress report in 2014, in May of 2016 Kering published the final report setting out the progress made and the outcomes stemming from its ambitious 2012-2016 objectives. These targets had driven and structured Kering's entire strategy, with the Group consciously choosing to go beyond a traditional approach and extending its goals and actions to all of its supply chains. This is reflected in the EP&L, the cornerstone of its initiative. The Group made progress in reducing its environmental footprint, even though some of the outcomes were short of the targets set in 2012. A number of challenges remain, such as the traceability of precious materials.

2012-2016 targets	Achievement of target	Comments
EP&L Rollout of the Environmental Profit & Loss account (EP&L) across all Luxury and Sport & Lifestyle brands.	100%	• EP&L results and methodology were made public in 2015 to engage more companies in natural capital accounting with the ambition of creating a collective approach to support a more sustainable global economy. • Significant contribution to the Natural Capital Protocol.
Leather 100% of leather from domestic livestock within our brands' products will be from responsible and verified sources that do not result in converting sensitive ecosystems into grazing lands or agricultural lands for food production for livestock.	Bovine leather 91% Leather (Luxury) 69% Leather (Group) 64%	• Implementation by the brands traceability systems to trace leather back to the country of origin, and increase in the share of leather from countries aligned with Kering standards. The objective of full traceability has yet to be fully achieved.
PVC All of our brands' collections will be PVC-free.	99%	• Replacement of PVC with other types of plastics or other materials.

2012-2016 targets	Achievement of target	Comments
Precious skins & furs 100% of precious skins and furs in our brands' products will come from verified captive breeding operations or from wild, sustainably managed populations. Additionally, suppliers will employ accepted animal welfare practices and humane treatment in sourcing.	Crocodile 91% Precious skins 41% Shearling 78% Fur 38%	• Significant progress made... • ... but the results did not meet expectations due to the difficulties posed by the traceability of certain materials. • This is why Kering's new 2025 Sustainability strategy readdresses this challenge (see section 1.3 of this chapter). • A key accomplishment was the creation of the Kering responsible gold platform, which has facilitated the purchase of more than 1 tonne since its creation.
Gold & diamonds 100% of gold and diamonds in our brands' products will be sourced from verified operations that do not have a harmful impact on local communities, wildlife or the ecosystems which support them.	Gold 15%	
Paper & packaging 100% of our Group's paper and packaging will be sourced from certified sustainably managed forests with a minimum of 50% recycled content.	Packaging 81% Paper 85%	• 81% of the packaging and 85% of the paper used by the Group is certified (FCS or PEFC) or recycled.
Carbon emissions, waste & water Reducing our carbon emissions, waste and water usage resulting from the production of products and services by 25%, while accounting for the growth of our business.	CO_2 44% Waste 64% Water 76%	• Over the 2012-2016 period, relative to our growth we achieved: - 11% reduction in CO_2 emissions - 16% reduction in waste - 19% reduction in water consumption
Offsetting All remaining emissions from Scope 1 and Scope 2 of the Greenhouse Gas Protocol will be offset annually. Kering will continue to partner with offset programs that contribute to the welfare of the community and the conservation of biodiversity in the geographic areas where the Group operates.	100%	• Kering in 2016 joined the International Platform for Insetting (IPI), which aims to encourage companies to reduce CO_2 emissions in their respective supply chains, in addition to offset programmes.
Hazardous chemicals Ensuring all hazardous chemicals have been phased out and eliminated from our production by 2020.	In progress (2020 target)	• The Manufacturing Restricted Substance List (MRSL) and the Product Restricted Substance List (PRSL) are in the process of being rolled out within the Group and among its suppliers. See Sections 3.4 and 4.4 of this chapter for more details.
Supplier evaluation Evaluating our key suppliers at least every two years, and helping guide them to meet best practices and adhere to Kering's Code of ethics.	Number of audits in 2 years (2014/2015) >6,000	• Implementation in 2016 of a centralised management system for suppliers and social compliance for the Group's Luxury activities (see Section 4.3 of this chapter for more details).

The full report and outcomes are available on Kering's website.

Kering is crafting tomorrow's luxury and publishes its Sustainability strategy for the next 10 years

2016 was largely devoted to laying down the future Sustainability strategy for the coming 10 years, together with a review of the 2012-2016 outcomes and the achievement of the objectives set out for that period (see above). This 2025 strategy rests on three pillars:

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

There was a wide-ranging consultation and involvement of all stakeholders internally and the unprecedented commitment of teams from all the Group's luxury maisons. In particular, the creative teams and management teams from all of our luxury maisons were engaged under the leadership of Kering's Chairman and Chief Executive Officer, who personally chaired the meetings and discussions within the various maisons. This illustrates the central position of sustainability within the Group. The engagement process was as significant as the creation of the strategy itself.

Kering is the first luxury Group whose carbon objectives have been validated by the Science-Based Targets initiative

Kering is the first luxury group and the first French company to have seen its goals of reducing its carbon footprint approved by the Science-Based Targets (SBT) initiative. The SBT initiative was launched jointly by the CDP (*Carbon Disclosure Project)*, the United Nations *Global Compact*, the World Resources Institute and WWF. Its purpose is to help companies set science-based greenhouse gas emission reduction targets to ensure that the private sector takes into account the need to limit global warming to less than 2°C by 2050.

Kering has accordingly made the following commitments for 2025:

- reduce greenhouse gas emissions from its operations by 50% (across all of Scopes 1 and 2 of the Greenhouse Gas Protocol, as well as emissions from the shipment and distribution of goods, the production of energy, and fuel and commercial flights);
- reduce greenhouse gas emissions from its supply chain by 40% (supply of goods and services from Scope 3 of the Greenhouse Gas Protocol), in line with its EP&L objectives.

Kering published in 2016 the results of its Environmental Profit & Loss account (EP&L) for 2015 and reviews its progress since the launch of the initiative in 2012

After first releasing results for 2013 and 2014 in 2015, Kering stepped up its efforts to accelerate the cycle-time of its EP&L, thereby making the results available to the brands within a shorter timeframe and to be more in tune with decision-making. Moreover, while the lessons drawn from the first two EP&L reports remain valid (most of the impact attributable to supply chains and more particularly the production of raw materials and their initial processing), the 2015 results show a reduction of approximately 10% in the intensity of the Group's environmental impacts since 2012 (see Section 3.2 of this chapter for more details). Lastly, 2016 was also the opportunity to take part in the development of the Natural Capital Protocol under the auspices of the Natural Capital Coalition, and to put together and release an educational mobile app on the concept of natural capital. The new app, MyEP&L, was presented to students from Parsons in the United States, Tsinghua University in China and the London College of Fashion in the United Kingdom as part of educational partnerships established with Kering.

Kering establishes a global parental policy for all its employees and introduces a minimum duration for maternity, adoption and paternity leave

Kering's parenting policy provides for a minimum of 14 weeks' maternity or adoption leave on full pay for all Group employees, whatever their personal circumstances or geographical location, and a minimum of 5 days' paternity or partner leave on full pay, which in many countries represents a major step forward. In countries where local legislation provides for more favourable parental leave standards, these will naturally be applied. This measure demonstrates Kering's enduring commitment to professional equality and the balance between personal and professional life.

Kering received the GEEIS label in 2016 for its actions in favour of gender equality

In recognition of its actions in favour of gender equality, the Group was awarded the GEEIS (Gender Equality European & International Standard) label by the Arborus endowment fund, the leading support fund for gender equality at work in Europe and worldwide, and Bureau Veritas, a global leader in certification. The aim of this

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

label is to establish a joint standard allowing companies to achieve real professional equality in terms of remuneration, promotion, skills development and equal opportunity in the various professions. It should also be noted that women now make up 64% of Kering's Board of Directors, making it one of the CAC 40 companies with the highest proportion of women Directors.

The Kering Foundation's 2016 White Ribbon for Women campaign to raise awareness of violence against women has unprecedented impact

More than 1.1 billion people were potentially reached by the White Ribbon Campaign For Women, renewed in 2016 to mark White Ribbon Day on November 25, in partnership with Condé Nast International. Between November 18 and 27, 2016, 50,000 badges and 180,000 stickers designed by Stella McCartney, a member of the Kering Foundation's Board of Directors, were given away in more than 800 stores in 51 countries belonging to 10 of the Group's Luxury maisons. At the same time, the Kering Foundation ran a digital campaign with the hashtag #BeHerVoice to encourage everyone to play a part in ending violence against women. This year, the Foundation focused its campaign on the role of men in the fight, asking three male personalities to present the testimonies of women victims of violence supported by the Foundation. Lastly, a crowdfunding campaign was organised to encourage the public to make donations to partner organisations for the benefit of women victims of violence: HER Fund in Hong Kong, It's On Us in the United States, Rosa UK and Women's Aid in the United Kingdom, and *Maison des Femmes* and *Fédération Nationale Solidarité Femmes* in France.

1.3. Vision and strategic challenges

Vision

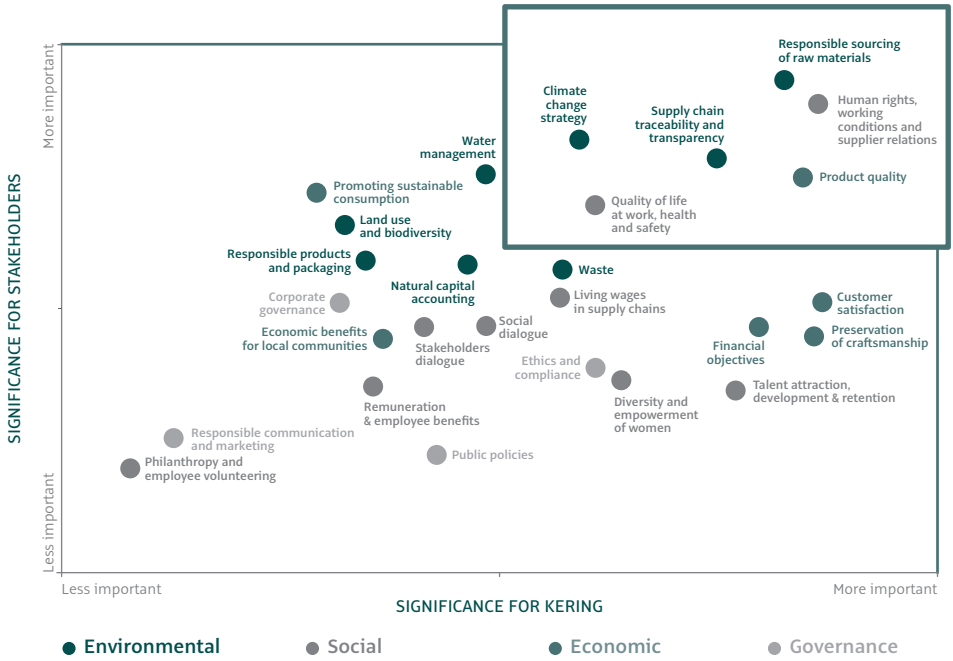
Kering firmly believes that sustainable business is smart business. It is this commitment to the social and environmental dimensions that informs the Group's Sustainability strategy. Sustainability creates value and competitive advantage, for it enables Kering to lead with new business models and innovative practices, whilst often reducing costs. It is also a motivating factor for the Group's employees, helping to attract and retain the best talent. Sustainability plays a key role in the strategy of the Group's brands. Kering serves as a catalyst, encouraging them to develop increasingly innovative, appealing and sustainable products. Through the Kering Foundation, Kering is also firmly committed to combating violence against women. With the help of its employees, the foundation supports local NGOs, distributes grants to social entrepreneurs and organises awareness campaigns.

Materiality: target priority challenges

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

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

MATERIALITY MATRIX



Strategy and objectives

To nurture this vision and address its priority challenges, Kering relied on a set of ambitious and quantified targets for the 2012-2016 period, the results of which were made public in May 2016.

Other than the publication of these results, 2016 was devoted in large part to defining the future of Sustainability at Kering and putting together a strategy to guide its action in this area to 2025.

The process of developing and defining the new 2025 strategy was in itself an important achievement. It was an opportunity lasting 11 months to achieve the broad and sustained involvement of all the Luxury maisons, which was naturally beneficial well beyond the formalisation of the new strategy:

- more than 100 people in-house were directly involved in the redesign of the strategy;
- 13 Executive Committee meetings attended by François-Henri Pinault, the Group's Chairman and Chief Executive Officer, devoted exclusively to the Sustainability strategy;
- 11 meetings between François-Henri Pinault and the artistic Directors of the Luxury maisons devoted exclusively to Sustainability issues, allowing them to share their visions of the sustainable future of design and the collections;
- 13 workshops and roundtables organised within the brands, bringing together operational staff from different departments;
- 4 plenary meetings of the Group Steering Committee. To build the 2025 Sustainability strategy, the Group's Executive Committee became the project's steering committee, with each Executive Committee member taking up a specific topic and sponsoring thinking on it throughout the process;
- 1 meeting of the Sustainability Committee at the Board of Directors dedicated to the new strategy.

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

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

The means for managing and monitoring progress on this strategy have been set out:

- the Kering corporate structure is in charge of the management and follow-up of the 2025 strategy. A progress review will be conducted by the Executive Committee, whose members retain their individual roles as sponsor of a key challenge. One Executive Committee meeting is to be devoted exclusively to the subject every year;
- twice yearly, a workshop dedicated to the 2025 strategy rollout will be organised with the Young Leaders Advisory Group;
- within the Luxury brands, two management or Executive Committee meetings will review outcomes and the achievement of the objectives, making it possible to adjust action plans as needed. The system is completed by an annual workshop in each maison and a formal point of contact between the brand Chairman and CEO and Kering's Chief Sustainability Officer.

The achievement of these targets is factored into the calculation of the remuneration of the Group's leaders, accounting for up to 10% of their variable portion.

This strategy allows the Group to be aligned with the United Nations' new framework as defined in the 17 Sustainable Development Goals (SDG), which are now a common reference in the structuring of sustainability approaches, for the private sector as well as for governments, civil society and citizens, thereby recognising the indispensable involvement of stakeholders throughout society in the service of the common good. More specifically, while we believe that Kering can contribute directly or indirectly in variable proportions to each of the 17 SDGs, both near and far (in other words close to its operations or upstream – and sometimes very far upstream – in its value chain), one can nevertheless identify seven SDGs for which Kering can make a stronger mark than elsewhere:

SDG #3: Good health and well-being
Product quality and consumer health, phase-out of chemicals of concern, anthropo-centred approach to the EP&L taking into account the impacts of environmental degradation on local populations, in particular their health and quality of life, well-being at work.

SDG #5: Gender equality
Ambition in terms of gender equality, parenthood policy, action by the Kering Foundation to fight violence against women.

SDG #6: Clean water and sanitation
Use of the EP&L approach taking into account local levels of water stress, tanning without chromium and without heavy metals, participation in the ZDHC and LWG groups, development of the use of vegetable dyes.

SDG #8: Decent work and economic growth
Code of ethics and fundamental commitments to respect human rights, organisation devoted to social compliance, programme of collaboration with suppliers and subcontractors, preservation of know-how.

SDG #12: Responsible consumption and production
Product design and choice of materials and their provenance at the heart of the Group's sustainability ambition (responsible sourcing and Kering standards), development of production methods with reduced environmental footprints and positive social impacts, goal of developing more programmes in the circular economy.

SDG #13: Climate action
Environmental accounting and active participation in discussions around natural capital, ambitious carbon footprint reduction and science-based targets, measurement of the environmental footprint well beyond the company's "borders", participation in the promotion of insetting.

SDG #15: Life on land
Animal welfare and responsible husbandry practices, responsible sourcing, traceability of materials, protection of biodiversity, control of greenhouse gas emissions and air pollution.

Governance and organisation

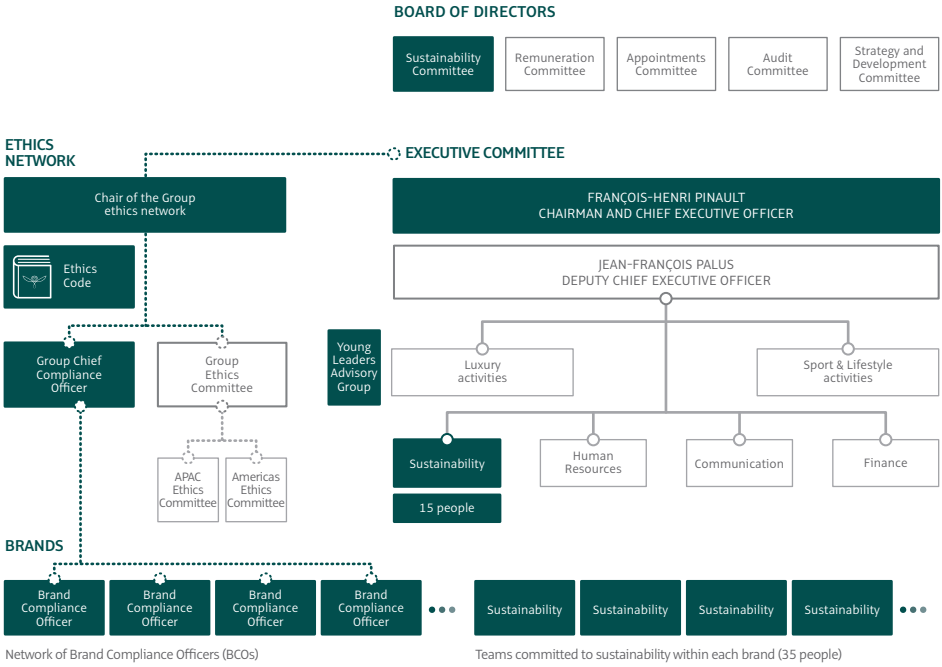
Kering's Sustainability Department defines the Group's Sustainability strategy and policies, and supports the Group's brands by operating as a resource platform, acting as a sounding board, setting out and building on the initiatives taken individually by each brand. More than 15 specialists, who report to the Group's Chief Sustainability Officer, a member of the Executive Committee, assist the brands with the implementation of the Group's Sustainability strategy by systematically looking for potential synergies and continuous improvement. In addition, each brand has at least one Sustainability Lead and for the larger brands, entire sustainability teams. As a result, Kering has close to 60 people dedicated to sustainability.

The degree of integration of sustainability at the core of the Group's business is evident. Since 2015, sustainability has been on the agenda of one of the four quarterly Business Reviews during which each brand presents its roadmap to Kering executives, along with an overview of the resources it has dedicated to sustainability and the progress made by their brand.

As concerns governance, a Sustainability Committee, established in 2012 at Board level, provides advice on and guides the Group's Sustainability strategy. Comprised of four Directors (François-Henri Pinault, Jean-François Palus, Daniela Riccardi and Sapna Sood), the Committee met twice in 2016 to review the results and outcomes of the objectives for the 2012-2016 period and to promote thinking on the Advance 2025 strategy.

In addition, a committee to be known as the Young Leaders Advisory Group will be set up in 2017 to craft an innovative and creative approach in the development of

more sustainable solutions and to advocate a critical review of the action plans implemented by the Group and its Luxury maisons, regardless of the intended field (product design, supplier collaboration, innovative business models, service offerings, etc.). Made up of millennials (in reference to the name given to the generation born between 1980 and 2000), chosen internally and externally, the new body will have the dual purpose of making proposals and accelerating change to ensure a more sustainable future.



1.4. recognition and inclusion in sri(1) indices

In recognition of its Sustainability strategy and its key achievements, Kering reaffirmed its position among the leaders in its sector in terms of the evaluation of non-financial rating agencies in 2016.

- **DJSI (Dow Jones Sustainability Indices)**: for the third consecutive year, Kering was featured in the prestigious DJSI World and Europe indices. Created in 1999 by S&P Dow Jones Indices in conjunction with RobecoSAM, these indices distinguish, out of a panel of 2,500 companies representing the largest market capitalisations, 10% of companies in each industry with the best performance in terms of sustainability. In 2016, Kering ranked second in the textile, clothing and Luxury goods sector.
- **CDP**: with nearly 2,000 companies responding each year, CDP is now the world reference in terms of carbon strategy ratings. In 2016, Kering reached Leadership level in the new CDP rating with a score of A-, thereby maintaining its lead within its sector. Moreover, Kering reached the Leadership A- level in recognition of its work to limit deforestation risk associated with the use of leather, and Management B level for its water stewardship and its management of wood derivatives such as viscose.
- **Global 100**: for the second consecutive year, Kering featured in the Global 100 ranking of the 100 most sustainable companies worldwide. This ranking, created by Corporate Knights magazine in 2005, is unveiled at the World Economic Forum in Davos each year. Kering was the only luxury group in the Global 100 ranking, and ranked second in the Textile, Apparel & Luxury goods sector.
- **Other SRI indices**: Kering has been included in the main benchmark indices: FTSE4Good, Euronext Vigeo Eurozone 120 Ethibel Sustainability Index Excellence, MSCI Global Sustainability Indexes, Oekom Prime, etc.

Index	2014 score	2015 score	2016 score
DJSI	78/100	83/100	83/100
CDP Carbon	95 A	99 B	A-
CDP Water	NS	B	B
CDP Forest	NS	NS	A- (Leather) B (Wood)

NS: Not scored.

1.5. key figures

- 40,052 employees as of December 31, 2016, 58.07% of whom are women;
- 90.9% of employees on permanent contracts;
- 50.9% of Group managers are women;
- 11.5% of permanent employees work part time;
- 35.3 years is the average age of permanent employees;
- 5.5 years is the average length of service of permanent employees;
- 413 workers with disabilities;
- 423,194 hours of training, or 23,468 employees trained;
- 11,561 permanent employees hired;
- 361,465 tonnes of CO_2 attributable to energy consumption (42.6%) and transport (57.4%);
- 27.7% of electricity consumed is generated using renewable resources;
- Kering published its 2015 EP&L and has developed a mobile application to raise awareness among as many people as possible (MyEP&L);
- more than 10% reduction in the Group's environmental impacts (€ EP&L/€ revenue) between 2012 and 2015;
- 2,768 social audits carried out among the Group's suppliers;
- over 1.1 billion people potentially reached by the Kering Foundation's annual White Ribbon For Women campaign to raise awareness about violence against women.

(1) Socially Responsible Investing.

2. supporting our employees

Kering helps its employees reach their potential and express their creativity by developing their skills and performance in the most imaginative way possible. The Group provides its brands with the support necessary for their growth, promoting the sharing of and access to best practices, and encouraging the development of talents for the benefit of all brands. Kering encourages the pooling of expertise and the creation of synergies. In today's world of fast-changing markets, competition and customer needs, finding and retaining the best talent is a strategic challenge. Kering's human resources policy continues to cultivate human and cultural diversity so as to give the Group an economic and competitive advantage. It is designed to offer each employee development opportunities permitting them to contribute to achieving the Group's strategic priorities.

In 2016, Kering rethought its Sustainability strategy for the years to 2025, and established its human resources priorities: develop talent, preserve craftsmanship, and promote well-being at work and employee commitment. The year was also more specifically devoted to implementing ways to better develop talent and give each employee a vision of the Group through comprehensive, innovative and inclusive policies, resources and tools. On top of concrete initiatives designed to promote the development of talents, programmes in favour of diversity, gender equality and well-being at work are also encouraged. Launched on January 1, 2017, the global parental policy means that parents, regardless of their brand or the country in which they work, enjoy the same conditions.

2.1. the group's human resources profile[1]

2.1.1. Breakdown of the workforce

The total workforce at December 31, 2016 was 40,052 employees, an increase of 3.2% or 1,251 employees.

Changes stemmed primarily from business development, particularly the establishment of growing brands in new markets and the opening of new stores.

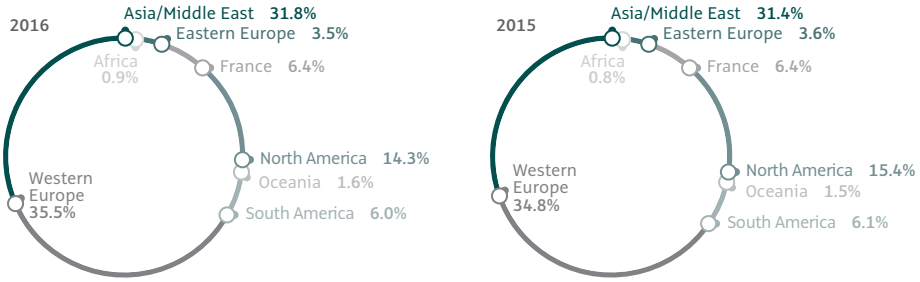
Breakdown of the workforce as of December 31, 2016 (Men/Women managers, Men/Women non-managers) by region[2]

	Managers				Non-Managers			
	Women		Men		Women		Men	
	2016	2015	2016	2015	2016	2015	2016	2015
Africa	30	28	41	49	159	132	142	114
Asia/Middle East	1,129	1,071	1,004	941	6,971	6,755	3,625	3,400
Eastern Europe	105	109	70	72	629	627	583	572
France	633	611	382	358	986	962	560	550
North America	660	623	554	554	2,442	2,547	2,086	2,270
Oceania	55	44	39	36	332	269	212	227
South America	131	128	204	202	725	725	1,353	1,327
Western Europe	953	868	1,267	1,192	7,319	6,954	4,671	4,484
TOTAL	**3,696**	**3,482**	**3,561**	**3,404**	**19,563**	**18,971**	**13,232**	**12,944**

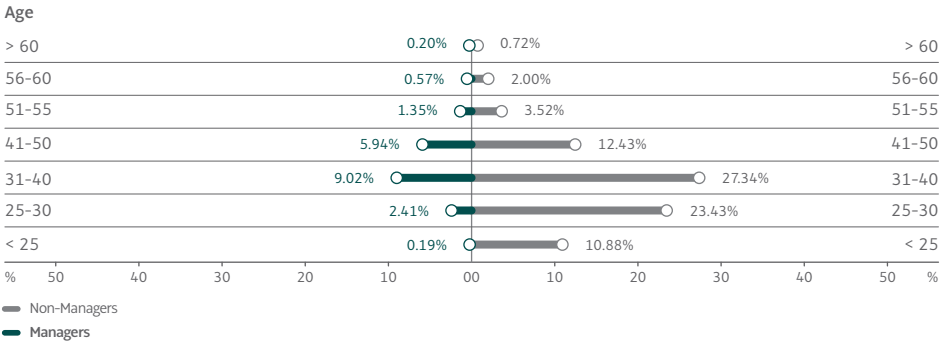
(1) For each social indicator presented, 2016 data have been restated to take into account the change in the Group's Scope of consolidation in 2016. Furthermore, the rate of coverage calculated as a percentage of the Group's workforce as of December 31, 2016 is 100% for all indicators, with the exception of the number of workers with disabilities, which is 83.3% (excluding the United Kingdom and the United States).

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

Change in the regional breakdown of the workforce between December 31, 2015 and December 31, 2016 (non-proforma data)



Age structure of the permanent workforce in 2016: managers & non-managers



2.1.2. Establishing a long-term hiring policy through international partnerships

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

Forging strategic partnerships

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

In 2016, Kering continued its partnership with the Centre for Sustainable Fashion at the London College of Fashion. The aim of this strategic partnership is to support the place of sustainability in tomorrow's fashion. A specific curriculum has been developed. Open to students from a range of disciplines, it is geared towards enabling them to acquire both sound knowledge and practical experience spanning every stage of the creative process. The Group also gives a chance to young talents through partnership with organisations such as Vogue Italia and Parsons The New School for Design for internships, or the Royal College of Art, through Brioni, for contests in the field of suit making and an internship programme. Lastly, the Group and its brands work to develop ties with numerous institutions, building on the close relationships developed by Kering's entire HR community worldwide, including the Institut Français de la Mode, Istituto Marangoni, Politecnico di Milano, Bocconi University, Tsinghua University, Hong Kong Polytechnic University and Columbia University.

In 2016, Kering strengthened the partnership, started in 2010, with HEC Paris School of Management's Luxury Chair. The Luxury certificate is a unique programme that aims to help future leaders learn how best to handle luxury management brand challenges. It was built on five pillars in 2016: basic courses, more in-depth theme-based teaching, a business game, a series of practical seminars facilitated by leaders or members of the executive Committees of Kering and its brands, as well as store visits and workshops, and a team consulting project on a topic set by Kering, the findings of which were presented before a panel consisting of the

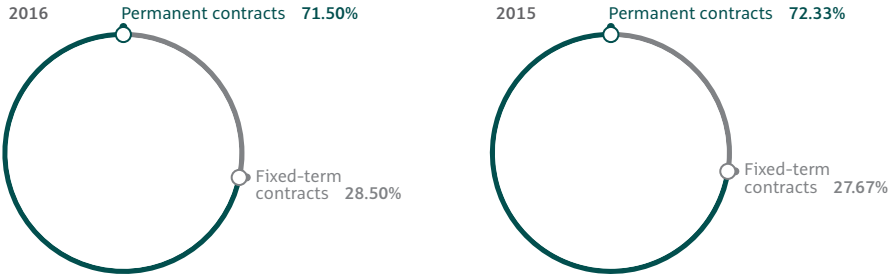
certificate's academic co-directors and Kering managers. This partnership allows Kering to play a role in the training of future high-level talents from diverse backgrounds, and to identify any talents among them that have the potential to join the Group and its brands. In 2016, 40 students from 14 different nationalities took this programme.

Recruiting the best professionals

In addition to partnerships with schools, the Group also makes its resources available to brands to promote their business and opportunities. Kering UK organised a Retail Talent Day in London in October 2016. Approximately 20 representatives of various brands were present at the event, and potential candidates took part in thematic workshops designed for store managers and sales consultants. Eleven brands took part in the event, which put them in contact with 150 professionals.

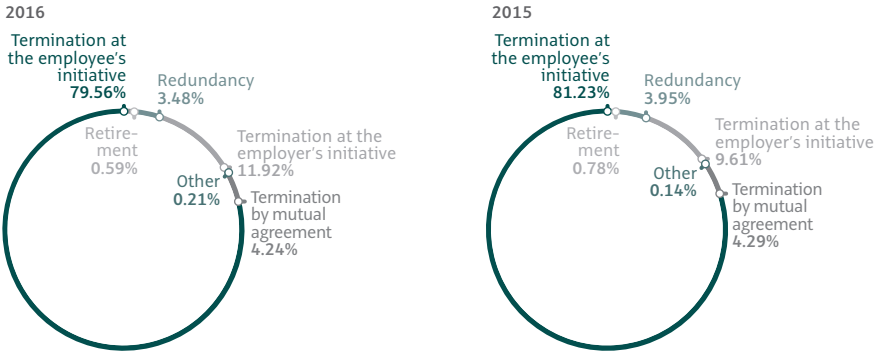
Hires

BREAKDOWN OF FIXED-TERM AND PERMANENT CONTRACTS AMONG NEW HIRES



Of the 11,561 employees hired in 2016, 57.9% were women and 89.5% were non-managers. The Kering group also had a monthly average of 1,389 temporary employees across all of its brands in 2016.

BREAKDOWN OF PERMANENT EMPLOYEE DEPARTURES BY CATEGORY



Departures of permanent employees, on all grounds, totalled 10,319 in 2016, of which 8,210 at the employee's initiative (79.56% of departures) and 1,230 dismissals (11.92% of departures).

2.1.3. Supporting responsible change within the organisation

In 2016, Kering pursued its policy of supporting and redeploying employees, striving to help employees find other positions within the Group. In France, this policy involves support from the Social Development Coordination, a body of brand HR representatives led by Kering's Human Resources Department, for individual redeployment solutions. It aims to assist employees when an organisational change (such as a store transfer or closure) is liable to have an impact on jobs.

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

2.2. remuneration and employee benefits

- Total Group payroll in 2016: €1.67 billion.
- €76.136 million in employer contributions from the brands in Metropolitan France in 2016.

Kering's remuneration policy

Remuneration is a key component that managers can use to reward the commitment and the individual and collective performance of their teams. The pay structure and its management are based on guidelines set by the Group. Accordingly, all employees belonging to a sales team or exercising a certain level of responsibility receive a variable component on top of their fixed wage. As a result, almost 90% of the Group's employees receive variable remuneration subject to the achievement of individual and/or collective objectives. Efforts are made to ensure that the amount of fixed wages of each employee is both fair internally and competitive within the market. It is reviewed annually on the proposal of line managers. Pay rises are granted in accordance with the level of the wage already achieved in comparison with peers and/or the external market, factoring in performance over a long enough period of time and the potential for development. They are determined independently of any consideration whatsoever of gender or age. The individual share of variable pay is determined and managed within the system of annual performance appraisals. Goals are set and discussed with the line manager, as is the assessment of their level of achievement.

Executive pay

The remuneration of the Leadership Group comprising the Group's 300 senior executives is monitored by the Group's Human Resources Department, with the aim of ensuring consistency and competitiveness in light of industry practice. The structure of remuneration for senior executives (base pay, short-term variable remuneration, long-term profit-sharing) is set out by the Group based on their level of responsibility. The policy for short-term variable remuneration (annual bonus) aims to reward senior executives for meeting objectives – in part financial and in part individual – set in line with the strategy of the Group and the brands. Financial performance is assessed on the basis of two indicators, one dedicated to measuring profitability (EBIT) and the other assessing the quality of the free cash flow of the Group and the brands. Moreover, some individual objectives set for senior executives are also related to the achievement of the Group's Sustainability objectives. Long-term profit-sharing granted to the Group's senior executives in 2016 draws on the system set up in 2013. The goal is twofold: to compensate executive teams for their performance over time, and reward them for their loyalty. The amounts granted and the means used (Kering Monetary Units and Cash Plans) are directly linked to the position held by the beneficiary and the level of his or her responsibility within the Group. At the end of a three-year vesting period, Kering Monetary Units received by executives can be exchanged on two occasions over each of the subsequent two years. Executives benefiting from a Cash Plan receive all or part of the corresponding payment, subject to the achievement of the three-year EBIT and free cash flow objectives detailed in the award. As regards the remuneration of Directors and executive corporate officers, the Board of Directors complied with the say-on-pay requirements set out in the revised AFEP-MEDEF Code in its proposals to the Annual General Meeting of April 29, 2016.

Employee benefits within the Group

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

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

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

Profit-sharing, incentive and employee savings agreements

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

2.3. promotion and respect of ethics within the group

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

Set out since 1996 in the Group's first Ethics Charter, Kering's ethical principles apply to everyone within the Group and reflect the Group's strong convictions about business practices. Kering's Code of ethics, which was established in 2005 and first updated in 2009, was overhauled again in 2013. It fits in firmly with the major international reference texts (United Nations Universal Declaration of Human Rights, European Convention on Human Rights, the main conventions of the International Labour Organization, OECD Guidelines for Multinational Enterprises, United Nations Convention on the Rights of the Child, United Nations *Global Compact*) and demonstrates how the Group continually strengthens its commitments and the systems in place to ensure compliance. Sustainability for Kering is not attainable without the Code of ethics, which is used as the sole set of standards implemented by all throughout the Group, regardless of their level of responsibility, position held or location. The Code of ethics is available in the 12 most widely spoken languages in the Group on the Group's intranet, and on Kering's website for readers outside the Group.

An ethics structure reinforced in late 2013 and again in 2015

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

Each of the three Committees is made up of representatives from Kering and representatives from the Group's brands to ensure greater diversity. Employees are able to call on these Committees to request clarification or ask a question regarding the interpretation of the Code, if they are unsure how to behave in a specific situation or if they wish to submit a complaint to the Committee for alleged non-compliance with one of the principles of the Code for examination.

An ethics hotline was also set up for all Group employees in their country or area of operation. The hotline assists the Ethics Committees in reporting information, questions and complaints from employees and can be called by anyone in the Group who prefers this system over contacting one of the three Committees directly.

The Compliance structure, established in 2015 and led by a Group Chief Compliance Officer (CCO) backed up by an international network of Brand Compliance Officers (BCO) appointed by the CEOs of each brand, assists and guides employees at all levels of the Group to ensure compliance with prevailing legal requirements, including those relating to the fight against corruption and those relating to competition law. The full range of the compliance programme's procedures was developed in 2016:

- approval of the anti-corruption policy and associated procedures: gifts, hospitality, entertainment and travel procedure, gifts and sponsorship procedure, procedure for participation in professional associations, conflict of interest procedure, third-party audit procedure;
- approval of competition law policies in force and related procedures: competition law policy for Europe, competition law policy for the APAC region, competition law policy for the Americas region, procedure for participation in professional bodies.

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

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

Available in nine languages, it sets out the ethical ground rules in place at Kering, and presents case studies and ethical dilemmas that help employees ask themselves the right questions. It is updated annually, and covers all the principles of ethics upheld by the Group's Code of ethics, with a module dedicated to the fight against corruption. The topics covered in 2014 included corruption, fraud, conflicts of interest and the confidentiality of information on social media. In 2015, the programme covered topics related to diversity, corruption, respect for human rights and protection of the environment. In 2016, the programme's third year, the agenda covered the themes of corruption, conduct in the workplace, responsible sourcing and traceability of raw materials, and lastly compliance with business confidentiality, in a campaign limited to six weeks so as to increase its impact and improve monitoring. It was backed up by a broad multi-language communication campaign on the Group's intranet. Over 80% of Group employees worldwide were trained.

In September 2016, the Group began working on the 2017 edition. The aim was to bring in content that was relevant to all, addressing the key messages on ethics within the Group, while at the same time differentiating it so as to match the various situations and dilemmas encountered depending on the profiles of the employees invited to attend the training, with a view to giving it the most tangible foundations possible for everyone. The topics cover the fight against corruption, conduct in the workplace and respect for the environment.

49 requests in 2016

Over the course of the various meetings held in 2016, Kering's three Ethics Committees handled 49 requests (26 complaints and 23 questions/requests from employees who wanted to make sure that they had properly understood the Code's provisions on a specific topic or who wished to report a potential conflict of interest or the receipt of a gift). These issues were brought to the attention of the Committees either directly or through the ethics hotline.

For each complaint, an enquiry involving both sides was conducted under the responsibility of the Committee contacted. Three violations of the Code have been identified to date, bearing in mind that five cases were still under investigation at the end of 2016. The other enquiries did not show a failure to comply with the Code of ethics; rather, they generally revealed management issues.

2.4. enhancement of talent and skills

Developing talent and skills is at the heart of Kering's human resources policy. The policy focuses on two main areas:

- setting up talent Committees at Group level with all the brands to share the knowledge of our talents and enhance mobility;
- establishing Group programmes and tools for the brands, especially in terms of training, with the launch of My Kering hub in 2016.

2.4.1. Manage and support talent, and foster mobility and professional development within the Group

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

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

Talents are identified through the performance appraisal process and through talent reviews.

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

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

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

Promoting mobility and careers within the Group and its brands

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

Since its launch in July 2013, the internal mobility platform on the 360° Group intranet has been central to the mobility system. Its aim is to allow employees to view job opportunities, published by each brand within the Group.

In 2016, over 2,500 job vacancies were posted on the platform, and approximately 100 employees took advantage of internal mobility opportunities made possible directly through it. All the brands are present on the platform and post job offers to provide greater visibility for their organisation and possibilities for career development.

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

2.4.2. Developing a structured training policy for all employees

In 2016, the Kering group devoted a budget of €17.83 million to employee training, corresponding to 1% of the total Group payroll. On this basis, 423,194 hours of training (excluding safety training) were provided across the Kering group brands in 2016, and 23,468 employees took at least one training course. One in two employees received training in 2016.

Women accounted for 56.3% of the workforce trained in 2016 (excluding safety training). Furthermore, 79.2% of employees trained in 2016 were non-managers.

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

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



23,468 people received training, 58.59% of the workforce



20,628 people received training, 53.16% of the workforce

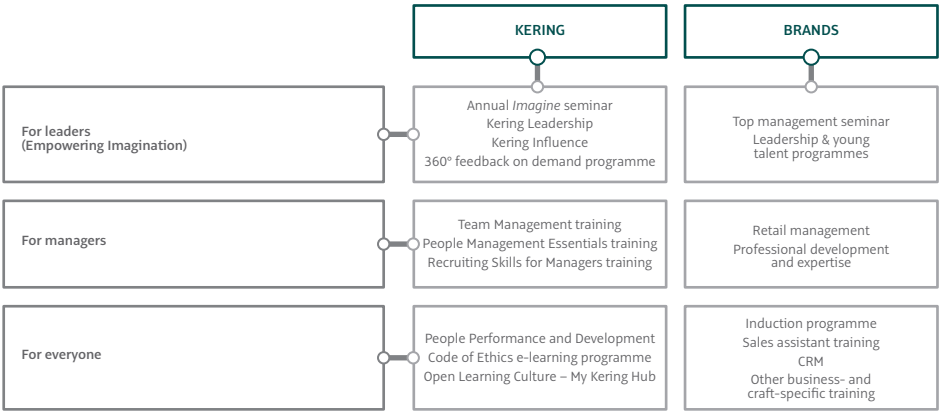
The Kering Learning Community, the Group's steering body for training

Group programmes each year bring together numerous talents from all brands, regions and functions. Each brand also develops an offer tailored to its specific challenges. Within this process, the Kering Learning Community combines various Directors and Learning & Development managers of the brands, the regions and Kering corporate.

It is a community that develops and shares a common framework for the inter-brand co-development of training offers that is both decentralised and coherent. The regions contribute to adapting the offer to the local needs of each geographical area.

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

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



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

1. Empowering Imagination course

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

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

Kering Leadership

Composed of three four-day modules held over 12 months, the Kering Leadership programme each year brings together approximately 25 leaders in a multicultural context. The class of 2016 consisted of 10 different nationalities from 14 brands and Group entities.

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

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

Kering Leadership ends with a third module in the form of complete immersion in a business project with strong ties to the Group's social and environmental commitments. For its ninth year, which ended in 2016, the course was completed by a true to life social entrepreneurship project in China, backed by the Kering Foundation.

Kering Influence

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

360° feedback "on demand"

This system is designed above all for executives facing a new professional challenge such as taking up a new strategic function.

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

This type of individual development mechanism is often also backed up by collective development programmes such as Kering Leadership. The objective is both to customise as far as possible what each participant takes away from the course, but also to foster a culture of development

feedback between experienced participants. A further 30 employees benefited from the programme this year.

2. The multi-brand managerial training offer

The Learning Community was started in 2016 with the aim of strengthening the management training offering in the regions (Asia Pacific, the Americas, Europe and the Middle East) so as to offer a training course marking the various stages in each manager's individual development. The first step was to identify the key common management requirements and test the pooling of some regional courses meeting those needs.

3. Open Learning culture: My Kering hub

Together with the main development courses, Kering wishes to encourage each employee to be an actor in his or her own development, and to enable as many people as possible to receive training. Various initiatives taken by the brands and the Group have resulted in the provision of a range of diverse development resources: open access digital training modules, access to MOOCs in the field of fashion business and a learning forum in the form of themed workshops, practice communities and co-development.

Several pilots were launched with the brands in 2016 to test and identify best practices and prepare for the deployment of these new digital learning approaches. All Kering corporate employees worldwide in this way benefited from accessible and educational modules ahead of the annual performance and development appraisals.

2.4.3. Training by the brands

Integrate new employees and develop the managerial skills of teams and store managers

The brands also put a focus on Retail training in 2016, in conjunction with the Retail Academy Group. Support and development of sales consultants is central to the brands' human resources policies, with the recruitment of five trainers for Balenciaga, exchange and twinning programmes between stores in China and Italy at Bottega Veneta, and the revised and strengthened training programme established at Gucci.

At the same time, PUMA set up the Speed up/Speed up2 programme to promote the retention of talent through a dedicated programme and via networking. This programme targeting employees and first-level team leaders combines classroom learning with webinars and one-on-one coaching.

Lastly, with the Group's support, all of the brands set up more developed integration programmes for corporate and retail teams alike.

Craft skills

In their desire to make a sustainable investment in tomorrow's professionals, the brands go to great lengths to preserve and pass on their expertise. Many of them have contributed to the establishment of schools dedicated to the training of highly qualified young craftspeople. They include Brioni, with the Scuola di Sartoria; Bottega Veneta, with the Scuola dei Maestri Pellettieri; and the Alta Scuola di Pelletteria in Tuscany, which enjoys the active support of Gucci, as well as a continuous learning policy at Ulysse Nardin.

2.5. promotion of diversity

Kering has long been committed to diversity, and was among the first signatories of the French Corporate Diversity Charter in 2004. In 2010, equivalent charters were also signed by PUMA in Germany in 2010, and by Gucci in Italy in 2011. In early 2015, the Executive Management of Kering and the European Works Council signed their first Empowering Talent agreement. It provides a forceful and comprehensive reassertion of Kering's commitment to equal opportunities.

It is a commitment that goes beyond social responsibility and compliance, rooted in the Group's belief that diversity is a source of creativity and innovation, and as such of economic performance. The Code of ethics, implemented in 2005 and whose third version was made available to all employees at the end of 2013, demonstrates the Group's commitment to ethics.

This long-standing commitment has been acknowledged by the Thomson Reuters Diversity & Inclusion Index, which ranked the Group 22nd out of more than 4,000 international listed companies in 2016. This index assesses the performance of listed companies on 24 environmental, social and governance indicators, among which diversity, inclusion and talent development occupy a prominent place.

2.5.1. Establishing a culture of gender equality within the Group

While Kering addresses the issue of diversity in all its aspects, particular emphasis is placed on equal opportunities. In 2010, the Group was one of the first companies in France to sign the Women's Empowerment Principles, drafted by UN Women and the United Nations *Global Compact*. These principles offer guidance on how to promote the presence and progression of women in business and, more generally, in society.

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

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

In 2016, with 51% women among its managers, 29% among Executive Committee members and 64% among its Directors, Kering was one of the CAC 40 companies with the highest proportion of women in senior management positions.

The Group thus rose to 10th place in the 2016 Feminisation des Instances Dirigeantes des Grandes Enterprises ranking conducted annually in France by Ethics & Boards among SBF 120 companies, under the patronage of the French Ministry for Families, Children and Women's Rights. The Group also ranked second in the LedBetter Gender Equality Index, which highlights the gender ratio of business leaders in over 2,000 brands.

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

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

This is why Kering sponsors the United Nations HeForShe campaign, as part of a three-year partnership with the UN Women Committee in France to support the development of its initiatives and increase its impact.

To mark International Women's Day, Kering rolled out the HeForShe campaign on a global scale, advocating gender equality by getting men involved and encouraging them to take action against gender stereotypes. To accompany the campaign, Kering created a dedicated community on its internal digital platform, accessible to all Group employees. Its objectives are to publicise the foundations of the UN campaign, to encourage employees to sign the online petition, to take part in thematic forums and to upload selfies in which they display the HeForShe sign. In all, more than a hundred photos from the various Group brands worldwide were posted.

The Group and its brands organised a number of actions to round out the digital campaign. They included breakfasts with Group executives, the projection of the film *Miss Representation* at PUMA's headquarters in Germany, a conference-debate at the Kering Americas headquarters with the Executive Director of UN Women, and a roundtable in France with the Executive Director of the UN Women Committee for France and the head of the Good Lad Initiative.

- **Promoting the advancement of talented women in the organisation through special development programmes**

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

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

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

For the first year, Kering also partnered with the EVE programme, sending 17 employees from various Group brands and countries to seminars in Europe and Asia. Founded in 2010 by Danone, this unique management programme, aimed at those who aspire to "enlightened" leadership, works on two levers: the individual and the organisation. It aims to build strong and inspiring individuals in sufficient numbers to enable them to bring about change in the company.

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

The Group and its brands are implementing actions in favour of a better organisation of professional and personal lives, benefiting both men and women. Through the Telework agreement signed this year, Kering Corporate France has taken up the challenge of making it easier to reconcile work and personal life. The agreement allows eligible employees who so wish, in agreement with their manager, to work from home two days per month. At the same time, to facilitate the return to work of new parents, Kering corporate France allows them to take part-time work at 80% of standard working hours without any loss of pay during the month following their return from maternity, paternity or adoption leave.

At Bottega Veneta, the MAAM U pilot was launched at its Italian headquarters. MAAM stands for Motherhood as MASTER; its aim is to recognise the value of motherhood in a professional context, through a dedicated digital platform.

Kering's new global parental policy is the finest testimony to its commitment in favour of work/life balance. Effective from January 1, 2017, Kering's parenting policy provides for a minimum of 14 weeks' maternity or adoption leave on full pay for all Group employees, whatever their personal circumstances or geographical location, and a minimum of 5 days' paternity or partner leave on full pay. The new policy aims to promote a better balance between employees' professional and personal lives and to promote equality between female and male employees, regardless of their personal circumstances, guaranteeing all Group employees worldwide the same minimum benefits on the arrival of a child. Kering managers and human resources teams take an active part in the implementation of the new policy by giving parents specific support before and after their leave, to ensure that they return to work in the best possible conditions, and that they benefit from harmonious career development over the long term.

- **Assessing the impact of our policy**

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

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

With the same aim, the Stella McCartney brand has begun the EDGE (Economic Dividends for Gender Equality) certification process, the purpose of which is to encourage proactive equal opportunity policies in large global groups. Certification was received for three of the countries in which the brand operates, after analysis of their human resources processes (remuneration, recruitment and promotion, training, reconciling professional and personal lives, corporate culture), namely the United Kingdom, the United States and Italy. The certification process will be expanded for the brands in the coming years.

2.5.2. Promoting the integration of people with disabilities

As of December 31, 2016, the Kering group employed 413 workers with disabilities (rate of coverage: 83.3% – excluding the United Kingdom and the United States).

For over 10 years, Kering has promoted the integration of people with disabilities through *Mission Handicap*, reaffirming its commitment in the European Empowering Talent agreement signed in February 2015. In 2016, *Mission Handicap* launched an awareness campaign on the Group's 360° intranet under the heading "All different, all competent" to mark the International Day of Persons with Disabilities. Targeting all employees, this dedicated space serves to remind users of the importance of diversity, including disability, as a source of creativity and innovation. The Handiscover game casts participants in the role of a reporter discovering innovations revolutionising the lives of people with disabilities around the world.

The headquarters and the brands implemented actions to mark European Disability Employment Week. Headquarters participated in the National Programme on Awareness of the Integration of People with Disabilities to encourage employees or their relatives to make themselves known and assist them in their administrative procedures. At Balenciaga, a summary of activities was presented to all employees, and fun participatory projects were set up, with prizes in the form of Handiboxes crafted by a company employing people with disabilities.

The Group's brands in France and Italy also continue to outsource to the sheltered sector to promote the employment of people with disabilities. Special service providers employing workers with disabilities are called on for such services as printing, data entry, archiving, replying to unsolicited applications, catering, preparing mailshots and gift packaging during the holiday season.

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

In France, the Group is a founding partner of Télémaque Institute (created in 2005), which, through a dual programme of academic and business tutoring, helps talented and motivated young people from underprivileged backgrounds complete their secondary schooling. In 2016, 10 of the Group's French employees tutored Télémaque middle- or high-school students under this programme. Their role is to help their tutees – through feedback, meetings, events, etc. – to expand their sociocultural horizons and feel confident and ambitious about their studies.

The brands are also actively involved in social responsibility initiatives. Boucheron has developed relationships with associations that help young people, providing financial support and also involving employees who participated in a sporting competition, as part of the Sport in the City initiative, for example.

2.6. *quality of life at work*

Providing its employees with a quality of life ensuring the health and safety of all is a fundamental duty performed by all of Kering's brands. In 2010, the European Works Council and Kering group's management signed a "Charter framework on commitments on quality of life at work and prevention of work-related stress". In 2015, health, safety and the quality of working life were the key thrusts of Kering's commitments under the European agreement signed with the European Works Council on February 19, 2015.

Within its framework, the brands are adopting procedures and taking action to identify, assess, reduce and prevent the key risks associated with their activities. Of particular note is the OHSAS 18001 certification processes deployed on a number of industrial sites including Gucci shoe factories, three of the Group's four tanneries and the global logistics platform of the Group's Luxury activities, aimed at aligning the occupational health and safety management system with best standards. The brands are also taking initiatives designed to achieve continuous improvements in the quality of working life. Kering has in turn undertaken to develop a working environment and working relationships that ensure well-being at work in order to promote the development of all employees and contribute to the Group's performance.

The in-house social climate survey carried out every two years, "What's the weather like where you are?", is a critical tool for defining priorities as regards the quality of work life. Following the new edition targeting all Group employees launched in October 2015, actions were drawn up at Group and brand level.

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

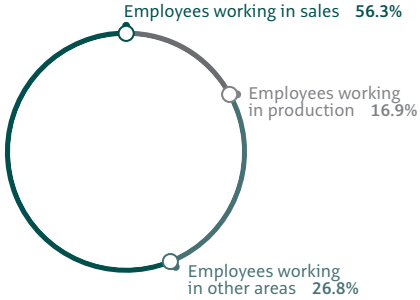
In 2016, 391 lost-time accidents were recorded across all Group brands, compared with 387 in 2015.

The frequency and severity rates of work accidents are decreasing.

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

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

WORKFORCE PROFILES AS OF DECEMBER 31, 2016 BY AREA OF ACTIVITY (1)



Frequency and severity rate of work-related accidents in 2016 and 2015

	2016	2015
Frequency of work-related accidents *(Number of accidents per million hours worked)*	5.64%	5.85%
Severity rate of work-related accidents *(Number of days lost per thousand hours worked)*	0.11%	0.19%

Across all of the Group's brands, 11 employees were recognised as suffering from a work-related illness in 2016.

The brands are attached to the principle of risk prevention and the preservation of occupational health and safety involving multiple stakeholders: Health, Safety and Working Conditions Committee, ergonomists, occupational physicians and external specialists in the field of prevention.

In terms of risk prevention, 33,847 hours of safety training were provided to 9,468 Group employees in 2016.

2016 was also marked by several initiatives and projects:

- the relocation of the Kering corporate and Balenciaga Paris left bank teams to the Laennec site. The Laennec building is classified as a historical monument, and is considered a masterpiece of seventeenth century architecture. Particular attention was paid to fitting out workspaces in terms of ergonomics, lighting, and heating and air conditioning, with the overriding objective of bringing the site back to life. Employee safety, for this site in the heart of Paris, was the subject of specific actions, shared with staff representatives. The Laennec site is also one of the first historical monuments to receive the HQE renovation environmental label. The project also boasts BREEAM classification, the British equivalent of HQE. This exceptional site also offers a set of courtyards and gardens open to employees;
- the opening of Gucci's new headquarters in Milan on the historic Caproni site, a 35,000 sq.m former aircraft factory dating back to 1915. This rare site, whose renovation took three years, will house the Milan offices, showrooms photo studios, fashion shows and other events organised by the brand. Designed as a campus, the site offers numerous indoor and outdoor shared spaces to promote exchanges between the different functions of the Company. The site meets the most stringent environmental standards (LEED Gold certification targeted for 2017) to allow greater comfort and well-being;
- the evaluation and redesign of workspaces (ergonomic chairs, lighting, etc.) has been taken into account by country and by brand (full safety audit for all UK stores, remodelling of back store spaces at Saint Laurent, workshop audit at Balenciaga, office space redesign at Boucheron, etc.);
- prevention also involves raising awareness among managers with a top-level commitment (66 managers of all brands trained in the United Kingdom) as well as among employees with dedicated e-learning training (five e-learning modules offered by PUMA);
- a counselling system has been set up at Group level to deal with post-traumatic risks (e.g. terrorist attacks, as well as prevention of psychosocial risks more broadly);
- outside its own borders, Kering received the ISO 28000 certification in 2016, a reminder that ensuring the security of goods plays a significant role in ensuring the security of people. Deployed internationally, this certification covers logistics activities, relying on the identification of risk levels across supply chain operations.

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

Overall lost time and sick leave (%)

	2016	2015
Overall absenteeism rate	4.33%	4.30%
Rate of absenteeism due to illness	2.10%	2.05%

The absenteeism rate was stable in 2016. The total figure for absenteeism due to illness includes sick-leave, work-related illness, work related accidents and commute-related accidents. The overall absenteeism rate includes absenteeism due to illness and every other kind of absence (maternity leave, paternity leave, unjustified absences, etc.), calculated from the first day of absence.

2.6.2. Organisation of work

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

The average working time of the Group's full-time employees is 39.8 hours per week. In 2016, 40,834 overtime hours were recorded in France, up compared with 2015 following the introduction of Sunday trading.

In 2016, 4,187 employees had contractual weekly working hours below the standard number in effect within their company. Staff working part time accounted for 11.5% of permanent employees, and were located mainly in the United States and Western Europe. Contractual working hours are spread out on the basis of the specific business and organisation of each brand, either over certain days of the week, or over small slots on all working days.

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

Beyond these legal aspects, the brands try to find and offer more flexible ways to organise working time so as to meet the needs of the organisation and those of both head office and production employees, as part of their policy on the quality of life at work (flexitime in several brands, telework at Kering corporate France, remote work at PUMA Germany, leave to care for sick children at Boucheron, part-time work at Pomellato).

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

Every two years since 2001, Kering has conducted a worldwide in-house social climate survey, "What's the weather like where you are?", to measure the perceptions of employees of all brands across the Group on topics related to their work and their working environment.

In 2016, more than 400 post-survey initiatives were identified with brands, focusing on three key themes, namely training and development, organisation and operational efficiency, and internal communication. Each brand has set out and prioritised initiatives adapted to its own context. Some examples are described below:

Training and development	Organisation and operational efficiency	Internal communication
#1: Creation of an e-learning content platform open to all employees	#1: iPad in each store worldwide	#1: Implementation of networking breakfasts/lunches
#2: New induction programme including mandatory experience in a store	#2: New offices or renovation to optimise space and working conditions	#2: Launch of a regular Newsletter from the Chairman and CEO
#3: Exchange programmes between sales consultants/store twinning between Asia and Europe	#3: Implementation of a management culture at production sites	#3: Introduction of an Innovation management committee with a representative from each department

The Group has in turn identified three priority areas for action based on the results observed:

- foster leaders' commitment to and alignment with the strategy;
- encourage managers to better develop their employees and build agile and efficient organisations;
- strengthen loyalty and sense of belonging to the brand/the Group.

2.6.4. Initiatives promoting quality of life at work

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

Brands have developed schemes based on three main pillars:

- prevention of psychosocial risks and stress management: stress training for managers (jointly with Pomellato and Kering Italy), health professionals: physiotherapists, osteopaths, sophrologists, yoga/meditation instructors (Balenciaga, Kering headquarters, Saint Laurent headquarters, Stella McCartney, etc.);
- time management: telework, flexible work schedules, extension of welfare programmes (Rewards Studio in the United Kingdom, welfare programme at Gucci Italy, Kering and Pomellato, Wellbeing@PUMA, etc.);
- social ties through moments of conviviality: *in bici in ufficio* challenge and a ping-pong tournament (Italy Pomellato), Kering *Chouette* family time (Kering headquarters), Stella collectives, etc.

In the same vein, Kering corporate teams have a "Professional Life/Personal Life" portal to facilitate their daily lives. Thus, in addition to the information available online, employees at headquarters benefit from personalised services accessible via the 360° intranet platform, through a network of experts who can be contacted via a toll-free number for practical questions regarding their every day life.

At Group level, the parenting policy contributes in a comprehensive and inclusive way for all the men and women of the Group to promoting a well-being policy by setting a standard duration and payment for maternity, paternity and adoption leave.

2.7. social dialogue

The Kering group strives to ensure ongoing social dialogue specific to each of its bodies. 2014 marked the first full year for the new members appointed in 2013 to Kering's social dialogue bodies, working under the Group's new Luxury and Sport & Lifestyle Scope.

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

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

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

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

Terms for monitoring the agreement have been established in an annual framework, and the review of initiatives taken under the agreement was conducted at the EWC meeting of December 13, 2016 in Milan.

The commitment has also been adopted within each Group brand. As such, in 2016, 107 collective agreements were concluded within the Group, chiefly in Western Europe and Asia. They mainly covered pay and benefits (wages, variable remuneration, profit-sharing and incentives, etc.), working hours and the organisation of working time (telework, flexitime, generational agreements, donating leave, etc.).

In 2016, the brands in France negotiated with unions the terms governing the implementation of work on Sundays with a view to ensuring that procedures allow a balance between allowing more shops to open without neglecting the wishes of employees and their capacity to organise their time.

The number of working hours of industrial action totalled 16,223 in 2016, compared with 331 in 2015, resulting from unrest in the specific context of change in one of the Group's brands.

2.7.2. The Group's forums for dialogue

The Kering European Works Council

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

The EWC is a cross-border institution and operates alongside existing national employee representative bodies in accordance with specific prerogatives. The membership of Kering's EWC was renewed in November 2013. Upon taking office in 2014, all members received three days of training on economic fundamentals provided by École Supérieure de Commerce in Paris. In 2015, members of the Select Committee received a day of training on social dialogue in Europe. This training offered members an opportunity to better grasp legal and cultural differences existing in Europe, but also to see Kering's EWC agreement in the light of legal requirements.

The EWC holds two three-day plenary sessions per year, at which it is informed of and, where applicable, consulted on cross-border issues affecting the Group's employees in a manner detailed in precise terms in the implementation agreement signed on September 3, 2008 and revised pursuant to the agreement dated June 26, 2013.

The EWC's ordinary plenary meetings took place in Paris on June 30, 2016 and in Milan on December 13, 2016. The main information provided to its members included the Group's economic and financial situation, its outlook and strategy, and its cross-business projects. Meetings also looked at social issues and provided an overview of the initiatives undertaken within the scope of Kering's European agreement. EWC members also benefited from a visit to Kering's ready-to-wear site in Novara.

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

The Kering group Works Council

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

The plenary session of the Group Works Council was held on May 11, 2016.

3. reducing our environmental impact

The Kering group's environmental strategy is based on four key goals:

- maximize environmental strategy;
- make environmental concerns central to the activity of the brands by involving all stakeholders along the entire value chain;
- go beyond mere compliance with legal environmental obligations, through a macro-environment approach such as that of the EP&L;
- drive the Group's sustainability leadership, through a collaborative approach that favours the sharing of best practices, progress and results with competitors and stakeholders.

3.1. environmental management

Strategy and objectives

Kering has examined the results obtained over the period 2012-2016 to identify the main challenges outstanding, achievements such as the rollout of the Environmental Profit & Loss Account (EP&L), and the major opportunities opening over the years to come.

The environment pillar in the new strategy therefore builds on input from the period 2012-2016 to set the following targets:

- overall reduction of 40% in the EP&L by 2025;
- reductions in greenhouse gas emissions (determined by a science-based approach) across the Kering group and its supply chain:
  - 50% reduction by 2025 in Greenhouse Gas Protocol Scope 1 and Scope 2 emissions, and in Scope 3 emissions from upstream transportation and distribution of goods, business air travel and fuel and energy consumption,
  - 40% reduction in Scope 3 emissions corresponding to bought-in products and services, consistent with the EP&L target.

These goals extend beyond Kering's activities in the legal sense, because they apply across the whole value chain, consistent with the findings of the EP&L, which show that most (93%) of the environmental impact generated by Kering operations arises from its supply chains.

Because traceability is a key factor in the endeavour to meet these objectives, Kering undertakes that by 2025 all the key materials it uses will be traceable back to the country or region of production, or back to the livestock farm, in accordance with the standards applicable to each type of material. This is a staged objective, with an intermediate 95% target to be reached by 2018.

For the key raw materials it uses, Kering is following through on the work conducted during the 2012-2016 period on setting responsible standards for each material, and undertakes that 100% will comply with these standards by 2025.

The above objectives were determined by joint work across Kering and its brands. Over 100 people were involved in this process including all the brand Executive Committees and artistic Directors, and workshops were run with François-Henri Pinault.

Through this cooperative process, each brand drew up a roadmap that would include specific commitments going beyond the objectives outlined above. For the first time, these roadmaps were shared across all the brands with a view to stimulating synergy and cooperation on reaching the Group goals.

PUMA rewrote its sustainability strategy in 2015, in the light of differences between Sport & Lifestyle brand activities and Luxury brand activities. The new strategy, named 10for20, lists ten main objectives for 2020. These objectives, consistent with the Kering group vision through to 2025, cover issues including governance, climate, responsible sourcing and human rights throughout the supply chain. In 2016, Volcom reviewed its roadmap through to 2020, focusing on the three key components of its brand genetics: protecting oceans, countering climate change and contributing to a more sustainable society.

Internal organisation for environmental management

The Kering Sustainability Department comprises around 15 specialists tasked with planning operational rollout of the Group environmental strategy and helping the brands implement action plans for achieving its objectives. With this purpose, Kering develops systems such as environmental

reporting or EP&L, along with standards to help brands manage their environmental impact (energy consumption, water consumption, waste treatment and raw materials supplies).

Group-brand coordination is ensured through a network of managers dedicated to sustainability issues, and each brand has at least one Sustainability Lead to spearhead the drive towards sustainability. In all, close to 60 people work on implementing sustainability policy at Group and brand levels.

In addition to these dedicated positions, working groups are formed regularly to bring in other key business functions to engage in the rollout of sustainability projects. With these cross-functional teams, which usually encompass functions including finance, merchandising, design, production and HR, more than a hundred people meet regularly at Gucci, Balenciaga, Bottega Veneta, Boucheron, Girard-Perregaux, Pomellato, Ulysse Nardin and Saint Laurent. To similar principles, PUMA has defined Board-level responsibility on oversight and implementation of its sustainability strategy.

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

Managing the network

The Sustainability Leads and the Kering Sustainability Department meet monthly to coordinate deployment of the sustainability strategy and to share best practices developed at brand level. In addition to sharing experiences, these meetings enable participants to draw up action plans to deal with cross-company issues within the Group, as well as more specific issues affecting individual brands. Kering's sustainability network, which brings together Corporate and brand teams, meets physically once a year for two days of work sessions. The 2016 Sustainability Network Meeting familiarised all brands with Group strategy through to 2025, and in exchanging notes on their respective roadmaps, the brands developed closer cooperation and enhanced synergy in the common endeavour of meeting Group objectives. Kering Deputy Chief Executive Officer outlined the Group's business strategy and growth outlook to participants, while the Kering Human Resources Department presented new HR programs, on issues including talent management and parenthood policy.

In 2016, Kering continued with its Idea Labs, which are working groups bringing together experts and operational staff from several brands with a view to sharing knowledge, nurturing and structuring new ideas, and implementing practical solutions, notably in terms of improving the environmental and social footprints of raw material supplies and controlling the use of harmful chemicals. In 2016, eight Idea Labs involving a total of 50 employees met regularly around the following themes:

- leather;
- fur;
- gold;
- precious skins;
- chemicals;
- viscose;
- cotton;
- energy.

The Group also offers its brands tools to help them adopt the best environmental management practices. The Smart Sustainable Store, aimed at stores, provides a guide to best management practices in respect of energy, waste, paper, water and other resource consumption, packaging and shipping, as well as maintenance and servicing. It is available in six languages: English, French, Italian, Japanese, simplified Chinese and traditional Chinese. A more detailed version is also available, focused on the life cycles of stores and their fittings. A similar best practices guide, entitled Smart Sustainable Office, was prepared in 2015. Designed by Kering and the Group's brands, this guide provides office workers with solutions and recommendations, encouraging them to implement environmentally friendly practices in their daily tasks. A checklist is also provided to help them monitor their progress. The guide is available in English, French and Italian.

Informing and raising awareness among employees

The 360° intranet platform keeps all Kering group employees worldwide up to date on the Group's sustainability news. In addition, there are internal newsletters on sustainability, such as Sustainability Monitoring, a review of national and international press coverage of the sustainability-related achievements of Kering and its brands, and Regulatory Watch, which outlines the latest news on regulations relevant to sustainability.

Store sales consultants are a prime audience for training and awareness-raising on Kering's sustainability strategy, which helps them act as effective spokespeople with customers. The Sustainability in Retail guide was drafted for Kering and brand teams tasked with training staff in customer relations. It is composed of modules covering the key raw materials used by the Group, and aims to help employees (and ultimately customers) understand where and how products are made, the challenges facing the supply chain, their key impacts and the strategy implemented by Kering and the brands to meet these challenges. This guide is being translated and adapted to meet the specific needs of each individual brand. A version for retailers and department stores will be coming in 2017.

Key dates such as World Environment Day on June 5, bring ideal opportunities for reaching a broader public. For Caring Day 2016, the Paris, Hong Kong, Shanghai and New York offices put on a number of sustainability-themed events (conference, breakfast meetings, exhibition, etc.), addressing a large audience with information on the environmental issues facing the luxury sector and the solutions adopted by Kering and its brands.

Kering group brands also develop their own individual training and awareness-raising operations on environmental matters, starting at the personnel induction stage. For most brands, training for all new employees includes modules on its sustainability commitments and initiatives. This is the case, for example, with Gucci, Bottega Veneta, Brioni and Saint Laurent. Other brands focus more specifically on key business functions, addressing, for example, design, retail and merchandising teams to deliver key information on products and sustainability initiatives and best practices, especially as regards efficient shop management. For example, Balenciaga ran its Green your Back Office competition across its network of stores to encourage the take-up of environment-friendly practices. Stella McCartney ran a series of what it called Stella Collective training sessions to help shop teams understand the brand's sustainable sourcing operations and use of ecologically sound materials in product design. Along similar lines, at its Milan head office, Gucci ran an event with partner NGO Rete Clima to familiarise personnel on environmental and social issues, and on issues related to deforestation in particular.

PUMA ran a wide-reaching communications programme on the objectives of its new sustainability strategy in 2016. In all, over 3,000 PUMA personnel were reached, though the *Catch-up* internal magazine and its mobile application, as well as the various seminars addressing the sourcing, design and store management functions.

Other brands develop their own newsletters or dedicated web platforms, in addition to the communications materials provided by the Group. Saint Laurent, for example, includes a sustainability section in its internal newsletter. Also, Volcom developed its internal video channel dedicated to sustainability and its initiatives in this area, addressing its *New Future* community, which includes friends and customers as well as brand employees.

Certification procedures

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

In 2016, three out of four tanneries run by Kering were ISO 14001 certified. (The fourth was relocating to new premises.)

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

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

Reporting process and indicators

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

Since 2014, energy consumption at stores has been monitored more closely using the NUS energy invoice tracking system, which inputs month-by-month consumption figures directly into the environmental reporting system, thus avoiding data entry errors, cutting out the need for possibly inaccurate estimates, and enabling rapid reaction to shortfall from consumption targets. By the end of 2016, a total of 638 stores had been hooked up to the NUS tracking system, an increase of 29% on the end-2015 figure. Most of the sites for which the Group has an energy supply contract are now covered. Working from the NUS data input, Kering set up a store energy performance ranking in 2016, enabling brands to pinpoint the lower-performing sites in order to help them prioritise energy efficiency solutions.

To track its actual environmental performance as closely as possible, Kering's environmental reporting system is designed to cover all the Group's business units, with the aim of gathering actual data from the 1,769 sites located around the globe. The methodology set out in the reporting protocol, however, allows the Group to estimate some data. To track changes reliably from one year to the next, several consolidated indicators are presented on a proforma basis in this report. This method eliminates changes in scope by only taking into account sites present over two consecutive years, and changes in emission factors.

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

3.2. environmental profit & loss account

Kering began work on the development and rollout of its Environmental Profit & Loss Account, or EP&L, in 2012. Following a pilot stage covering one brand in 2011, the system was rolled out to cover 73% of the Group in 2012. The system has now covered all Kering operations, as seen in the 2015 publication of results for 2013 and 2014. In 2016, Kering's work on its EP&L system addressed three main points: wide-scale release of the EP&L findings; methodology improvements covering basics and specific internal methods; and promotion of natural-capital accounting approaches, with participation in setting up the Natural Capital Protocol.

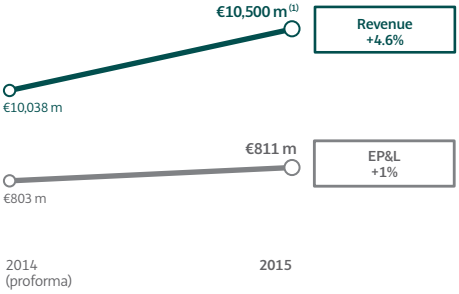
3.2.1. 2016 major achievements

- **Findings**

Kering published its 2015 EP&L results in 2016. This publication included details on how Kering uses the EP&L for decision-making. Specifically, EP&L data can be used to simulate a product's impact, and thereby provide valuable design-stage input on producing products with a lower environmental impact, by using different raw materials or a different sourcing location, as set out in the detailed report available in the Sustainability section of the Group website.

Group-wide coverage for EP&L came with the 2013 data. Since 2013, EP&L has covered the whole of the Group every year, making it an efficient gauge of progress in environmental performance.

Kering incorporated the findings of its 2014 EP&L into its sustainability strategy, particularly in its raw material sourcing. Though this is a long-term approach, some efforts paid off as early as 2015. In 2015, Kering's EP&L impacts rose by 1% against a 4.6% rise in revenue on a like-for-like basis, indicating an improved environmental performance relative to growth. Improvement is also seen over the period 2012-2015, with a drop of more than 10% in the intensity of environmental impacts (€ EP&L/€ revenue)



Strong organic growth led to an increase in the environmental impacts of stores and production processes. On the other hand, in focusing efforts on raw materials, to carry through responsible sourcing projects and improve design and sourcing choices, Kering effectively reduced environmental impact here. Through design decisions on sport footwear, using more synthetic materials and less leather, and reduced use of cashmere in luxury maisons, Kering achieved a sharp reduction in the environmental impacts of raw materials production.

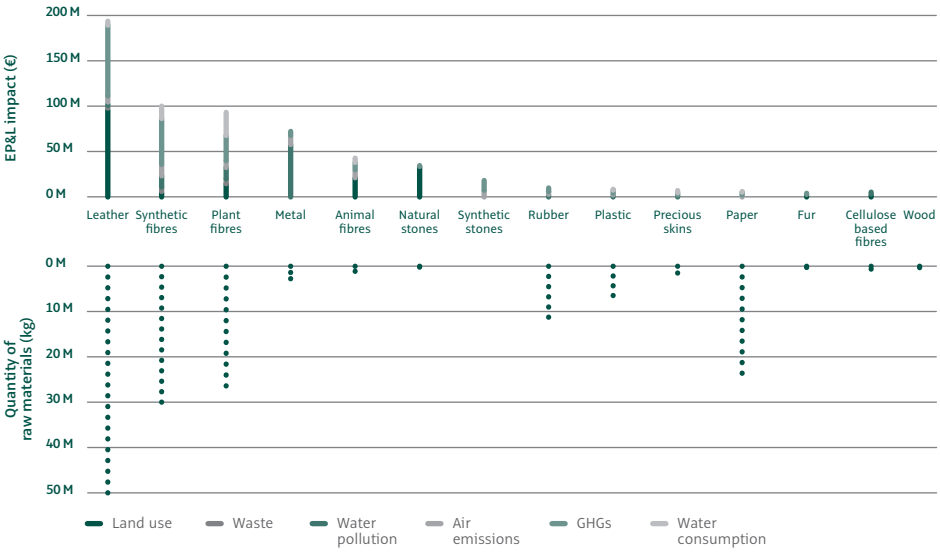
(1) The 2015 revenue figure of €11,584m is adjusted here to allow for exchange-rate variations.

The EP&L allows us to map the following impacts:



The production of raw materials (T4) and their processing (T3) generated the biggest impacts in Kering's 2015 EP&L, together representing more than 72% of total impacts. Land use, greenhouse gas (GHG) emissions and water pollution account for 73% of the Group's impacts. This mapping, virtually unchanged compared with 2014, shows the typical profile of the impact of Kering's activities.

The details of the environmental impacts of raw materials shed particular light on the Group's activities generating the biggest Tier 3 and Tier 4 impacts.



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

Kering conducted wide-scale communications and explanation on its EP&L findings in 2016. The EP&L was a major item in discussions on the environmental pillar of Kering's new sustainability strategy; members of Kering corporate and brand executive committees studied their EP&L results in detail to set impact reduction targets.

- **Continuous improvement in methodology and steering systems**

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

Wide-scale rollout of the calculation process in 2015 brought good buy-in from operational teams, enabling them to compare the impact of their decisions much more quickly. Kering boosted EP&L buy-in by brand teams in 2016 by developing a scenario and prospecting tool that includes dynamic viewing of EP&L results. This scenario tool, available to all brands from early 2017, performs direct comparison between alternative scenarios, giving an immediate indication of the impact of a decision or project under consideration. For example, a production team could obtain an instant indication of the EP&L gains afforded by an energy saving project run jointly with suppliers. Or a sourcing team could get an instant reading of the EP&L gains achievable by switching a product line over to organic cotton. The scenario tool thus brings greater precision in managing the brands' EP&L impacts, a crucial factor in the Group's sustainability strategy through to 2025.

Because the design stage, especially as regards the choice, sourcing and amount of materials, has a very major influence on a product's environmental impact, in 2016 Kering began development of an EP&L product module that would provide designers with an intuitive tool offering guidance toward more environmentally virtuous choices, in a similar way to the MyEP&L application but with much more comprehensive choices and options.

As well as developing these new tools, Kering continued work on improving the EP&L methodology in 2016. This work would bring more accurate allowance for biodiversity and more precise evaluation of land use change. Kering has partnered with Stanford University and the Natural Capital Project of Cambridge University's Institute for Sustainability Leadership to improve the understanding and measurement of the impact of business activities on biodiversity and ecosystem services. This initiative seeks to develop a reference framework for measuring biodiversity impacts, for the Kering EP&L and for the other companies involved in the programme. In 2016 Kering also continued with work on quantifying the environmental impacts of certain key materials, drawing up more than ten lifecycle inventories for materials such as sustainable wool, synthetic glass and precious stones. For some materials Kering was the first to examine quantification of environmental impacts. Because of the lack of prior information here, it would conduct pioneering field studies to lay down the foundations for further studies in what were previously uncharted areas.

- **Promotion of natural-capital accounting**

In line with its commitment on wide-scale communication and education on natural capital issues, Kering released the MyEP&L smartphone application, which gives key information on product environmental impacts, primarily for the use of designers, students and customers. For four product lines (footwear, overcoats, rings and handbags), the user selects key materials, countries of origin for these materials, and product manufacture region. The application then shows an environmental impact chart for the selected product, by production stage and type of impact. In enabling users to line up their selected configurations against the best available option, the application develops a better understanding of the decisions that underlie design choices aimed at lessening a product's environmental impact. The application, available in English and Chinese, will be upgraded in 2017 to offer a wider choice of products and materials. With MyEP&L, Kering achieves a wide reach for the main messages afforded by its EP&L, specifically as regards the extent to which environmental impact is dependent on the choice and sourcing of raw materials. The audience includes students at the Parsons School of Fashion in New York, the London College of Fashion in the United Kingdom, Poly U and City U in Hong Kong, and Tsinghua in Beijing. In all, more than 14,000 students have been reached on the importance of design choices in determining environmental impact.

Through participation in a deep-dive pilot programme and membership of the Technical Group of the Natural Capital Coalition, Kering contributed to drafting the Natural Capital Protocol, published in July 2016 to stand as a worldwide reference on the development of systems for measuring impacts and dependences between businesses and natural capital. Kering also shared its experience with many partner organizations in 2016, presenting its EP&L approach at international conferences and workshops, and taking part in workshops on natural-capital accounting. Specific events here included the Biodiversity and Economics Forum, the International Platform for Insetting (IPI), the Copenhagen Global Green Growth 3GF Summit, the Impact Valuation working group (comprising major multinational

corporations involved in social and natural-capital accounting programmes), the Copenhagen Fashion Summit, BSR (Business for Social Responsibility), the RobeccoSAM forum, IUCN, CITES, the Sustainable Apparel Coalition, Planet Textiles, Better Brand, the UN Global Leaders Summit, Corporate Knights, the Luxury Futures Forum, Textile Exchange, Web Summit, 2016 Condenast South Summit and the Future Luxury Summit.

3.2.2. EP&L methodology

- **What is an EP&L?**

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

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

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

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

- **Why develop an EP&L?**

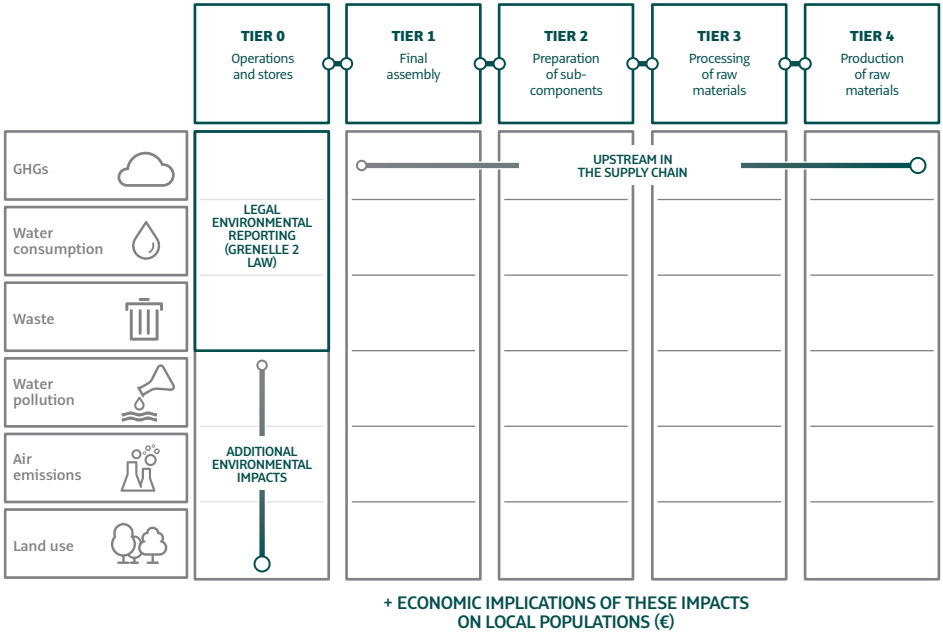
For Kering and its brands, the EP&L represents a new way of looking at its activities. It reveals areas for improvement where the Group can deploy solutions, using innovative new technologies and materials that significantly reduce the environmental impact caused by the way in which raw materials are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

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

- **Summary of the methodology**

Comprehensive methodology details have been published on the Kering website since 2015. The EP&L approach goes beyond standard environmental reporting, producing a much fuller picture of the impacts of Kering's activities.

SCOPE COVERED BY THE EP&L APPROACH



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

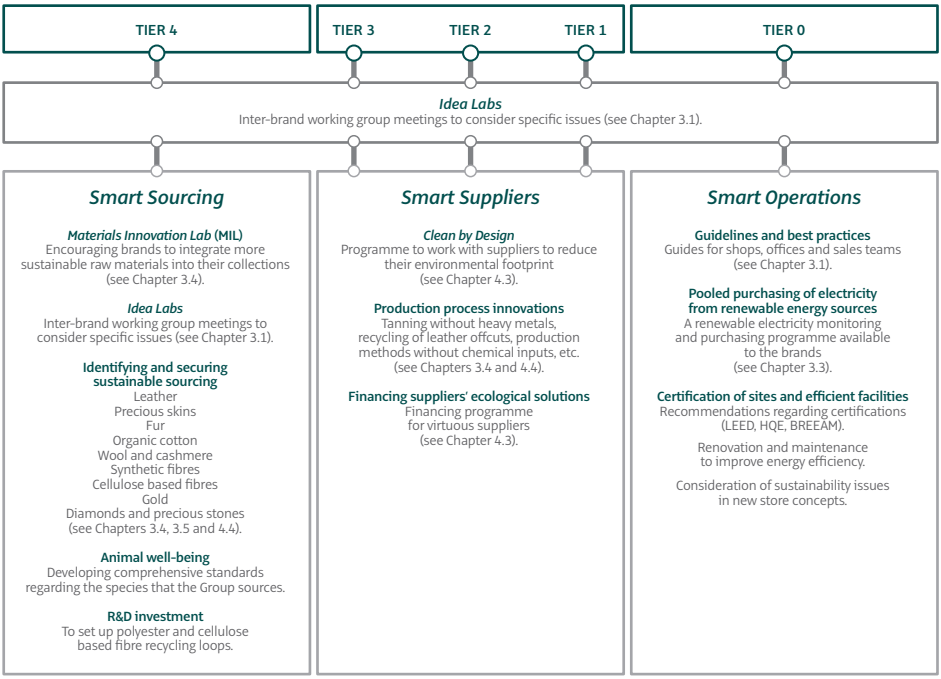
	Air emissions	GHGs	Land use	Waste	Water consumption	Water pollution
Emissions and use of resources	PM2.5, PM10, Nox, Sox, VOCs, NH_3	CO_2, N_2O, CH_4, CFCs, etc.	Hectares of tropical, temperate, wetlands and other forests, etc.	Hazardous and non-hazardous waste	m^3	Specific heavy metals, nutrients, toxic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

3.2.3. Kering's response

These findings corroborate the efficacy of the Group's sustainability strategy, which relies heavily on a responsible sourcing policy and a quest to improve the environmental efficiency of its industrial processes while seeking optimum management of sites and activities:

- **Development of more robust internal procedures**: through a finer understanding of risks and opportunities, Kering has been able to adapt and optimise internal procedures, especially as regards the sourcing of raw materials such as leather and precious skins, furs, cotton, viscose, gold and diamonds (see Section 3.4 in particular);
- **Implementation of targeted projects**: the Group has prioritised its sustainability actions in response to the findings of the EP&L, in particular around:
  - the choice of materials, as regards both the actual materials and the way they are used (location, manufacturing processes),
  - production processes such as chrome-free tanning technology and improvements in suppliers' environmental performance,
  - cooperation between brands and across brand departments, through cross-functional and inter-brand work. By pooling the wealth of knowledge and expertise available across the Group, Kering generates synergies and provides a response to major issues such as traceability of materials, development of certifications and standards to reduce EP&L impact, and support for positive-impact initiatives in the value chain. This is done without compromising the confidentiality or image of individual brands.

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



3.3. measurement and reduction of our carbon footprint

The Kering group helps address the impacts of climate change in two ways: by directly reducing the carbon footprint associated with its energy consumption and the transport of people and goods, but also, from a longer-term perspective, by evaluating and reducing emissions of greenhouse gases in its supply chain, especially by using the EP&L analysis implemented by the Group for all its brands. This approach is also a key tool in Kering's strategy for adapting to climate change, as demonstrated in the report analysing the consequences of climate change for the luxury industry, published jointly with BSR in 2015. The report, entitled Climate Change: Implications and Strategies for the Luxury Fashion Sector, aims to help industry players see where their specific vulnerabilities lie, and makes recommendations promoting the development of more resilient business models.

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

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

When Kering decided to launch its EP&L program in 2012, the question naturally arose as to the scope it should cover, as regards the Group's activities and their upstream and downstream impacts. A global analysis clearly indicated a very strong predominance of upstream impacts, especially when it came to greenhouse gas emissions:

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

Kering did, however, carry out an initial exploratory pilot survey with one of the Group's brands to assess downstream emissions, using a customer questionnaire covering seven emblematic brand products representative of its different categories (ready-to-wear, footwear, bags, etc.) to probe customer practices on use and disposal of the products they buy. The survey results indicated a maximum 11% proportion of downstream with respect to upstream missions for a single product category – apparel – with this proportion being negligible for all the other product categories. The survey also revealed that it would be extremely difficult to extrapolate this kind of result across all the Group's brands and markets, given the huge diversity in customer practices.

Kering is nevertheless tackling the matter afresh since the Group sustainability strategy drawn up in 2016 for the next ten years includes a clear statement on full coverage, which means downstream emissions are to be included by 2025.

The decision on cradle-to-gate scope for the Kering EP&L dates back to 2012. So as well as measuring the greenhouse gas emissions arising from its actual operations, as set out hereafter, Kering also calculates upstream emissions and expresses them in monetary terms, as outlined in Section 3.2. Significant points here include the following:

- Greenhouse gas (GHG) emissions from supply chains (Tiers 1 to 4) greatly outweigh those from Kering operations (Tier 0): 88.6% vs. 11.4%;
- within the supply chains, GHG emissions are most pronounced at the raw material production and initial transformation stages (Tiers 4 and 3), and most especially with leather and textile fibres, of vegetable, animal or synthetic origin;
- to set a relevant carbon footprint reduction target covering its main GHG emission sources, Kering opted to take up the framework set by the Science Based Targets Initiative. Specific 2025 goals here include:
  - 50% reduction in greenhouse gas emissions arising from Kering operations (whole of Greenhouse Gas Protocol Scopes 1 and 2, plus emissions arising from transport and distribution of goods, energy and fuel production, and business air travel),
  - 40% reduction in supply-chain greenhouse gas emissions (bought-in products and services under Greenhouse Gas Protocol Scope 3), consistent with the EP&L objectives.

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

Carbon footprint of Group operations

Energy consumption and the transport of goods and people are the two main sources of the Group's CO_2 emissions (excluding emissions related to the supply chain). Total emissions for 2016 came in at 361,465 tonnes of CO_2.

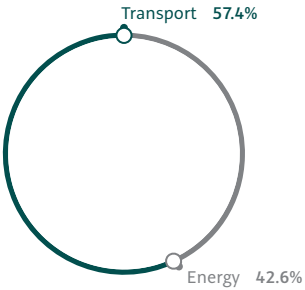
After three years of no change in the CO_2 emission factors taken for reporting purposes, consistent with the objectives Kering had set for 2016, the factors taken up in 2016 for calculating CO_2 emissions arising from energy consumption and transport were reviewed and updated in line with input from the latest available databases. The new emission factors include allowance for the territories in which the Group operates, and for the energy mixes in different countries.

Proforma adjustment of the CO_2 emission figures for 2015 includes allowance for changes in scope and methodology: proforma comparisons only include Group sites present in both 2015 and 2016, and the 2015 CO_2 emission figures are recalculated on the basis of the new 2016 updated emission factors.

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

Details of the emission factors used are set out in the methodological note to Kering's 2016 environmental reporting on the Group's website.

BREAKDOWN OF TOTAL TRANSPORT- AND ENERGY-RELATED CO_2 EMISSIONS IN 2016



Total: 361,465 tonnes of CO_2

The proportion of energy-related as opposed to transport-related CO_2 emissions fell from 51.4% in 2015 to 42.6% in 2016. This is explained chiefly by the increase in goods transport, consistent with increased business for several brands, and by the decrease in energy consumption and massive switch from conventional to green electricity.

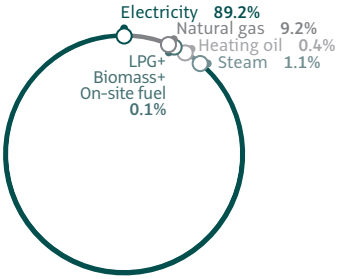
Energy consumption and related CO_2 emissions

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

Energy consumption and related CO_2 emissions in 2016

	Energy consumption *(MWh)*	Related CO_2 emissions *(tonnes of CO_2)*
Electricity	265,092	137,463
Natural gas	57,968	14,134
Heating oil	1,953	632
Steam	7,978	1,718
LPG	73	20
Fuel for transport and on-site handling	495	159
Biomass	739	-
TOTAL ENERGY	**334,298**	**154,126**

BREAKDOWN OF ENERGY-RELATED CO_2 EMISSIONS IN 2016



Total: 154,126 tonnes of CO_2

The Kering group's energy consumption relates mainly to the heating, lighting and air conditioning of stores, warehouses and offices. In 2016, it amounted to just over 334 GWh. Electricity is the Group's main source of power, representing 79% of total energy consumption, against 82% in 2015.

CO_2 emissions related to the Group's energy consumption in 2016 totalled 154,126 tonnes. More than 89% stemmed from the generation of electricity, and were therefore indirect emissions relating to the amount of electricity consumed, but also to its mode of generation (coal, hydrocarbon, nuclear, renewable, etc.).

Proforma year-on-year change in energy consumption (MWh) and related CO_2 emissions (tonnes)

	2016-2015 proforma scope		Year-on-year change
	2016	2015	
Electricity *(MWh)*	243,270	260,374	-6.6%
of which electricity from renewable sources	67,402	59,760	+12.8%
Natural gas *(MWh)*	54,298	56,879	-4.5%
Heating oil *(MWh)*	1,939	2,317	-16.3%
Steam *(MWh)*	7,517	6,700	+12.2%
LPG *(MWh)*	72	64	+12.5%
Fuel for transport and on-site handling *(MWh)*	495	677	-26.9%
Biomass *(MWh)*	739	813	-9.0%
Total energy *(MWh)*	**308,330**	**327,824**	**-5.9%**
of which energy from renewable sources	**68,142**	**60,573**	**+12.5%**
Direct emissions (Scope 1) *(tonnes of CO_2)*	11,786	12,460	-5.4%
Indirect emissions (Scopes 2 and 3) *(tonnes of CO_2)*	131,211	147,352	-11.0%
TOTAL ENERGY-RELATED EMISSIONS *(TONNES OF CO_2)*	**142,997**	**159,812**	**-10.5%**

On a proforma basis, the Group's energy consumption fell by close to 6%, from 328 GWh in 2015 to 308 GWh in 2016. This is explained by a decrease in electricity consumption arising from systematic implementation of LED lighting, which consumes less energy, and lower consumption (down by 5%) of fossil energies such as natural gas and heating oil. Throughout 2016, the C. Mendès ready-to-wear atelier in Angers, which belongs to Saint Laurent, used biomass rather than gas for heating, under an arrangement first introduced in September 2014.

CO_2 emissions from energy consumption fell by 10.5% as a result of falling energy consumption and significant transfer (+12.5%) from conventionally generated electricity to electricity from renewable sources.

Measures to improve the energy efficiency of stores and infrastructures

In 2011, the Sustainability Department and the Indirect Purchasing Department – in partnership with NUS Consulting – launched a major energy management project intended for all Group brands. In 2012, it resulted in the establishment of a more accurate energy-consumption monitoring system. By 2016 a total of 638 Group sites were covered in Europe, the United States and Asia, up by 29% on the 2015 figure of 496, bringing a coverage rate of 61% sites potentially covered by NUS (excluding corners and shops in shopping centres). The project focuses on streamlining the energy procurement process by pooling and consolidating energy consumption, increasing the use of renewable energy and centralising energy procurement management. The project has generated tangible energy savings and cost reductions for the Group. As well as being extended to more than 140 new sites in 2016, the NUS system interface was upgraded to include control panel capabilities for comparing site energy performances, which encourages broader take-up of best practices.

Compliant with the European directive on energy efficiency, Kering commissioned 59 energy audits in France, Germany, the United Kingdom, Italy and Holland. The results revealed openings for improvement in lighting (switch to LED) and energy (ventilation, temperature settings).

As well as meeting its regulatory obligations, Kering opened a new Idea Lab in 2016, dedicated to energy, and more specifically, to LED lighting and site monitoring and certification. Kering also drew up building certification guidelines (covering the HQE, BREEAM, LEED certifications along with labels such as BEPOS, Passiv'Haus, Minergie A and NZEB) to help Group brands make the best certification choices for their offices and stores.

This year, the Kering and Balenciaga head offices relocated to new premises, the former Laennec Hospital in Paris, which are certified to BREEAM (Very Good rating) and HQE. Renovation of the new head office focused on the four main HQE certification points: the building in its immediate environment, long-term upkeep of environmental performance, water quality, and worksite environmental impact.

A good example of work on reducing energy consumption comes with LEED certification (Leadership in Energy and Environmental Design) under way at new luxury brand stores and offices. The certification programme is based on six evaluation criteria, of which energy is the most important (optimising energy performance, using renewable energies, etc.). Gucci had seven stores and two office sites LEED-certified by the end of 2016, and Bottega Veneta obtained Platinum (the highest level) LEED certification for its Montebello Vicentino site in 2014. To bolster its programme on reducing the environmental impacts generated by its retail network, Saint Laurent, which has already rolled out LEED certification at four stores, identified 20 good environmental practices based on LEED certification requirements. These good design practices, named Architecture Golden Rules, covering lighting, heating, air conditioning, etc., are to be applied at the brand's new stores and on its renovation projects. Details on the environmental requirements set out in these Architecture Golden Rules are included in all the brand's call-to-tender documentation. Stella McCartney also holds LEED certification for two stores in the United States and one in China. Furthermore, Kering Sant' Antonino warehouse has also held the LEED platinium since 2014.

On top of certification, the Group's brands are striving to improve the environmental performance of their facilities. The Stella McCartney Green Guide, initially released in 2012 and updated annually, helps stores manage their energy consumption sustainably. This publication was issued to all the brand's offices and stores in 2016.

Along similar lines, Gucci put out a document outlining technical guidelines on sustainable store management, to help the brand's regional facility managers set up sustainable practices in everyday store management. Gucci also developed a document outlining sustainability rules for issue to store personnel.

Saint Laurent continued rollout of environmental good practices, set out in its Golden Rules Operations publication, across all regions, achieving an implementation rate of 96% by the end of 2016 (excluding shopping centres and department stores). With this store design and operation initiative, Saint Laurent improved the energy efficiency of its stores by 42% over the period 2012 to 2016. Saint Laurent also assists all its main stores in the management of their energy consumption, sending them a personalised dashboard each quarter. Invoice data is used to monitor store consumption, calculate energy efficiency, and produce a regional performance ranking. A total of 46 benefited from this support by the end of 2016.

Girard-Perregaux continued rollout of the energy conservation programme with the Swiss Energy Agency and set up a ten-year energy efficiency improvement programme. Various measures were introduced In 2016: training for all personnel on energy conservation at the workplace, installation of a compressor programming system to limit operation to production hours, optimum setting of heating and cooling systems, removal of old ventilation ducts to minimise energy loss, and installation of LED lighting in the reception area, passageways and rest areas at a production site.

Ulysse Nardin has also signed up to the Swiss Energy Agency's energy conservation programme, and met its energy consumption reduction targets several years ahead of schedule at the Locle and Chaux de Fonds sites.

Lastly, the deployment of LED technology for lighting, a source of significant energy savings (up to 90% on lighting), continues in the stores of various brands. Bottega Veneta's project on LED lighting began in 2014. In 2016, 26 additional stores were fitted out with all-LED lighting, bringing the number of LED-technology stores up to 50. In 2016, Bottega Veneta also switched the whole of the lighting

systems (production area, and some parts of the office and common areas) at its two industrial sites, MVP Altavilla and MVP Malo. Pomellato and Dodo fitted out four stores with LED lighting systems. LED lighting is fitted at all new stores and sites under renovation of the Stella McCartney, Alexander McQueen, Saint Laurent, Boucheron and Balenciaga brands. By the end of 2016, 58% of Alexander McQueen directly operated stores were 100% LED-lit. In 2016, Gucci followed through with its investment programme on replacing store lighting with LED fixtures.

In the Sport & Lifestyle business, Volcom continued work on replacing conventional lighting with LED systems at its stores, offices and warehouses. All new and renovated PUMA stores make exclusive use of LED technology for lighting.

Gradual shift towards renewable energy

The proportion of renewable electricity used within the Group is growing thanks to numerous green energy contracts implemented by the brands with the Group's support. It amounted to 27.7% in 2016, compared with 23% in 2015 on a proforma basis.

In 2016, Kering renewed its master energy agreements for all brands in Italy and France, as it had already done in the United Kingdom, to ensure that electricity consumed in both countries is fully renewable in origin. Electricity from renewable sources thus accounted for 89.4% of the mix in Italy (up 6 points proforma on 2015), 71% in the United Kingdom (up 9.9 points proforma) and 57.8% in France (up 28.4 points proforma). Then green electricity accounts for 90% of consumption at the Group's German sites, up from 85.2% in 2015 on a proforma basis. Gucci uses green electricity in Italy, France, the United Kingdom, Switzerland, Germany and Austria. In 2016, Girard-Perregaux opted exclusively for green electricity for its Swiss sites, which represent over 93% of its total consumption. Ulysse Nardin uses close to 100% of locally generated green hydroelectricity at its Locle and La Chaux de Fonds production sites, and close to 84% across its overall electricity consumption. With Stella McCartney, 58% of the total electricity supply is renewable. The figure is 64% with Pomellato, 62% with Brioni, 42% with Boucheron and 40% with Balenciaga. Bottega Veneta, which is also taking part in the project, extended the initiative to all its Austrian, Swiss and Spanish flagship stores in 2016. More than 85% of the electricity consumed by the brand's European sites is renewable. By the end of 2016, 60% of Saint Laurent sites and stores worldwide had green electricity contracts, and all Alexander McQueen directly operated stores in Europe were powered by green electricity. In 2016, the share of electricity derived from renewable sources rose to 19% of PUMA's total electricity consumption, thanks notably to the significant increase since 2012 in the use of this type of energy in Germany and Italy, where nearly 100% of electricity consumed is renewable, and in Austria (72%), the United Kingdom (65.5%) and Holland (30%).

On top of external purchases, the brands have been boosting their reliance on renewable energies, for instance by installing photovoltaic panels. Some brands have already installed panels on the roofs of their buildings, such as PUMA's head office in Germany, a warehouse operated by the Luxury business in the United States and three Bottega Veneta buildings in Italy. In 2016, Volcom finalised installation of two photovoltaic panels on the roof of its buildings on the north coast of Hawaii, in an operation that contributes to raising public awareness on environmental issues because of the regular visits the site receives from the brand's athletes. Saint Laurent also fitted solar panels on the roof of its Beverly Hills store, generating electricity that is consumed directly by the store.

Since September 2014, the C. Mendès ready-to-wear workshop in Angers, which belongs to Saint Laurent, has used biomass rather than gas to meet its heating requirements, and renewable electricity has covered all of the site's consumption since November 2015. Using green energy has reduced by more than 70% the site's carbon footprint. In Paris, three Saint Laurent flagship stores fitted the Climespace air conditioning system, an urban cooling system using water from the River Seine to cool buildings. Compared to conventional air-conditioning systems, this brings a 35% reduction in electricity consumption and a 50% reduction in CO_2 emissions across the three sites.

Transport-related impacts and emissions

Methodology

Data on transport are divided into three main categories:

- B2B transport: this includes all transport of goods paid for by the brands between suppliers and logistics platforms or industrial sites, and between logistics centres and points of sale. The transport of goods between logistics centres also falls into this category. B2B transport includes road freight, rail freight, shipping and air freight. Express transport includes goods that are delivered by express transport service providers via road and air freight;
- B2C transport: this covers all deliveries of finished products between logistics platforms or points of sale and customers. These deliveries can be carried out either by the brands' own fleets or by subcontractors' vehicles. As with B2B, only transport that is paid for by the brands is taken into account. B2C transport includes road freight;
- business travel: this covers business air travel and the use of company cars.

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

Work was also carried out in 2016 on the methodology for calculating CO_2 emissions from B2B transport, to improve calculation precision and accurately reflect the improvements and optimisations carried out by the Group's brands and logistics platforms. Specifically, Kering liaised closely with the main B2B freight operators on use of their reporting data produced in accordance with the European standard EN 16258 and which gives extremely granular detail on emissions for different transport flows.

Emissions related to transport and travel

Transport and business travel-related CO_2 emissions in 2016 (in tonnes of CO_2)

	2016
B2B transport	158,741
B2C transport	8
Business travel	48,590
TOTAL	**207,339**

In 2016, the Group's transport- and business travel-related CO_2 emissions totalled 207,339 tonnes. B2B transport accounted for 77% of these emissions.

B2B transport volumes in 2016 and related CO_2 emissions

	Total 2016 *(In t/km or teu/km for shipping)*	Related CO_2 emissions *(tonnes)*
Road freight	75,765,461	12,424
Shipping	374,522,258	21,000
Air freight	109,641,296	82,819
Rail freight	17,778,422	385
Express air delivery	41,584,504	33,295
Express road delivery	53,681,693	8,818
TOTAL EMISSIONS		**158,741**

Within the Group, the most frequently used means of transport for goods in volume terms is shipping. Air transport is also frequently used to move goods manufactured in Europe to faraway destinations quickly. It accounts for 73% of CO_2 emissions from B2B transport.

Proforma year-on-year change in CO_2 emissions from B2B transport (in tonnes of CO_2)

	2016-2015 proforma scope		Year-on-year change
	2016	2015	
Road freight	12,424	12,539	-1.0%
Shipping	21,000	19,385	+8.3%
Air freight	82,819	63,024	+31.4%
Rail freight	385	550	-29.9%
Express air delivery	33,295	12,839	+159.3%
Express road delivery	8,818	3,974	+121.9%
TOTAL EMISSIONS	**158,741**	**112,311**	**+41.3%**

The Group's proforma B2B transport emissions increased by 41.3% in 2016. The year-on-year increase in this item mainly reflects significant growth in the Group's business in 2016 as well as greater use of air transport for standard and express delivery against the backdrop of strong demand for in-store availability of goods.

The significant increase in express delivery resulted in part from improved reporting of domestic channels in certain countries in Asia.

B2C transport-related CO_2 emissions in 2016 and proforma year-on-year change (in tonnes)

	Related CO_2 emissions *(tonnes of CO_2)*	2016-2015 proforma scope		Year-on-year change
		2016	2015	
B2C – own vehicle fleets	1.3	1.3	1.8	-29.2%
B2C – subcontractors' vehicles	6.7	6.7	4.0	+66.9%
TOTAL	**8.0**	**8.0**	**5.8**	**+37.3%**

CO_2 emissions from B2C transport totalled 8 tonnes in 2016. On a proforma basis, B2C transport emissions increased by 37.3%, but across a very limited scope.

Optimising logistics flows and switching to alternative means of transport

Goods transport has a significant impact on the Group's CO_2 emissions, and the brands have been working to reduce the distances covered during the supply and delivery of goods, to improve truck load factors and the performance of truck fleets, and to develop alternative means of transport.

In 2016, further efforts were made to optimise freight load factors on the multi-brand logistics platform in Switzerland. After careful evaluation of rounds and the optimal load factor, cardboard was formatted in three new types. Several initiatives were performed on the platform in 2016:

- work continued on truck loading levels, with the use of dual-bridge trucks for example;
- aircraft from transport service providers were selected on the basis of fuel efficiency and flight plan optimisation;
- all transport contracts were reviewed to ensure they required the provider to leave the smallest possible footprint in performing the service. For example, in road transport, contracts include the obligation to perform the transport with euro 6 trucks. Since 2015, the system has been extended to air transport, with a provision capping air emissions added to the contract.

Kering logistics platform is working on reducing packaging, which can result in an improvement in the load factor of trucks, and ultimately a reduction in the number of trucks on the roads.

Delivery schedule optimisation is another important focus of work on reducing emissions. In the United States, to consolidate loads and ensure only full containers are dispatched, Volcom negotiates delivery dates with freight companies and minimises the number of departure ports. This also ensures that trucks carrying goods to warehouses from the port of arrival are loaded at maximum capacity. By grouping loads into a single weekly delivery, Volcom Canada reduced the number of dispatches by 21% in 2016 compared with 2015. Volcom also works on cutting out unnecessary transport stages; for example, products made in Asia and intended for Asian or South American markets will be dispatched directly to these regions instead of transiting via the United States. In 2016, this measure bypassed unnecessary transport via the United States for a total of 366,000 products, considerably reducing the carbon footprint of dispatches to Latin America and Asia. We also note that Volcom France shares transportation with other brands in its sector for up to 12% of its imports.

Another source of improvement is to change the mode of transport wherever possible. PUMA is accordingly redirecting some deliveries to shipping rather than air transport. The switch to shipping (highly advantageous, especially for non-urgent deliveries as with point-of-sale materials, packaging, merchandising items, etc.) was stepped up in 2016, as we can see from the shipping-related emission levels reported. The Luxury business' stores in the Middle East already apply this policy by routing all packaging by sea. When air freight is required, the Group's brands favour direct connections.

The Kering logistics platform continued its "High Street Fashion" partnership with TNT and ND Logistics to deploy sustainable delivery strategies in major European shopping districts using electric cars. Launched in 2012, the project covers the entire distribution chain in Switzerland, and the following cities: Amsterdam, Milan, Florence, Paris, Munich, Barcelona and Berlin. Stella McCartney is involved in the Last Mile Green programme in Italy.

In Paris, all daily shuttles between Saint Laurent stores are by electric vehicle only. Charging stations have been installed at the brand's headquarters in the French capital. The use of clean vehicles enabled Saint Laurent to save 800 litres of fuel in 2016.

Business travel

CO_2 emissions from business travel in 2016 and proforma year-on-year change (in tonnes of CO_2)

	Related CO_2 emissions *(tonnes)*	2016-2015 proforma scope		Year-on-year change
		2016	2015	
Business air travel	40,393	37,059	29,288	+27%
Company cars	8,197	8,197	9,387	-13%
TOTAL	**48,590**	**45,256**	**38,675**	**+17%**

CO_2 emissions associated with employee business travel amounted to 48,590 tonnes in 2016. On a proforma basis, emissions increased by 17%. The increase is partly attributable to Kering's transformation to an integrated group and the ensuing team-building work conducted by Kering corporate teams across the world. Expansion of the scope of coverage is another factor. In 2016, it covers business air travel for 30 additional brands/countries.

Some brands took the Group's policy even further by factoring environmental criteria into the selection of company vehicles: Bottega Veneta, for instance, continued the renewal of its fleet with the inclusion of new hybrid vehicles, which accounted for 55% of its fleet in 2016, up from 43% in 2015. We see the same trend with Gucci, whose head-office fleet included 32 hybrid vehicles in 2016, up from 19 in 2015, plus 3 electric vehicles. Emissions across the PUMA fleet fell from an average 122 g/km per vehicle to 118 g/km. For taxi journeys in the United Kingdom, Stella McCartney only uses companies offering hybrid vehicles. Brands also encourage the use of public transport to reduce CO_2 emissions arising from personnel travel. Bottega Veneta and the Kering logistics platform, for example, provide employees with a free shuttle service in Italy and Switzerland.

Emissions testing in accordance with Scopes 1, 2 and 3

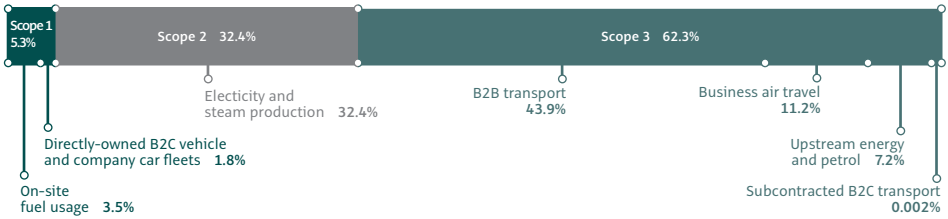
CO_2 emissions by Scope as per the GHG protocol in 2016 (in tonnes of CO_2)

	2016
Scope 1	19,229
Scope 2	117,003
Scope 3	225,233
TOTAL	**361,465**

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

- Scope 1 refers to direct emissions attributable to on-site fuel usage and the fuel burnt by the Kering group's directly owned B2C vehicle and company car fleets;
- Scope 2 refers to indirect emissions resulting from electricity and steam production;
- Scope 3 refers to emissions resulting from goods transported by subcontractors (all B2B deliveries and nearly all B2C deliveries) and from most employee air travel, the production of energy fuels (upstream energy and petrol) and line losses. Emissions attributable to the production of raw materials by suppliers or to employee business travel other than by air (by car, train, etc.) are not taken into account.

BREAKDOWN OF CO_2 EMISSIONS IN 2016



Total: 361,465 tonnes of CO_2

In 2016, 94.7% of the Kering group's CO_2 emissions were not under its direct control as noted in the EP&L. Reducing electricity consumption, switching to renewable energy sources, optimising transport and opting for alternative forms of transport that emit less CO_2 nevertheless constitute effective ways of reducing the Group's carbon footprint.

PROFORMA YEAR-ON-YEAR CHANGE IN CO_2 EMISSIONS (IN TONNES)

	2016-2015 proforma scope		Year-on-year change
	2016	2015	
Scope 1	18,474	20,092	-8.1%
Scope 2	108,445	122,370	-11.4%
Scope 3	220,083	168,343	+30.7%
TOTAL	**347,002**	**310,805**	**+11.6%**

On a proforma basis, overall emissions across the Kering group rose by 11.6% due to increases in B2B transport and business travel (Scope 3). Scope 1 and 2 emissions fell by close to 11% due to reductions in energy consumption and increased use of electricity from renewable sources.

The carbon-offset programme

As defined in 2012 as part of its sustainability targets, Kering continues to offset its residual Scope 1 and 2 greenhouse gas emissions. In 2016, Kering offset 135,636 tonnes of the CO_2 emissions that it generated in 2015. Carbon credits have been purchased with the support of several REDD+ (Reducing Emissions from Deforestation and Forest Degradation) programmes, and subject to VCS (Verified Carbon Standard) and CCBA (Certification of Competency in Business Analysis) certification and audit. This guarantees not only the generation of carbon credits, but also their benefits for biodiversity and local populations. 63% of the carbon credits were purchased from Wildlife Works Carbon, of which Kering has been a shareholder since 2012, mainly for the protection and restoration of the Kasigau Corridor in Kenya, but also for other REDD+ projects in Brazil and Indonesia. The remaining carbon credits were purchased from Wildlife Conservation Society, for the Makira forest in Madagascar. These projects contribute to the protection of more than 750,000 hectares of particularly biodiversity-rich ecosystems, which represent a resource for more than 400,000 people.

The brands also develop their own carbon-offset initiatives. As in 2015, Volcom's most widely publicised event in Hawaii, the *Volcom Pipe Pro*, was once again a certified Deep Blue Surf EventTM in 2016. This label, verified by Sustainable Surf, an NGO, is awarded on the basis of respect for the environment and the ocean. The greenhouse gas emissions generated by the event are fully offset.

In 2016, Bottega Veneta once again offset all the 2015 GHG emissions of its Milan head office, *i.e.*, 385 tonnes of CO_2, of which 145 tonnes were offset by Kering. Similarly, 979 tonnes corresponding to the emissions of the new Montebello workshop were offset through Wildlife Works in 2016, including 357 tonnes of CO_2 offset by Kering.

Pursuing further progress, in 2016 Kering joined the International Platform for Insetting (IPI). Insetting refers to the initiatives undertaken by a company, within its own value chain, to combat climate change while at the same time generating various social and environmental benefits for both the Company and its stakeholders. Made up of companies, NGOs and climate change specialists, the IPI platform aims to institutionalise the approach, creating a standard and a block chain register in the initiatives and outcomes.

3.4. circular economy

3.4.1. Sustainable use of resources

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

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

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

As the Group's sustainability strategy entered a new phase, in 2016 the guidelines were restructured into the Kering Standards, which give fuller details on material and process requirements. The new Kering Standards specify criteria to be met by the Group and its suppliers on five main points: traceability, chemicals, social impact, environmental impact and animal welfare. They cover leather, precious skins, fur, cotton, paper, wood, plastic, gold, diamonds, cellulose based fibres, feathers and down. And in 2017 coverage will be widened to include wool, silk, synthetic fibres and other metals (silver and brass). Kering Standards have also been drawn up for the Group's main production processes, namely tanning, textile manufacture stages and leather work. In 2017 coverage will be extended to include metal refining and precious stone cutting processes. In 2016 Kering also developed a series of species-specific guidelines on animal welfare, working with Group brands and outside experts. In 2017, these guidelines will be included in the new animal welfare programme to be rolled out across all Kering's supply chains.

Some of the Group's brands apply even tighter measures. Stella McCartney, for example, has always excluded the use of raw materials of animal origin, such as fur, leather,

precious skins and feathers. And Bottega Veneta products do not use fur or stingrays. PUMA took up a tough policy on the use of leather, skins, fur, feathers and wool in 2012. PUMA has also banned the use of certain species such as crocodiles and snakes, and certain practices such as mulesing in merino sheep.

Leather

Leather is one of the key raw materials used by Kering brands. Cattle and sheep farming and leather processing operations (including tanning) together represent one of the most significant environmental impacts across the Group's supply chains (24% of the total impact). A specific working group (Idea Lab) on leather, involving most of Kering's brands, has met regularly over the last three years, and specifically three times in 2016, to identify solutions for reducing the environmental impact of the production of leather and share best practices (husbandry, traceability, tanning without heavy metals, recycling of offcuts, etc.).

In 2016, Kering continued its collaboration with Origem, a consulting firm specialising in responsible sourcing, to further explore the environmental and social challenges facing the leather (cattle, sheep and goat) industry. This study will allow the Group and its brands to assess the risks and opportunities stemming from leather supplies in each of its sourcing countries, and minimise its environmental impacts.

As well as working on its own value chains, Kering is also committed to encouraging the adoption of more sustainable practices industry-wide. In 2016 Kering ran an international workshop to highlight challenges and solutions in the development of traceable and sustainable cattle leather supply chains. It was attended by 50 people from the scientific community, civil society, UN organisations, and companies in the household goods, luxury and clothing sectors. The workshop publication addressed the development of sector-specific initiatives to improve traceability, certification and consideration of animal welfare into textile brands' value chains.

Kering also maintained its commitment with partner organisation the Nicolas Hulot Foundation and various meat industry stakeholders to ensure its brands purchased skins through specific supply chains. The aim is to help the leather industry improve traceability and implement best practices in animal welfare.

As an example of the positive results achieved here, the tracking systems set up by Gucci and Saint Laurent with their tanneries in 2016 ensure traceability of 90% and 80% of leather used to produce their leather goods ranges respectively. Other brands implement approaches specific to specific product lines: for example, the high-volume iconic products in Bottega Veneta's *Cabat* range made entirely from nappa leather are traceable and certified by ICEC (Institute of Quality Certification for the Leather Sector).

Many brands also have projects to reduce the environmental impact of leather tanning. In 2016, Gucci extended the use of a metal-free tanning process to leather goods in its cruise collection and some of its footwear products, in addition to the iconic bag and wallet models covered by this process since 2015. Bottega Veneta also made progress on this issue: leather made using a process free from chrome and heavy metals topped 140,000 sq.m in 2016. The new process reduces water consumption during the tanning process by about 30%, and energy requirements by about 20%.

Stella McCartney does not use leather or fur in its products, in keeping with the commitments of the brand and its Creative Director. Stella McCartney has selected an alternative bioplastic leather with a coating created from 50% non-edible vegetable oil to produce shoes, bags and accessories.

PUMA is also striving to reduce the environmental footprint of its leather production by encouraging its footwear suppliers to work with tanneries that belong to the Leather Working Group, which brings together a wide range of stakeholders committed to improving environmental stewardship in the leather goods industry. The Leather Working Group has developed a dual rating system for member tanneries: Gold, Silver or Bronze to describe environmental performance; and A, B or C for the quality of the traceability of skins. In 2016, 94% of the leather used by PUMA came from LWG-certified tanneries. And 18% of PUMA supplies from LWG-certified tanneries in 2016 were rated A or B for traceability. Under its 10for20 sustainability strategy, PUMA is committed to improving traceability.

Volcom sources all the leather for its footwear division through LWG members' tanneries.

Textile fibres

Kering set up the Materials Innovation Lab (MIL) to assist brands under its Smart Sourcing programme in 2013. Based in Italy, the MIL provides technical support to the Group's brands in order to identify sustainable raw materials for their collections. In addition to their close collaboration with Kering Sustainability Department, the MIL's team of experts work with individual brands and their respective suppliers in order to integrate these new more sustainable textiles into the brand's supply chain. The MIL now boasts a library of over 2,000 certified fabrics and an in-house evaluation tool, which is based on EP&L learning and assesses fabrics' environmental impacts. The MIL primarily focuses on supporting the Group's Luxury ready-to-wear brands, and as of 2016 has extended its services to now also cater to the Group's Sport & Lifestyle brands on a case-by-case basis.

In 2016, special attention was given to organic cotton. A key material for the Group, cotton causes a significant environmental impact, as shown in the EP&L. Conventional cotton is grown using pesticides and fertilisers, and organic cotton can reduce the resulting environmental impact by

up to 80%. Kering therefore encourages its brands to step up the use of organic cotton in their collections. It does this in two ways, through the Kering Standards and through its new Group-wide purchasing platform.

- Kering Standards on cotton specify full traceability (to avoid sourcing from high-risk countries, as regards environmental and social impacts), and restricted use of chemicals and pesticides. To ensure these standards are met, Kering encourages the use of organic cotton, with a preference for GOTS (Global Organic Textile Standard) or OCS (Organic Content Standard) certification. Kering's commitment on 100% compliance with its standards by 2025 means that all the cotton used across the Group must be of organic origin by this date.
- To support work on reaching this ambitious target, Kering launched its Organic Cotton Platform (OCP) in 2016, offering brands technical and financial support to help them overcome the initial difficulties in switching sourcing to organic cotton. Five of the brands that submitted sourcing projects to the OCP platform during the year obtained finance and technical support on points such as price difference absorption, costs entailed by developing new samples, design of marketing campaigns on organic cotton, and auditing of new suppliers with organic produce certifications. Through this platform more than 185 tonnes of GOTS-certified organic cotton were purchased in 2016, increasing the share of organic cotton to 21% of purchases for luxury brands. These achievements form a sound foundation on which Kering can now build in order to develop similar mechanisms in other textile supply chains.

With the Cotton Connect Organisation, Kering continued with the Heritage Cotton Project in India in 2016, working directly with around a hundred organic cotton farmers to improve cotton yield and quality through training and agricultural advice. The programme also includes a social module involving community education to address health and safety issues, counter child labour and improve access to education.

In addition, as co-founder alongside Textile Exchange of the Organic Cotton Accelerator (OCA), Kering continued in 2016 its support for the expansion of organic cotton farming and the market for such cotton. Companies joining the OCA undertake to comply with a number of guiding principles, such as promoting organic cotton and improving the environmental, social and economic aspects of production conditions. Main OCA operations in 2016 included a pilot agricultural programme, a survey on organic seed integrity, and support for work by the Textile Exchange and GOTS on setting up a traceability database.

Kering also contributed to the work of the Textile Exchange's Organic Cotton Roundtable on a people-centred business model based on organic farming practices. Specifically, Kering backed work on evaluating the positive impact made by organic cotton procurement on UN Sustainable Development Goals for farmers, especially as regards parity and working conditions.

These initiatives primarily support the policies of Kering's Luxury brands, whose use of organic cotton rose significantly in 2016. Alexander McQueen used more than 18,000 kg of organic cotton for its men's ready-to-wear collections in 2016. Bottega Veneta worked towards switching all its flannel bags, which account for 80% of its cotton consumption in all, to organic cotton in 2016. These bags will be available in stores from 2017. Stella McCartney continues to use organic cotton (in its jeans, for example, which account for more than 80% of the brand's overall cotton procurement), focusing on GOTS (Global Organic Textile Standard) and OCS (Organic Cotton Standard) certifications to ensure the highest standards in terms of traceability and environmental impact along the entire textile production chain. Stella McCartney also supports the Cottonforlife project in Egypt, a five-year programme on developing Egyptian cotton plantation that includes a strong emphasis on social issues. This programme has already produced an extra-fine NILO fibre that is proving highly successful with many luxury brands.

In 2016, PUMA joined the Better Cotton Initiative (BCI), which connects stakeholders across the cotton sector, from farm to store, to promote measurable and continuous improvements for the environment, farming communities and the economies of cotton-producing regions. Consistent with the targets set under its 10for20 strategy PUMA used close to 3,000 tonnes of BCI cotton in 2016, which accounts for nearly 20% of the overall cotton procurement for its textile product lines.

For wool, Kering and the MIL continued to identify new sources of high-quality fibres that meet the Group's sustainability standards, especially as regards farming practices and animal welfare. For example, Kering and its brands visited wool supplier farms and began work directly with farmers to verify their practices. In addition, new, sustainable, sources of mohair and camelid (camel and guanaco) wool are been examined with a view to offering brands sustainable luxury materials.

Research and experimentation work has been carried out with a view to alleviating the significant environmental impact (as revealed in the Kering EP&L) involved in the production of cashmere, an archetypal luxury material. In 2015, inspired by a Wildlife Conservation Society study, Kering launched a programme in the Gobi Desert to promote responsible production of high-quality cashmere in partnership with several cooperatives of nomadic shepherds, represent 270 households and 160,000 goats. As well as developing farmer cooperatives to improve wool quality, this initiative puts a strong emphasis on grazing practices, protection of biodiversity and improvements in animal welfare. Kering placed its first order for cashmere under this project in 2016, bringing in 2.8 tonnes of virgin cashmere through its supply chains. This project should be producing larger quantities of quality wool in the years to come. To step up promotion and development of responsible cashmere provision in Mongolia, the Group is

also a founding member of the Sustainable Fibre Alliance (SFA), which focuses primarily on training for livestock farmers and promotion on sustainable cashmere.

Alongside these initiatives on changing the cashmere industry, some of the Group's Luxury brands, like Gucci and Stella McCartney, also make massive use of cashmere fibres from production offcuts, a practice that greatly improves industry efficiency and lightens the pressure on natural habitats.

Precious skins and furs

Because precious skins such as crocodile skin and snake skin are important raw materials, Kering places a strong emphasis on sustainable sourcing that is also respectful of the strictest standards of animal welfare. Over the past five years, the Group and its brands have supported a range of initiatives on sustainable supply chains for crocodiles and pythons. On these initiatives, the brands' sustainability departments and the Group industrial division (which manages its own tanneries and incoming supplies) liaise with various outside experts.

The Group and its brands comply with national and international legislation and regulations on the trade of precious skins: all skins of species catalogued as endangered or vulnerable by CITES (Convention on International Trade in Endangered Species) are obtained with certificates attesting to their legal origin, issued by CITES and the export authority, to ensure that trade does not threaten the species in question.

In 2016, Kering continued its commitment to the Madagascar Crocodile Conservation and Sustainable Use Program (MCCSUP). Under a two-year partnership begun in 2014 with the IUCN Crocodile Specialist Group with Kering support, this programme seeks to improve practices concerning the trade in Madagascar crocodiles. The programme develops a structure for measuring crocodile populations and collection of wild eggs by farmers. It has also begun field studies in partnership with Antananarivo University on developing captive populations and on conflicts between humans and wild crocodiles, to develop a thorough understanding of the industry.

In 2016 Kering also continued close cooperation with experts from CITES, the IUCN Boa & Python Specialist Group and the International Trade Center (ITC) within the Python Conservation Partnership (PCP), a joint research and advisory programme on sustainable and humane python trade in South-East Asia. PCP focuses on evaluating the sustainability of python hunting and issues recommendations on traceability and verification for farms. It issues good-practice guides on animal welfare and measures the impact of the python trade on local natural habitats and socio-economic fibre. PCP is recognised by CITES as an example of excellence in public-private cooperation, and its publications have been reviewed by outside experts. PCP surveys indicate that it is possible to develop sustainable python hunting, in Indonesia in particular; and that this activity is capable of improving natural habitats in South-East Asia. Kering is now working on direct application of these recommendations across its supply chains, through, for example, training courses for suppliers. Encouraged by the progress achieved here, Kering is also working with IUCN with a view to industry-wide take-up of the PCP principles.

Sustainability assessment is still pending for some precious skin supply chains. With this in mind, Bottega Veneta worked with the TRAFFIC NGO (a WWF-IUCN partnership) on a survey to develop a better understanding of the impacts of farming species such as water serpents, cobras and rays. Partial findings from this survey were published in 2016, and set milestones for the future development of sustainable farming processes for these species.

Though Kering brands make limited use of furs, Kering works closely with Business for Social Responsibility (BSR) on developing a programme to guarantee traceability and setting up best practices in animal welfare across these supply chains.

In 2016 the audit protocol for rabbits set up by the Group in 2015 was finalised, in part by a review by animal welfare experts from NGOs and other luxury brands. The finalised protocol was tested with two suppliers in France in 2016 then extended to other species including foxes, skunks, mink, coypu and chinchillas. It will be tested at Finnish farms in 2017.

Kering and its brands, including Gucci, Alexander McQueen, Balenciaga and Saint Laurent, take an active part in work on improving traceability and practices here, as active members of the BSR working group, which includes the International Fur Federation, Fur Europe and North American Fur Auctions. In 2017 we should be seeing pilot projects on traceability and objective evaluation of the various existing fur certifications.

Metals and precious stones

Illegal or unregulated mining can give rise to major social and environmental damage. Whereas small-scale extraction work can endanger communities by causing serious health and environmental damage if unregulated, properly managed mining can generate responsible development for millions of people. Kering is therefore committed to only buying metals and precious stones obtained through activities that have no harmful impact on the environment and that generate opportunities for local communities. Since 2012, this Kering group commitment has applied most significantly to diamonds and gold. In 2016 it was extended to silver and precious stones.

The first key stage came in 2014 with the purchase of 55 kg of Fairmined-certified artisanal gold (the largest purchase

of Fairmined gold to that date). Fairmined artisanal gold is extracted applying the strict standards of the Alliance for Responsible Mining (ARM), whose criteria cover social responsibility, economic development of local communities, working conditions and proper management of chemicals.

Following its initial purchases of responsibly mined gold, Kering developed a dedicated platform enabling Group brands to purchase gold certified to RJC Chain of Custody (CoC) standards from selected gold refinery partners. This pilot platform also manages purchasing of Fairtrade- and Fairmined-certified artisanal gold, thus supporting these initiatives and participating in their growth. Kering has issued a Gold Standard document detailing this approach to all its suppliers who use gold on behalf of the Group's brands, to involve them in this responsible sourcing programme. Purchases handled through the platform total more than a tonne of responsibly-mined gold so far, including more than 700 kg in 2016, which gives some idea of the extent to which the system is taking off. The platform has a dual objective: as well as committing to buying gold certified to RJC CoC standards from selected refineries, the brands also make contributions to the Kering Ethical Gold development fund, which help artisanal mining communities run environmental and social projects and obtain certifications. Following this successful experience with gold, Kering is considering going ahead with similar programmes for silver.

Kering works with its suppliers to ensure that all the diamonds used in its products are certified under the Kimberley process, which aims to guarantee that transactions on the international market are not used to finance armed conflict. Kering has also worked with its brands to roll out guidelines and good practices on traceability and sustainable sourcing of diamonds. The Group's main jewelry brands have taken a step further by joining RJC (Responsible Jewellery Council), an organisation that promotes responsible and transparent social and environmental practices throughout the jewelry sector, from the mine to the point of sale. These brands include Boucheron, Gucci, Bottega Veneta and Girard-Perregaux. In 2012, Bottega Veneta and Girard-Perregaux also obtained RJC certification for their gold and diamond activities, following Gucci and Boucheron in 2011. In 2016 Pomellato joined RJC and began preliminary work (including the initial audit) with a view to certification in 2017.

In 2016, Kering also took part in a multi-party working group seeking to develop standards and good practices in artisanal extraction of precious stones. Guidelines will be tested in 2017. Kering also launched a survey into the environmental impact of artisanal precious stone extraction in 2016, with a view to inclusion in an EP&L upgrade.

Plastics

Consistent with their objective of eliminating PVC from their collections, the Group brands have worked on finding alternatives to this material. At 99% completion, this programme now focuses on the last few items concerned, and on getting the zero-PVC commitment across to suppliers, in contractual terms where appropriate. Some brands have built on this experience to progress further still in replacing usual plastics such as TPU by alternatives, such as bioplastics, that have a lesser environmental impact. Because of the very many alternatives available, and the complexity of comparing environmental performances, Kering has worked with the Fraunhofer Institute to develop an innovative tool that buyers can use for rating environmental performance. This is based on a simplified lifecycle analysis of environmental impacts (CO_2 emissions, discharges into water, water consumption and waste production) consistent with the methodology applied in the EP&L and backed up by qualitative analysis (average fossil fuel content, food competition, essential ingredients, etc.).

In 2016, MIL also developed a range of plastic materials compliant with Kering standards on sustainable plastics.

Paper

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

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

In 2016, Kering's overall paper consumption totalled 1,869 tonnes. A breakdown by category is presented below.

Paper consumption in 2016 and proforma year-on-year change (tonnes)

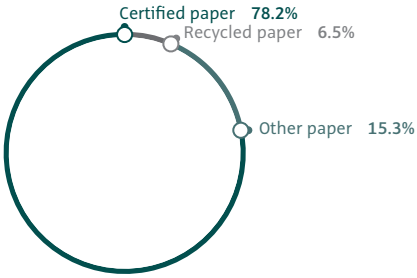
	Consumption in 2016	2016-2015 proforma scope		Year-on-year change
		2016	2015	
Paper – indirect purchases	1,070	1,051	1,520	-30.9%
Office paper	799	693	742	-6.7%
TOTAL PAPER	**1,869**	**1,744**	**2,262**	**-22.9%**

Between 2015 and 2016, the Group's paper consumption decreased by close to 23%. This reduction is explained chiefly by smaller print runs for catalogues and external communication materials. Office paper consumption fell by 6.7%, reflecting the Group's ongoing efforts to reduce paper consumption and promote paperless alternatives.

In 2016, the proportion of certified (FSC or PEFC) or recycled paper was 85% across the Group, breaking down as 78% certified paper and 6% recycled paper. The proportion exceeds 95% in several Kering brands, including Bottega Veneta, Saint Laurent, Stella McCartney, Brioni, Boucheron, Ulysse Nardin and Girard-Perregaux.

Furthermore, various initiatives were continued in 2016, rounding out the extensive list of measures already in place at the Group's brands. By way of example, all catalogues and publications for the Pomellato and Dodo jewelry brands are printed on FSC paper. Boucheron's office paper is also FSC-certified, and access to printers at the brand's head office is by nominative badge, which helps avoid unnecessary printing. A print-on-demand principle is also operative at the Kering head office. Ulysse Nardin uses FSC-certified office paper, and this is also the case for the majority of Brioni office paper.

TYPE OF PAPER USED IN 2016 (%)



Packaging

The Group still uses significant volumes of cardboard and plastic for the protection and transport of goods sold in stores or online.

In 2016, Kering consumed 18,214 tonnes of packaging, 55% of which was cardboard and 15% paper bags. Paper bag consumption is ten times higher than plastic bag consumption, as the Luxury brands use this type of bag almost exclusively. Moreover, some brands have introduced reusable bags.

Packaging consumption in 2016 and proforma year-on-year change (tonnes)

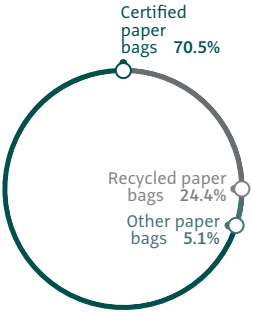
	Consumption in 2016	2016-2015 proforma scope		Year-on-year change
		2016	2015	
Plastic bags	259	259	175	+48%
Paper bags	2,575	2,665	3,269	-18%
Total bags	**2,834**	**2,924**	**3,444**	**-15%**
Plastic packaging	788	788	551	+43%
Cardboard	10,037	10,037	11,500	-13%
Paper for packaging	3,403	3,403	453	+651%
Textile	963	498	699	-29%
Wood	75	-	-	-
Metals	114	-	-	-
TOTAL PACKAGING EXCLUDING SHOPPING BAGS AND GIFT-WRAPPING PAPER	**15,380**	**14,726**	**13,203**	**+11%**
TOTAL PACKAGING	**18,214**	**17,650**	**16,647**	**+6%**

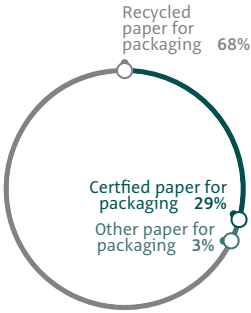
On a proforma basis, total packaging consumption increased by 6%. The increase stemmed chiefly from:

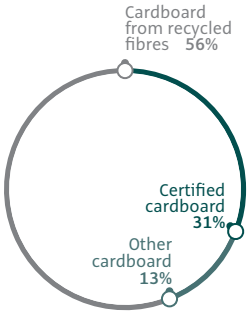
- a more exhaustive list of raw materials (quantities of wood, metal and textile used for packaging);
- fuller coverage of packaging components (hangers, labels, protective film and bags, cases, intermediate boxes, etc.);
- increased sales for most brands;
- better brand coverage in the reporting scope for packaging paper. For one of the brands in particular, substantial amounts of packaging paper had been included under cardboard in 2015 and transferred to paper in 2016.

In 2016, Balenciaga launched its No Box project to cut down on packaging and the amount of cardboard used for goods transport; lighter yet equally resistant solutions would reduce consumption of resources. This new concept was begun on its textile bag line, and the brand is working on carrying this over to other lines. Protective packaging for deliveries of small items is fully organic and biodegradable, made using cornstarch.

In 2016 the proportion of certified or recycled packaging was 97% for paper packaging, 95% for paper bags and 87% for cardboard boxes used across the Group in 2016.







Many brands also promote the use of certified or recycled materials for packaging. All Stella McCartney packaging is made from FSC-certified cardboard and paper. FSC certification also applies to Boucheron check-out bags and to all paper and cardboard customer packaging at Alexander McQueen and Dodo. A new type of customer packaging, fully FSC-certified and containing 50% recycled materials, was developed by Bottega Veneta in 2014. It was widely used in 2015 and 2016. Saint Laurent developed a new environment-friendly shoebox packaging, which avoided the use of 5 tonnes of plastic in 2016. All the brand's customer packaging made of paper and cardboard is FSC-certified. The Brioni, Gucci, Pomellato and Balenciaga brands also all use substantial quantities of FSC-certified materials in their packaging.

PUMA shoeboxes, which account for more than 80% of its shoes division packaging materials, are also FSC-certified, as are the paper bags used in the brand's flagship stores.

Brands' efforts to reduce the environmental impact of their packaging materials do not stop at customer packaging. Brioni, for example, uses EcoPure® biodegradable plastic for internal transport packaging.

Water

Given the nature of the Group's operations, the bulk of its industrial water consumption is attributable to tanneries. While none are located in water-stressed zones, the brands are still working tirelessly to come up with innovative tanning processes that eliminate heavy metals and use less water.

Across the Group, 74% of water consumed is used for domestic purposes (store cleaning, lavatories, air conditioning, etc.). Consequently, the direct environmental impact of the Group's water consumption is low.

Kering brands nevertheless run a number of initiatives on reducing water consumption. Gucci, for example, informs its stores on good practices in water management, with the publication Gucci Technical Guidelines for the Sustainable Management of Stores. Bottega Veneta collects rain water for garden watering and water fountains at its Montebello site.

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

PUMA's SAVE programme, for example, seeks to reduce the use of water resources across its supply chain. The 35 suppliers involved in this programme save a total exceeding 600,000 cu.m of water per year.

Water consumption in 2016 and proforma year-on-year change (cu.m)

	Consumption in 2016	2016-2015 proforma scope		Year-on-year change
		2016	2015	
Industrial water	218,000	218,000	208,481	+4.6%
Non-industrial water	613,647	555,490	567,025	-2.0%
TOTAL WATER	**831,647**	**773,490**	**775,506**	**-0.3%**

In 2016, Kering's water consumption amounted to approximately 831,647 cu.m. On a proforma basis, total water consumption was steady. The 2% drop in non-industrial water consumption is explained by improved consumption control and ongoing replacement of water-wasteful air conditioning systems. Industrial water consumption rose by 4.6%, as a result of brands' increased business and resumption of normal business at a Group tannery that had been closed for part of 2015.

3.4.2. Waste prevention and management

Hazardous and non-hazardous waste

As is the case for consumption of packaging, the production of waste in Kering's operations stems mainly from the extent of its retail activities. The repackaging of goods and the use of pallets for transport mostly generate non-hazardous waste. Kering mainly generates packaging waste and also small quantities of hazardous waste, corresponding to specific items of waste on production sites and other waste produced mainly in stores and offices (lighting, ink cartridges, etc.).

Total waste produced in 2016 and proforma year-on-year change (tonnes)

	Production in 2016	2016-2015 proforma scope		Year-on-year change
		2016	2015	
Non-hazardous waste	14,417	13,887	13,159	+5.5%
Hazardous waste [1]	263	262	384	-31.7%
TOTAL WASTE	**14,680**	**14,149**	**13,543**	**+4.5%**

In 2016, the Kering group's total waste production amounted to 14,680 tonnes, 98% of which was non-hazardous.

On a proforma basis, hazardous waste decreased by 31.7%. The high 2015 figure was a result of two exceptional events, so the 2016 figure marks a "return to normal".

Non-hazardous waste increased by 5.5% proforma. This increase is in line with business growth and improved tracking of the quantities of waste produced.

Waste recycling

Rate of recycling and reuse of waste as energy in 2016 (%)

	% reused in 2016
Non-hazardous waste	69.3%
Hazardous waste	53.1%
TOTAL WASTE	**69.0%**

The Kering group recycled or reused as a source of energy 53.1% of its hazardous waste and 69.3% of its non-hazardous waste, resulting in an overall recycling and waste-for-power rate of approximately 69%.

In 2016, Volcom continued to promote styrofoam recycling through its Waste to Wave programme. In partnership with the Sustainable Surf NGO, polystyrene is sent to a local recycling company to be reused in the manufacture of new products, including surfboards. Taking a step further, Volcom also recycles worn skateboard ramps to make store shelving and uses worn store display units to make skateboard ramps. Event banners are reconditioned to make surfboard and snowboard bags. At events run by Volcom, wastebins are provided to the public through a partnership with Repreve, suppliers of recycled PE fibre, under an awareness-raising operation on technology for recycling plastic bottles to make clothing fibres.

In 2011, Balenciaga adopted waste sorting at its main sites in Paris. The brand works with Greenwishes, an external company specialising in the recovery and recycling of conventional office waste (paper, envelopes, flyers, etc.), as well as cardboard, plastic, cans and above all fabric. Since the operation began, 68 tonnes of paper and cardboard, 3.5 tonnes of plastic and 3.4 tonnes of fabric have been recycled. In 2016, for the third year running, Balenciaga continued its Second Life Fabrics programme to find new uses for its unused fabrics. Since the project started, nearly 4,000 shopping bags and scarves have been produced by workshops employing people in work reintegration programmes and sold within the Group, resulting in the reuse of almost 2,300 metres of fabric.

Along similar lines, Brioni uses leather and fabric offcuts to make bags for shoes and leather goods.

Since April 2013, Bottega Veneta has been working with two companies specialising in production waste treatment to transform leather offcuts into organic fertiliser. ILSA collects waste leather from the brand's workshops and applies a specific process that transforms it into fertiliser. The four Bottega Veneta sites taking part in this project recycled 141 tonnes of leather offcuts in 2016. Gucci set up a similar programme in 2012 to turn leather and fabric offcuts into organic fertiliser. The waste material is collected, shredded and turned into fertiliser by a specialised company. In 2016, 276 tonnes of Gucci offcuts were used to produce fertiliser. Wool offcuts are used to make regenerated cashmere.

Saint Laurent also continued its efforts to recycle waste and unused materials in 2016. Partnerships were established with two French vocational rehabilitation organisations to give a second life to fabrics used in old collections. Some fabrics are transformed into insulation for buildings or cars by the non-profit clothes recycling organisation, Relais Emmaüs. Others are reused by the Tissons la Solidarité association to create new clothes. Saint Laurent has developed an alternative to waste disposal for 95% of its leather offcuts used for leather goods, through an innovative recycling and reuse programme that covers all cutting centres in Italy, including its own, which alone recycled 20 tonnes of leather in 2016. Saint Laurent's *Règles d'Or* – its ten golden rules for good environmental practice throughout its stores – also have a waste management focus: managers must ensure that all waste

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

paper, cardboard packaging, glass, plastic bottles, tins and ink cartridges are sorted and then recycled. Lastly, through pooling arrangements with Bottega Veneta, Gucci, Stella McCartney and Balenciaga, Saint Laurent recycles all waste cardboard from its Parisian stores.

Lastly, Kering sought to allow fashion and design schools to benefit from the unused fabrics of its ready-to-wear brands. Close to 13,000 metres of fabric were given to nine different schools in the United Kingdom, Italy, France and Belgium thanks to the participation of Gucci, Alexander McQueen, Balenciaga and Stella McCartney.

3.4.3. Countering food wastage

Though work on countering food wastage does not concern Kering activities directly, Kering brands do develop programmes addressing this issue, especially in Italy, where most sites with personnel canteens are located. Gucci and Bottega Veneta support programmes, on redistributing meals not served in canteens to persons in difficulty. Through this programme, Gucci and Bottega Veneta distributed a total approaching 13,000 meals in 2016.

3.4.4. Management of chemicals

As well as complying with fundamental national and international regulations such as REACH (Registration, Evaluation and Authorisation of Chemicals, European Union), GB (Guo Bio, China), CPSIA (Consumer Product Safety Improvement Act, United States), KC Mark (Korea Certification Mark, Korea), Kering has set itself the target of eliminating all hazardous chemicals from all its brands' products and production processes by 2020. To do so, the Group has established two types of lists of substances subject to restrictions: one for production processes, the Manufacturing Restricted Substance List (MRSL), and one for products, the Product Restricted Substance List (PRSL). There is a single MRSL covering the entire Group, and several PRSLs, one for the Luxury business and one for each Sport & Lifestyle brand.

The MRSL is focused on discontinuing the use of dangerous chemicals in the manufacturing process, first to ensure that workers in the supply chain of the Group's brands are not exposed to hazardous substances, and second to reduce toxic discharges into water. Implementation of the MRSL began in 2014 with a pilot phase at 13 key tanneries, including the four Kering tanneries, involving analysis of more than 3,500 chemicals, plus in-depth chemical tests on samples of leather, water discharge and chemical inputs. In 2015, this pilot scheme was extended to textile suppliers.

In 2016, MRSL implementation continued across both leather and textile product supply chains.

- Leather: building on the experience acquired during the pilot phase, guidelines, tools and methodologies were developed to step up MRSL implementation. In April 2016, Kering began wide-scale rollout of the MRSL, which today covers 38 key tanneries (36 for leather goods and two for footwear) accounting for 80% of leather purchasing for Luxury brand leather goods. The methodology includes identifying the substances to be replaced and developing phase-out plans for each supplier. Kering has coordinated the whole project, steered technical discussions on data collection with chemicals suppliers, and carried out additional tests on chemical formulations.
- Textiles: the MRSL rollout pilot phase continued in 2016, involving eleven suppliers (four direct suppliers and seven subcontractors): five dyeing, three printing and three wool spinning sites, covering the whole production cycle. The suppliers evaluated the presence of MRSL-listed substances in the chemical formulations used in their production processes (a total of 2,000 chemicals). Tests were also carried out on 65 substances and 12 wastewater samples.

In April 2016, Kering officially joined the Zero Discharge of Hazardous Chemicals group (ZDHC) as signatory member, after being an observer member since 2015. ZDHC comprises twenty or so major international brands working to eliminate the most dangerous chemicals from textile and footwear industry supply chains by encouraging sector-wide take-up of best practices and sustainable chemicals use. Kering takes an active part in ZDHC, primarily in research, guidelines for MRSL compliance, and the cross-functional subject of data and publications, as well as co-leading work on MRSL 2.0. PUMA, an active founder member of ZDHC since 2012, sits on its board. It is also a member of AFIRM (Apparel and Footwear International Restricted Substances List Management Group).

3.4.5. Water discharge and odour pollution

Though the water discharge impact from Kering operations is not significant by itself, discharge from textile and leather industry production facilities can have a more significant environmental impact, especially as regards chemical pollutants. For this reason, water pollution is one of the six environmental impacts covered by the Kering EP&L. Because of the large amounts of water used by tanneries, special wastewater treatment measures are called for. Each tannery has its own on-site wastewater treatment plant. The Group's two Italian tanneries pre-treat their wastewater at their on-site plants, and send the output, which contains chrome, to a special treatment plant used by several other tanneries, which purifies the water and recovers the chrome. The Group's other two tanneries have treatment plants that use sedimentation and chemical-physical and biological treatment techniques.

Through its involvement in ZDHC, PUMA co-led work on drafting ZDHC guidelines on wastewater, the aim being to introduce a new standard on wastewater quality across the clothing sector. Following publication in November 2016, these guidelines will be giving rise to pilot projects by several ZDHC members, including PUMA, in 2017.

In 2016, PUMA analysed a total of 61 water samples at 44 supplier sites in China, Indonesia, Thailand, Turkey, Taiwan, Vietnam and Bangladesh. These tests are carried out at sites such as dyeing plants and tanneries, which have water-intensive production processes. They cover the groups of substances listed in the ZHDC MRSL, in incoming water, wastewater before and after treatment, and sludge samples. Compliance rates at the sites tested ranged from 84% to 98% in 2016. PUMA also continued to work with the Institute of Public and Environmental Affairs (IPE), a Chinese NGO, to communicate transparently with all local stakeholders on the chemicals used and released into the environment by the brand's suppliers and subcontractors.

Tanning processes can also give rise to odour nuisances, because they emit hydrogen sulphide, especially at the stripping stage. Unpleasant odours are managed by an air evacuation system at the stripping tubs, which channels polluted air through a filter that traps sulphur-bearing particles and outputs clean air.

3.5. *protection of biodiversity*

Preservation of biodiversity is a key component of Kering's environmental policy. Kering endeavours to see that its supply chains make a positive direct and indirect impact on biodiversity, as regards soil and animal and plant life. Work on protection of biodiversity takes three main focuses: improved measurement of ecosystem services and biodiversity; help for conservation initiatives; raising awareness in the private sector about the importance of biodiversity.

Improved measurement of ecosystem services and biodiversity

Kering is committed to improving the assessment of biodiversity and ecosystem services in its EP&L, and to improving the databases that underlie these evaluations. Kering was involved in a number of initiatives here in 2016:

- the results of work conducted under a partnership with the Stanford University Natural Capital Project and Cambridge University's Institute for Sustainability Leadership will help Kering improve its EP&L and form a reference base useful to any company wishing to measure its impacts on biodiversity. In May 2016, Kering ran a workshop engaging dozens of stakeholders on the need for improved indicators for tracking biodiversity and ecosystem services when accounting for companies' impacts on the natural capital. Discussions were followed by the publishing of a university study in October 2016;
- in 2016 Kering also joined the steering committee of the Product biodiversity footprint initiative on developing a lifecycle analysis methodology on biodiversity impacts. This project, coordinated by ICARE, includes three pilot companies, including Kering, and scientific bodies such as ADEME, MNHN (Museum *National d'Histoire Naturelle*), Agro ParisTech and UNEP-SETAC.

Support for conservation initiatives

Stemming from its strong commitment to biodiversity conservation, Kering and its brands develop various natural heritage protection initiatives. In 2016, the Group's main projects were on crocodiles, protection practices and forest conservation through REDD+.

- Kering continued its support for the programme begun in 2015 on conservation and reintroduction of Siamese crocodiles in Cambodia. This project, run by the Wildlife Conservation Society (WCS), was prompted by the fact that the wild population of this species is very low, in contrast to the many breeding farms. It promotes species conservation by reintroducing specimens into the wild and helping farmers raise non-hybrid Siamese crocodiles. This programme was initially concentrated on the Sre-Ambel River and then extended nationwide in Cambodia. As part of this effort, WCS has set up a multi-party working group that includes local communities to define and apply a national strategic plan for the Siamese crocodile. It trains local communities on monitoring wild populations and finances a farm that specialises in raising Siamese crocodiles with a view to reintroduction into the natural habitat.

  Kering also supports a two-year project on setting up a sustainable fishing operation on Lake Tonle Sap. The fish and water serpents in this lake feed the Siamese crocodiles being bred. Kering wishes to ensure that sustainability aspect of operations here are part of the responsible economic development in the region.
- The Group is continuing its cooperation with the Wildlife Friendly Enterprise Network (WFEN) on development of good-practice guides that ensure proper allowance for biodiversity in the farming practices applied for producing raw materials. In 2016, WFEN issued practical recommendations on ensuring positive cohabitation between endangered local species and sheep farms in South Africa, Australia and Patagonia.
- Kering continues to offset its Scope 1 and 2 residual greenhouse gas emissions through certificates issued by REDD+ (Reducing Emissions from Deforestation and Forest Degradation) projects. In 2016, 135,636 tonnes of CO_2, representing these emissions for 2015, were offset by protection of 750,000 hectares of biodiversity-rich regions in Kenya, Indonesia, Brazil and Madagascar.

Raising awareness in the private sector about the importance of biodiversity

In September 2016, Kering played an active role at the IUCN World Conservation Congress, held every three or four years, by organising a workshop on new ways of measuring biodiversity within companies. Kering also took part in the various round tables on the matter. In November 2016, at the Biodiversity and Business Forum organised in Paris by the French Minister of the Environment, Kering presented its various projects. The Forum, organised for the first time to recognise the creation of the French Biodiversity Agency (*Agence française de la Biodiversité*), brought together over 380 specialists, researchers and CEOs from the private and public sector.

4. supporting community development

4.1. community impact

Kering and its brands play a major role in the economic and social fabric of the regions where their sites are located. Community involvement is especially important in the Luxury business: other than their directly operated workshops, the Luxury maisons draw their expertise and know-how from a network of thousands of suppliers, more than 90% of which are based in Italy. Work by the Group's brands in that way contributes actively to the preservation of traditional expertise and excellence in craftsmanship in leatherwork in Italy, as well as watchmaking in the Jura Valley and artistic creation in London, Paris and Milan. Of particular note in 2016 was the development of Saint Laurent's leather workshop in Florence, which brought together skilled craftsmen with more than 20 years' experience and young talent in order to maintain this rare and critical know-how for the brand. In the same vein, Stella McCartney launched the Made in the United Kingdom project, which helped revive factories for the production of men's coats in Scotland.

The sustainability of the Group's brands, particularly in the Luxury business, relies on the key know-how that must be preserved either through specific training or local partnerships:

- Gucci continued its partnership with the *Made in Italy* Tuscany Academy and the Alta Scuola di Pelletteria Italiana to contribute to the preservation of know-how specific to leather; Saint Laurent has also partnered with the Alta Scuola di Pelletteria Italiana to develop a specific programme with a view to building a pool of talent for the brand;
- Bottega Veneta has supported the Giovanni Fontana vocational training centre since 2012. The brand is involved in drawing up three-year educational programmes to train leather craftspeople, and provides tutors for classes and apprenticeships for students. It also took part in the renovation of the school's leather lab to support the growing demand for training and contribute to the excellence of future generations of leather craftspeople. Similarly, Bottega Veneta develops content for the leatherwork design and product development course at University IUAV of Venice. It also organises training sessions on its own premises as part of the Scuola dei Maestri Pellettieri workshop to spread and transmit traditional leatherworking techniques that are so specific and essential to the brand. In 2016, 214 people, both inside and outside the company, were able to refine their leatherworking techniques (tanning, cutting, sewing, finishing, etc.). Bottega Veneta also continued to offer funding and support to three community craft and social cooperatives as part of the Comunità Montane Femminili project launched in early 2011 in Alto Astico e Posina, located in an Italian valley with high unemployment among women. Trained in *intreccio infilato*, a traditional weaving technique used in the production of Bottega Veneta's products, more than 80 women now run their workshops independently, and have accordingly become direct suppliers to the brand;
- Boucheron is heavily involved in the Paris-based *École de la Joaillerie* jewelry school through its active participation as a member of the school's Board of Directors. It offers internships within its workshops, has established an apprenticeship contract and is sponsoring the class of 2016;
- Stella McCartney continued to offer a scholarship to the Central Saint Martins College of Art and Design, provided that the chosen student commits to an ethical policy of not using fur or leather. Presentations were also given to students to share the brand's vision of sustainable fashion;
- Ulysse Nardin supports the Watch Museum of Le Locle and two training institutes in the field of watchmaking, CIFOM and WOSTEP. This support involves welcoming apprentices, developing the training programme and offering evening courses for Ulysse Nardin employees to complete or complement their skills.

In addition to these partnerships, some brands have set up their own schools to help preserve both rare know-how and local employment. Brioni, for instance, offers training to 16 young people every year in a three-year tailoring course at its *Scuola di Alta Sartoria*, and then employs them in its own workshops.

The Group and its brands also sometimes take action in the form of partnerships with local schools or universities in more broadly based programmes, with the aim of integrating a sustainability component into the various courses.

Gucci has partnered with MAFED (Master in Fashion, Experience & Design Management) at the University of Bocconi in Milan to support a research project on responsible innovation in luxury.

In 2016, Brioni continued its A Scuola di Sostenibilità programme, which aims to welcome students from the Penne region, home to most of its production sites, to raise awareness on sustainability challenges and to show how these issues are taken into account in the brand's activities. Brioni continued a similar programme at the *Scuola di Alta Sartoria* in 2016 to raise awareness on sustainability challenges among future tailors and craftspeople.

On the Group's side, Kering has since 2014 been part of a strategic five-year partnership with the Centre for Sustainable Fashion (CSF) at the London College of Fashion (LCF) to promote sustainable practices and innovation in the fashion industry. This partnership focuses on three main areas:

- the Kering Talks: each year, visionaries and business leaders from the fashion industry speak on the latest developments in the area of sustainable fashion, sharing their vision of the sector and its most innovative advances. After the inaugural talk in 2014 by François-Henri Pinault, Chairman and Chief Executive Officer of Kering, and the 2015 talk by Kelly Slater, world surfing champion and founder of responsible fashion brand Outerknown, Stella McCartney this year laid out her vision of sustainable and ethical fashion;
- the joint development of teaching modules for the Sustainable Design programme: Kering and the CSF, in collaboration with a community of experts, researchers and professors, have pooled their skills to create and deliver a course module taught at the LCF on the supply chain and the environmental impact of sourcing strategies;
- the Kering Award for Sustainable Fashion: each year, Kering brands and the CSF run a competition open to third-year BA and MA students. The 2016 winners were each awarded a grant of €10,000 for their project and given internships at Stella McCartney and Brioni, where they benefited from the brands' expertise as they continued to develop their projects.

Kering has also partnered with two schools, Parsons in New York and Tsinghua in Beijing, through the organisation of conferences, competitions, scholarship programmes and knowledge sharing involving Kering executives.

Furthermore, community impact is at the heart of Kering's sustainability strategy, of which responsible sourcing of raw materials is a key element. Practically, responsible sourcing takes into account both environmental and social issues, in particular those related to the production of raw materials (extraction or crop and animal husbandry). This means that the Group seeks to go beyond simply reducing any negative impacts to having a truly positive impact that directly benefits producers. For example:

- Kering purchases certified artisanal gold from both the international NGO *Solidaridad* and the Peruvian NGO Red Social. These organisations support the Group in implementing the best mining practices while also contributing to developing the standard of living of local communities;
- the Heritage Cotton project in India enjoys close ties with a training programme that develops entrepreneurship among women so they can improve their standard of living through farming practices that help them diversify their sources of income;
- the Gobi Desert Cashmere programme works directly with nomadic shepherds to train and support them with a view to developing farmer cooperatives and the means to improve the wool quality while having a direct positive impact on their standard of living.

4.2. stakeholder dialogue

In an increasingly interconnected world, players in the private sector need to pay attention to and maintain relationships with their partners and stakeholders. Kering therefore aims to establish quality relationships built on trust with all its partners, regardless of location, with a view to gaining a full appreciation of their concerns and expectations, and, as far as possible, incorporating these aspects into its strategy. For Kering, this means:

- defining a policy for consultation and analysis of stakeholder expectations at the Group level;
- encouraging brands to develop their own stakeholder dialogue platforms at a more operational level.

Group approach

Materiality

In 2014, Kering called on the expertise of Business for Social Responsibility (BSR), a consultancy specialised in the field of stakeholder dialogue, to update its materiality analysis. To this end, 12 interviews were carried out internally with senior executives of Kering and its brands. Kering also sent a questionnaire to over 100 external stakeholders (universities, NGOs, consumer groups, trade unions, investors and rating agencies, suppliers and business federations). This work was a defining part of the development of Kering's 2025 Sustainability strategy. Dialogue with stakeholders occupies a prominent place in this strategic vision, by virtue of its construction process, since more than 100 people throughout the Group contributed, but also because it provides for the formalisation of relationships with stakeholders through a Group-wide policy.

Platforms of dialogue and exchange

In order to remain constantly attentive to the key issues affecting its stakeholders, Kering participates in a number of international initiatives:

- **SAC**: in 2012, Kering became a member of the Sustainable Apparel Coalition, which brings together major players (brands, retailers, suppliers, NGOs, etc.) from the textile, footwear and accessories sector, who work together to reduce the negative environmental and social impacts caused by the industry worldwide. The Group and its brands made a substantial contribution to the creation and implementation of the HIGG Index, a tool that tracks the environmental and social impacts of the textile, footwear and accessories sector, notably at the supply chain level. PUMA, Volcom and Stella McCartney are also stakeholders in the SAC's work. Of particular note is the Convergence project, partnered by Kering, which aims to lay down a framework of harmonised and global social audit procedures;
- **WBCSD**: in 2011, Kering joined the World Business Council for Sustainable Development, a multi-sector platform of 200 global companies that aims to promote the role of the business community in achieving sustainability based on economic growth, ecological equilibrium and social progress. Kering worked actively with the WBCSD in 2016, notably by sharing its EP&L methodology as part of the development of the Natural Capital Protocol. Kering is also a member of *Entreprises pour l'Environnement*, which brings together some 40 French and international companies and which is the WBCSD French partner;
- **NCC**: the Natural Capital Coalition is a group of players which in 2016 committed to creating a Natural Capital Protocol, a document setting out a common framework for measuring and accounting for natural capital. Kering actively contributed to drafting the protocol, notably by sharing its EP&L methodology and by extending the protocol to the textile and apparel sector;
- **LWG**: the Leather Working Group unites players in the leather industry in the aim of improving the environmental performance and traceability of its member tanneries. Following PUMA's commitment to the LWG, Kering chose to join the organisation in 2014 in order to speed up the work related to leather traceability and improve the environmental footprint of its tanneries. Kering also shared PUMA's progress in terms of the traceability of leather at the LWG's 2016 annual conference in Shanghai;
- **Textile Exchange**: Kering is a member of Textile Exchange Europe, and sits on the Board of Directors of this body committed to promoting the production and use of more sustainable textiles throughout the clothing industry;
- **European Commission**: Kering is taking part in two initiatives launched by the European Commission. The first is the Product Environmental Footprint Pilot aimed at setting joint standards for the display of the environmental impact of certain product categories. Stella McCartney is leading Kering's participation in this initiative, focusing on shoes. The brand is also currently testing the project's communication phase with customers through the use of specific displays in stores. The second initiative is a European working group aimed at promoting the measurement and recognition of natural capital by companies and administrations;
- **IUCN**: the International Union for Conservation of Nature develops and maintains cutting-edge conservation science, particularly with respect to species, ecosystems and biodiversity, and their impact on human livelihoods. Kering initiated a strong partnership with the IUCN in 2013, together with the International Trade Centre (ITC), on python breeding and trading in South-East Asia.

Kering works closely with the IUCN Crocodile Specialist Group to guide its initiatives in terms of species conservation and sustainable trade. Kering is a member of the Board of IUCN USA;

- **Wildlife Friendly Enterprise Network**: Kering is a member of the Board of Directors, and supports moves to include the biodiversity criterion in the production of key raw materials (wool, cashmere, etc.);
- **ITC**: in 2014, Kering and the International Trade Centre initiated a multi-year programme to support the monitoring and sustainable management of trade in Nile crocodiles from Madagascar. IUCN crocodile specialists have also contributed to this project by laying down its technical criteria. The formation of the Madagascar Crocodile Conservation and Sustainable Use Programme follows the recommendation by the Standing Committee of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) to re-open trade in Nile crocodiles from Madagascar. The programme's goal is to support sustainable trade that contributes to economic opportunities, local livelihoods and the long-term conservation of crocodiles and their habitats. In 2016, work enabled the creation of guidelines for the collection of eggs in nature, at the same time establishing a system designed to monitor and control practices in the crocodile trade in Madagascar;
- **BSR**: Kering is a member of the Responsible Luxury Initiative working group of Business for Social Responsibility, which unites more than 300 companies to promote transparency and cooperation between Luxury goods companies, particularly with regard to supply chains. The Group is particularly active in the development of traceability standards for fur and husbandry conditions on farms;
- **IPI**: in 2016, Kering joined the board of International Platform for Insetting, a multi-stakeholder initiative involving companies, NGOs and climate experts. The principle of insetting is to offset the carbon footprint by acting directly in the supply chain using blockchain technology to promote trust in the system and ensure its transparency.

Brands' sector approach

In the same way as Kering, the brands are active members of bodies representing their specific sectors. The Luxury brands specialised in leather goods, such as Gucci and Bottega Veneta, are very active in the work of Italy's Unione Nazionale Industria Conciaria (UNIC) to improve the environmental footprint of tanning processes, as well as health and safety conditions in tanneries. The association of Italian tanners is in turn a member of Cotance, the body representing the leather industry in Europe, which contributes to the European Commission initiative aimed at defining a standard for measuring the environmental footprint of leather goods. The watchmaking industry is also represented through various federations in Switzerland, in particular the Federation of the Swiss Watch Industry, the *Fondation de la Haute Horlogerie* and the *Association Suisse pour la Recherche Horlogère*, to which Girard-Perregaux and Ulysse Nardin belong.

Also at the European level, the Group's brands take part in talks held by the European Cultural and Creative Industries Alliance (ECCIA), which brings together Europe's five Luxury goods and creative industry federations, including Comité Colbert in France, Fondazione Altagamma in Italy and Walpole in the United Kingdom.

Some brands go further by creating their own dialogue and exchange mechanisms with their stakeholders. For example, in 2016, PUMA organised the thirteenth annual Talks at Banz, an event attended by some 40 participants (suppliers, industry and government representatives, NGOs, sustainability experts, etc.) to address the theme of driving change and creating positive impacts. This annual event enabled PUMA to share its new 10for20 strategy as well as its action plan more widely with its stakeholders.

Another emblematic example of stakeholder dialogue is the formation of the Zero Discharge of Hazardous Chemicals (ZDHC) Group in response to the Greenpeace Detox campaign in 2011. PUMA is a leading force in the ZDHC, and publicly pledged in 2011 to remove dangerous chemicals from its entire production chain by 2020.

True to its strong commitment to the oceans, Volcom has strengthened its partnership with the Surfrider Foundation by organising beach clean-ups, involving its customers by offering them membership of the Foundation for any purchase over €100.

In the Luxury business, of particular note is Gucci's involvement in Social Accountability International (SAI). This is the body that developed the SA 8000 standard for companies to help them ensure respect for fundamental workers' rights in their operations (subsidiaries and suppliers) worldwide. Gucci is a member of SAI's Advisory Committee, and hosted a Board of Directors' meeting at its premises in Florence in 2016. Gucci's constructive dialogue with NGOs dates back several years. It is generally focused either on animal rights (National Wildlife Federation, WWF, etc.) or the rights of workers in supply chains (Solidaridad, Rainforest Alliance, etc.).

Stella McCartney has continued its commitment to Canopy to reduce the risk of deforestation associated with the use of viscose. The brand also renewed its support for the Ethical Trading Initiative (ETI), which works to promote the respect of human rights throughout the supply chain.

Dialogue with customers, particularly on aspects of sustainability, is another strong focus. After conducting a survey of its customers in Europe and the Middle East in 2015, Brioni took the process worldwide, initially targeting store managers to assess their level of knowledge of the brand's sustainability initiatives and to provide them with tools to improve dialogue with customers around these key themes for the brand and the Group.

4.3. relationships with subcontractors and suppliers

4.3.1. The protection of human rights at Kering and the fight against corruption: general framework, guiding principles and key commitments

The protection of human rights, for all Group employees as well as for all employees of the supply chains of its various brands, is central to Kering's ethical commitments. In many respects, it outweighs all other concerns. The ethical approach to business and the Group's overall behaviour, as transcribed in the Kering Code of ethics, is consistently a central part of the Group's values.

In a codified practice dating back to 1996, and building on a first version of a Code released in 2005 and revised in 2009, the Kering Code of ethics, further updated and again distributed to all employees in 2013, provides common foundations for business conduct and the Group's commitments. It clearly sets out the ethical principles that should be applied everywhere and by all, the Group's values, what it believes in, and what it opposes.

In more precise terms, the Code incorporates the major international reference texts in terms of ethics and human rights, which include the United Nations' Universal Declaration of Human Rights and the European Convention on Human Rights, the various conventions of the International Labour Organization, especially 29, 105, 138, 182 (child labour and forced labour), 155 (health and safety of workers), 111 (discrimination), 100 (remuneration), 87 and 98 (freedom of association, right to organise and collective bargaining), the OECD (Organisation for Economic Co-operation and Development) guidelines for multinational companies, the UN convention on children's rights and the 10 principles of the United Nations *Global Compact*.

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

On the issue of preventing corruption, Kering prohibits any political, trade union, cultural or charitable financing being carried out in exchange for direct or indirect material, commercial or personal advantages. The Group complies with national and international regulations in the prevention of direct and indirect corruption.

The Group's three Ethics Committees seek to ensure compliance with the Code of ethics, and may have matters referred to them by any employee, either directly or via the ethics hotline set up for all Group employees worldwide in 2013.

A new milestone was reached in 2015 with the creation of a Compliance structure, led by a Group Chief Compliance Officer (CCO) backed up by an international network of Brand Compliance Officers (BCO) appointed by the CEOs of each brand, to ensure compliance with prevailing legal requirements, including those relating to the fight against corruption and to competition law.

Lastly, refreshed annually and developed directly by the Group, mandatory ethical training is provided to all employees of all brands worldwide in nine languages. It covers all of the major principles defended by the Code, and also describes potential ethical dilemmas and specific themes, including the fight against corruption, which is dealt with in a dedicated module each year. For its third year in 2016, the training programme covered the fight against corruption, workplace behaviour, responsible sourcing and the traceability of raw materials, and, lastly, business confidentiality.

This framework applies without exception to all of the Group brands, wherever they operate. The brands are free to supplement it or to integrate it into their own procedures and materials, but it remains the common foundation shared by all.

This is, for example, the case at Gucci and Bottega Veneta, which in 2007 and 2009 respectively embarked on the process of obtaining SA 8000 (Social Accountability 8000) certification. This global standard takes into account not only the Company itself, but also the companies in its supply chain. It requires the certified company and its suppliers to respect nine corporate responsibility requirements – relating to child labour, forced labour, health and safety, freedom of association and collective bargaining, discrimination, disciplinary practices, working hours, remuneration and management systems – and to continuously improve working conditions by setting up a specific management system for this purpose. In 2013, Gucci and Bottega Veneta received SA 8000 certification for all their activities. Kering's international logistics platform for its Luxury brands (Luxury Goods International, LGI) also enjoys SA 8000 certification.

Gucci is also deeply involved in SAI (Social Accountability International), which developed the SA 8000 standard. It is a member of SAI's Advisory Committee, and hosted a Board of Directors meeting at its premises in Florence in 2016.

Stella McCartney has also developed its own complementary code of conduct, based on the principles of the ETI (Ethical Trade Initiative), which the maison joined in 2012.

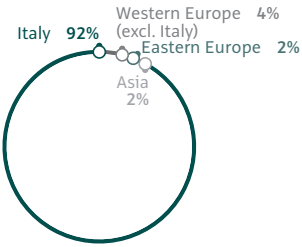
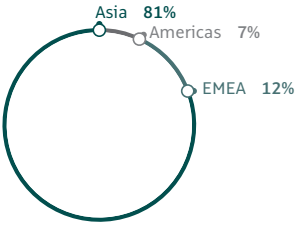
PUMA has had its own code of conduct for suppliers since 1993. Since 2005, the brand has also issued pocket guides for its employees and suppliers. These guides present PUMA's social, environmental and health and safety standards. A Social Handbook is also available, with contact details to enable factory employees to reach the PUMA.Safe team directly in case of breaches of the PUMA Code of Conduct. PUMA's membership of the Fair Labor Association (FLA) means that third parties are also entitled to file official complaints with the FLA if they feel that there has been a breach of the Code. The cooperation between PUMA and FLA dates back to 2004, and aims to manage and implement the required standards in terms of working conditions at suppliers. PUMA.Safe has been certified by the Fair Labor Association since 2007. In 2005, PUMA also undertook to publish an annual update of its supplier list. An example is PUMA's commitment alongside the FLA and other contractor brands, since 2015, to implement a national minimum wage policy in Georgia with local stakeholders. 2016 also saw PUMA continue its work on the integration of the Ruggie Framework (also known as the United Nations Guiding Principles on Business and Human Rights) into its approach to human rights. The Ruggie Framework defines the set of Guiding Principles on Business and Human Rights, and is the reference framework issued by the United Nations on human rights. The brand revisited its suppliers' code of conduct in 2016 to incorporate elements in the fight against corruption.

The Volcom brand is also developing its code of conduct that its suppliers undertake to follow when they work for the brand.

In 2016, against a backdrop of increasing attention paid by stakeholders and observers of the corporate world on respect for human rights, Kering examined possible ways of further improving its Code of ethics and the systems already in place. Indeed, whether in response to national lawmakers (like France's law imposing a duty of vigilance on parent companies or the United Kingdom's 2015 Modern Slavery Act, in respect of which Kering has issued a statement available on its website) or from growing soft law in this area (such as the United Nations Guiding Principles on Business and Human Rights, increasingly used to assess companies), the Group aims to work towards increasing efficiency in its policies and procedures. To this end, Kering in 2017 plans to conduct an analysis of the gap potentially existing between its internal procedures and the UN Guiding Principles, and to examine more closely how to further develop its remediation mechanisms and ways of addressing employee grievances about its supply chains based on the same principle that already exists for all Group employees worldwide (dedicated ethics hotline).

4.3.2. Implementation within the Group: the same ambition, the same logic, two separate organisations

No control system, regardless of how mature and tested it is, can guarantee the absence of risk, and it is up to the Group and its brands to develop with suppliers the most efficient collaborative and control systems in order to keep risk to a minimum and implement any corrective action in cases where non-compliance is identified. A Group comprising leading global brands, Kering operates on two very distinct major markets whose supply chains are structured in very different ways:

Activity	Supplier portfolio	Size of suppliers	Geographical location of Kering's suppliers
Luxury	Thousands of small suppliers, highly fragmented market, high level of craftsmanship	Average number of employees by supplier = less than 100	96% in Western Europe, predominantly in Italy [1]:  Strong government presence, comprehensive and long established and mature labour law, highly developed social dialogue
Sport & Lifestyle	A few hundred large suppliers	Average number of employees by supplier = more than 1,000	More than 80% in Asia [2]:  Less government presence, nascent labour law, social dialogue left to private initiative

(1) Geographical breakdown of direct suppliers and contractors to the Luxury activities, managed within the centralised system introduced by Kering in 2016.
(2) Geographical breakdown of the production plants of PUMA's suppliers in 2016.

To meet the very different challenges encountered in these two market segments while maintaining the determination to serve a single ambition, Kering has established two separate organisations.

For the Luxury maisons, 2016 marked a turning point in the approach to supplier management and assessment, with the complete redesign of the organisation. The challenge was that different maisons had potentially adopted different practices, and distinct audit and risk evaluation methods, and that a single supplier working for several of the Group's brands could potentially face multiple audits. Therefore, the decision was made in 2015 to significantly improve the system's efficiency and to unify practices and the monitoring of the process across Kering's entire Luxury business. On that basis, a single central body allowing Kering to control the compliance of its Luxury maisons' suppliers was established in late 2015, and began operating in January 2016. The new organisation is based on six key pillars:

1. Sustainability principles established for all Luxury maisons in 2015, are divided into three areas:
   a) The social aspects related to human rights, labour rights, and health and safety: elimination of child labour, forced labour, human trafficking in all its forms and discrimination, compliance with statutory working hours, respect for the freedom of association and the right to collective bargaining, etc.
   b) Environmental aspects: compliance with laws as well as restrictive lists of chemicals defined by Kering, environmental management, waste water treatment, etc.
   c) Aspects related to the supply of raw materials and packaging: respect for animal welfare and the five related freedoms, sourcing and traceability requirements for a number of key materials used by Kering, prohibition of certain substances and/or certain sourcing regions (for reasons related to the social conditions of production – child or forced labour, for instance – or environmental issues), etc.

These principles are split into two broad categories: those that are mandatory due to requirements imposed by international and national laws, and those embodying Kering's additional expectations and best practices in the field of sustainability. They also make reference to conventions, agreements and major international texts, for which they represent a practical extension (ILO Conventions and the United Nations Guiding Principles on Business and Human Rights, Millennium Ecosystem Assessment, Ramsar Convention, etc.). These sustainability principles have been phased into supplier contracts since 2016. Each supplier is in turn tasked with imposing these principles on its own subcontractor network, if they have any.

2. Kering provides central management through a team of 14 people (10 auditors specialised in conducting supplier audits and monitoring anomalies, and 4 people dedicated to risk management, control of procedures, and management of information support systems); depending on needs (locations, workload), this team can be assisted by an external service provider selected in 2016.
3. Clear and uniform procedures for all Luxury maisons, corresponding to the different stages of the supplier relationship: activation procedure, monitoring procedure, termination of contract procedure, etc.
4. A risk evaluation used, on the basis of collective data (information in the possession of the relevant maison(s) and self assessment of the supplier prior to activation), to classify suppliers in accordance with three levels of risk (high, medium or low) and to construct an audit plan. Audit plans are updated monthly based on the needs of the various maisons and/or the occurrence of particular events.
5. A single and comprehensive audit methodology, including not only the key chapters related to social compliance, but also the essential elements relating to health and safety, and environmental management. Containing 88 questions, the comprehensive audit questionnaire is divided into 12 categories (child labour, forced labour, health and safety, freedom of association and right to collective bargaining, discrimination, environment, etc.) and aligned with the best standards in this area, in particular the SA 8000 and SMETA standards. The results are naturally pooled between the maisons in order to avoid any overlap. Follow-up audits with a smaller scope focus on the area(s) in which breaches of compliance were identified or observations were made during the first comprehensive audit.
6. Findings classified in four categories and standard responses to each case:
   a) Breaches subject to zero tolerance (relating to the most serious situations liable to be encountered, specifically child labour, forced labour, irregular work, undeclared subcontractor, threats, discrimination, serious breaches of regulations, counterfeit, etc.).

      Identification of a zero-tolerance breach triggers the immediate establishment of a crisis unit bringing together the Kering audit team and the relevant maison(s) to decide on the future of the relationship with the supplier: immediate shutdown of the approval process if the supplier is in the process of being activated but has not started working; and discussions about the possibility of remediation and support for the supplier or about the need to terminate the contractual relationship if the supplier is working on orders. The brand is the ultimate decision-maker on the most appropriate response.

b) Serious breaches of compliance.

The supplier is given one month to resolve the serious breach of compliance, and a follow-up audit is scheduled to confirm that the issue has been resolved.

c) Moderate breaches of compliance.

The supplier is given three months to resolve the moderate breach of compliance, and a follow-up audit is scheduled to confirm that the issue has been resolved.

For each of the 12 categories of the comprehensive audit questionnaire, a detailed description of what constitutes zero-tolerance breaches, serious breaches of compliance, moderate breaches of compliance and observations has been prepared. For example, in the health and safety category, any situation potentially endangering the lives of workers is a zero-tolerance breach; the absence of mandatory documentation on aspects liable to jeopardise the health or safety of workers (certificate relating to fire safety for instance) is a serious breach of compliance; the absence of mandatory documentation other than that addressing areas bearing on the health or safety of workers (minutes of the meeting of site Health and Safety representatives for instance) is a moderate breach of compliance; and a deviation from existing procedures (for example, first aid training running behind schedule) is an observation.

d) Observations give rise to a corrective action plan, and are the subject of a dedicated checklist at the next audit. The supplier has six months to remedy the observation given.

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

- compliant (no zero-tolerance breaches, no compliance breaches, serious or moderate, fewer than five observations);
- partially compliant (no zero-tolerance breaches, no serious compliance breaches, fewer than five observations);
- non-compliant (cases of zero-tolerance breaches, and naturally whenever more than five compliance breaches, whether serious or moderate, are identified).

The new organisation, effective since January 1, 2016, was phased in throughout the year, both for Kering's Luxury maisons and for their suppliers. Its deployment will be completed in 2017 with the addition of the remaining maisons yet to be brought into the system and the expansion of supplier coverage to achieve 100% by the end of 2017. The transformation of the supplier compliance management system for Kering's Luxury business will then be completed, notwithstanding any developments and future improvements made as part of the Group's continuous improvement process.

In the Sport & Lifestyle business, PUMA's audits are performed by PUMA.Safe (Social Accountability and Fundamental Environmental Standards) and nine internal auditors dedicated to these issues.

The comprehensive audit criteria used by PUMA combine social, environmental, and health and safety standards set by the brand. They allow it to provide an overall rating at the end of the audit, directly related to the percentage of compliance observed during the process:

- **A rating** assigned when compliance is between 95% and 100%. Sites of this nature are audited once a year;
- **B+ rating** assigned when compliance is between 90% and 95%. Breaches of compliance are minor and can be corrected immediately. Sites of this nature are audited once a year;
- **B- rating** assigned when compliance is between 85% and 90%. Sites of this nature are audited once a year. If during the next audit, compliance breaches identified the year before have not been corrected, the overall rating is lowered to C;
- **C rating** assigned when compliance is between 75% and 85%. Many instances of non-compliance or serious breaches of compliance are identified. In such cases, a warning letter is sent to the site management and a follow-up audit is organised within four months to check that the issues have been remedied;
- **D rating** assigned when compliance is below 75%. The contractual relationship is terminated or not finalised if the supplier was not yet active.

Volcom, lastly, follows a mixed approach by conducting some audits with its own teams, others being conducted by an external firm commissioned by Volcom directly or by another of the supplier's clients.

4.3.3. Audits conducted and results obtained in 2016

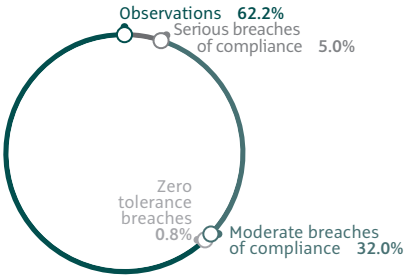
For the Luxury activities

The supplier base managed by the Kering central team for the Luxury maisons has the following characteristics:

- it does not yet integrate all suppliers, 2016 being a year of transition. The number of suppliers managed centrally has been growing, but does not yet cover all suppliers; in particular, two maisons are to join the system in 2017. Watches & Jewelry brands will join the system in 2017;
- it covers 2,611 suppliers, breaking down as follows:
  - 22% direct (a supplier is deemed direct when it has no subcontractor),
  - 12% contractors (direct suppliers working for one or more maisons, which subcontract part of their production),
  - 66% subcontractors and suppliers. Note that unauthorised subcontracting is forbidden.

A total of 1,822 audits were conducted within this portfolio of suppliers in 2016 (comprehensive and follow-up audits). These 1,822 audits revealed findings that break down as follows:

REMEDIATION OF THE ANOMALIES OBSERVED DURING THE AUDITS CARRIED OUT IN 2016 WITHIN THE LUXURY ACTIVITIES (CENTRALISED MANAGEMENT)



Robust corrective action plans were put together following the audits, wherever breaches of compliance, and particularly serious breaches, were identified. Follow-up audits were then conducted to verify the resolution of the problem. The few zero-tolerance breaches found during the audits were the subject of immediate attention in accordance with established rules and in coordination with the relevant maisons.

In addition to the 1,822 audits conducted by central team at Kering, 433 audits were conducted by the two maisons that are to join the system in 2017, bringing the total number of audits for the Luxury activities to 2,255.

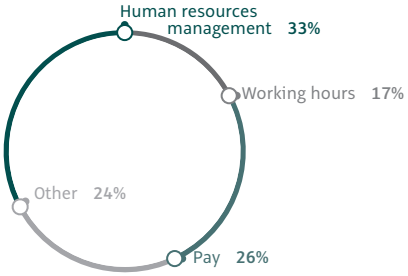
For the Sport & Lifestyle activities

Within the PUMA brand, 499 audits were conducted in 2016. The audit results under the PUMA rating system were as follows:

Audits leading to the award of an A rating	16.36%
Audits leading to the award of a B+ rating	44.86%
Audits leading to the award of a B- rating	27.80%
Audits leading to the award of a C rating	9.34%
Audits leading to the award of a D rating	1.64%

The main challenges, as reported via the system implemented at PUMA for the transmission of grievances from supply chain employees, highlighted four major areas of concern:

BREAKDOWN BY THEME OF THE GRIEVANCES RECEIVED IN 2016 BY PUMA FROM EMPLOYEES IN THE BRAND'S SUPPLY CHAINS



Lastly, the Volcom brand conducted 14 audits in 2016.

This means that a total of 2,768 audits were conducted across the entire Kering group in 2016.

Responsible purchasing policy

For non-retail (indirect) purchases, the Group's Indirect Purchasing Department remains committed to responsible sourcing based on a reciprocal undertaking with suppliers to respect the Kering Code of ethics. It also has specific commitments tailored to each category of purchases, with buyers identifying the most relevant sustainability criteria. To formalise this process, a responsible purchasing policy has been implemented at Group level. It sets out the priorities to be shared and applied by all Group employees to manage purchasing ethically and responsibly. It has been distributed to all Kering employees. Kering further formalised these commitments in 2014 by signing the 2010 "Responsible Supplier Relations" Charter framed by the French Ministry of the Economy and Finance, and the *Compagnie des dirigeants et acheteurs de France* (French purchasing managers body – CDAF). The Charter's purpose is to promote the implementation of and compliance with best practices in relation to suppliers in France, and to encourage the major signatory companies

to implement a progress approach with their suppliers, especially small and medium-sized enterprises, in order to develop a true partnership through mutual knowledge and the respect for each party's rights and duties.

4.3.4. Engaging with suppliers

Training and raising the awareness of suppliers, and helping them adopt best practices, is the preferred avenue taken by the Group and its brands to achieve tangible improvement in practices across their value chains. This approach is also based on the recognition that the pooling of energies and a coalition approach are powerful levers for change. The environmental part grew out of the lessons drawn from the EP&L approach and the predominant role played by supply chains (Tiers 1 to 4) in the Group's environmental impact: without suppliers sharing Kering's commitment and belief in the need for action, potential improvements would be limited.

The Group therefore acts at several levels, as a Group and within each of its brands, individually or severally.

In 2016, Kering and its Luxury brands organised two major supplier meetings. In April 2016, the main tanneries working for the Group's maisons were invited to an event dedicated to the management of chemicals, as part of Kering's commitment to phase out hazardous substances by 2020. The event brought together 30 key tanneries alongside production teams from the various maisons. The key lessons from pilot projects conducted in 2015 on the deployment of the Manufacturing Restricted Substance List (MRSL) were presented and discussed, as was the methodology used to deploy large-scale implementation of the MRSL in tanneries.

A second meeting, held in November 2016, brought together leading European textile suppliers for a full day of presentations and discussions regarding the development of more sustainable supply chains. It was held in Novara, near Milan, and was attended by over 430 people, including 300 suppliers. The agenda covered the sustainability strategies of both the Group and its Luxury maisons, as well as aspects including legal and compliance, quality, management of chemicals, social audits, the Group's environmental requirements and responsible sourcing via the Materials Innovation Lab (MIL). Dedicated workshops were also devoted to the EP&L, the certification process, the implementation of the MRSL and energy efficiency with the Clean By Design project.

Meanwhile, in December 2016 Bottega Veneta organised a meeting with 24 of its leather suppliers in the Veneto region to discuss production, quality assurance, sustainability and supply chains in detail.

In addition to meetings devoted to presentation, exchanges and the co-construction of solutions with suppliers, Kering also works with their suppliers on the practical implementation of projects aimed at reducing its environmental footprint, as evidenced by the Clean By Design project. It was the Stella McCartney brand in 2013 that first made a commitment to the National Resource Defence Council (NRDC), as part of the Clean by Design programme aimed at reducing textile manufacturers' environmental footprint. In 2014, under the Group's impetus, Gucci, Alexander McQueen, Saint Laurent, Balenciaga, Bottega Veneta and Brioni also joined the programme. A total of 25 suppliers, mostly weaving mills, and printing and dyeing workshops based in Italy, are involved in the programme. The initial audits, conducted in 2014 and 2015, identified simple changes that could reduce their energy costs and greenhouse gas emissions by 15% to 25% without affecting production, and with a return on investment in less than five years. Between late 2015 and early 2016, 24 suppliers implemented these actions, which had generated an annual reduction of 3,300 tonnes of CO_2 equivalent by the end of 2016. A specialist made regular site visits throughout 2016 to monitor and verify suppliers' progress.

In the Sport & Lifestyle business, PUMA initiated the SAVE (Sustainable Action and Vision for a better Environment) programme. Launched in 2011 and completed in 2015, it enabled the brand's 35 key suppliers in Cambodia, China, Bangladesh and Indonesia, through an innovative public-private partnership between PUMA and financial institution DEG (Deutsche Investitions und Entwicklungsgesellschaft), in collaboration with H&M and ASSIST (Asia Society for Social Improvement and Sustainable Transformation), to be trained in the environmental management techniques established by the United Nations Industrial Development Organization. Replicating its approach in the SAVE programme, in late 2016 PUMA signed an agreement in Vietnam with the International Finance Corporation (IFC), a member of the World Bank Group and the world's pre-eminent development aid institution for activities performed exclusively in the private sector, for a new initiative set to start in early 2017. Its purpose will be to integrate between 8 and 10 key suppliers, focusing on energy efficiency and the development of renewable energy.

PUMA is also continuing its extensive programme of training and capacity building with its suppliers, and primarily its key Tier 1 and Tier 2 suppliers. In 2016, training focused on women's empowerment, the legal integration of Syrian refugees in the supply chain in Turkey, renewable energy projects, waste disposal and the management of water and waste water.

Volcom meanwhile organised its second annual two-day suppliers' meeting in April 2016 in Shanghai (China), known as the Global Compliance Summit. The event was attended by more than 100 people with its key focus this year was on product testing, changes in legislation, audits and the Kering Code of ethics. In Japan, Volcom also raised local suppliers' awareness of its commitments and actions in favour of sustainability, especially through the Reduce, Reuse & Recycle approach, which is mandatory from the product design stage.

4.4. from risk management to development of responsible products

Kering's responsibility towards society extends across the value chain, and the Group is keen to help raise awareness of sustainability issues among consumers, while ensuring that its products respect their health and the environment.

Consumer health and safety

To enable customers to enjoy the products developed by the brands safely, Kering has defined a set of quality control procedures that comply with the strictest international consumer health, safety and environmental standards and regulations, such as REACH, US CPSIA, China SAC GB Standards, Japan Industrial Standards (JISL), etc. In 2014, a dedicated structure, the Product Compliance Advisory Department, was created at Group level. Aimed at pooling services, its purpose is to advise brands on product testing protocols to ensure that products comply with the local characteristics of each market. It naturally makes considerable reference to the Product Restricted Substance List (PRSL), which specifically lists the substances to be removed or the threshold not to be exceeded, and applies the highest existing standards for the disposal of hazardous chemicals. To take into account the pace of technological development and progress in chemical research, the PRSL is updated every year.

Evidence of the effectiveness of the organisation rolled out by Kering for the management of chemical substances was Gucci's qualification in 2014 for an accreditation issued by China – the Certificate for Company with quality pre-evaluation on imported garments – which allows the brand to benefit from reduced customs checks. This accreditation was made possible by the performance of Gucci products, and the robustness of internal systems for managing product compliance. In 2015, this accreditation was extended to Bottega Veneta, Stella McCartney and Alexander McQueen, followed by Balenciaga and Saint Laurent in 2016 thanks to the support of the Product Compliance Advisory Department team.

Some brands also have specific initiatives, such as Girard-Perregaux, whose Quality Department helped create a technical committee on watchmaking, also involving Ulysse Nardin, Gucci and Boucheron, in 2014. In 2016, the Committee continued to discuss the framework for action related to regulatory compliance in respect of hazardous chemicals and the implementation in their operations and with their pool of suppliers of the Product Substance Restricted List (PRSL) and the Manufacturing Restricted Substance List (MRSL) drawn up by the Group. The MRSL covers production processes as opposed to products. It also sets out the list of chemicals to be eliminated or restricted.

In the Sport & Lifestyle business, harmonisation has gone even further, as the entire industry converges towards common standards. PUMA has accordingly adopted the PRSL advocated by the Apparel and Footwear International RSL Management Group (AFIRM) and the Zero Discharge of Hazardous Chemicals (ZDHC) MRSL. Launched in 2011, the ZDHC aims to eliminate all discharges of hazardous chemicals in the textile industry by 2020. It posts annual updates on the progress made with this programme on its website. PUMA has accordingly discontinued, along with other industry players, the use of dozens of chemical substances deemed detrimental to human health and the environment, going beyond prevailing regulatory requirements. These substances include heavy metals, phthalates, organic compounds, azodyes and chlorobenzenes. In addition to the PRSL, PUMA's Handbook for Environmental Standards lays down test procedures to ensure compliance with the PRSL and the given thresholds. The PUMA Handbook for Environmental Standards is distributed to the brand's suppliers, who must in turn agree to comply with it.

Developing responsible products: a long-term strategy

Broadly speaking, Kering's strategy is to seek to influence the way in which products are designed as far up the supply chain as possible. This is due to two key factors:

- the results of the EP&L carried out at the Group level clearly show that the biggest environmental concerns are located far upstream, in particular at the raw material production stage (farming, cultivation and mining), rather than in the Group's own operations and sites;
- designing more responsible products is challenging without sustainable materials and processes. In terms of sustainability, the most important advances are likely to be achieved in sourcing and by focusing on processing technologies.

The brands are therefore focusing their efforts on gradually upgrading sourcing and improving their processes. Given the time it takes to effect such a major transformation, the portion of the Group's responsible products in its various collections remains modest. The Group's brands nevertheless each year strive to broaden their range of sustainable products.

To this end, the Group's brands can leverage the Materials Innovation Lab (MIL), which offers the brands, three years after its launch, a library of more than 2,000 ecological fabrics and fibres to use in their collections. Working with Kering's Sustainability Department, the MIL team shares its expertise with the brands and works with suppliers to identify new materials that are better for the environment. In 2016, the MIL took the following noteworthy measures:

- development of a collaborative approach with stakeholders in the value chain, from raw material producers to weavers and spinners, to ensure that the availability of sustainable materials is in step with production cycles;
- organisation of a conference for ready-to-wear suppliers to raise awareness on Kering's Sustainability strategy;
- deployment of an online database enabling brands to easily access sustainable textiles proposed by the MIL;
- provision of information to fabric suppliers on the various existing or pending environmental and social certifications, supporting them if necessary in obtaining certification;
- joint R&D with suppliers and research institutes on sustainable textile production and development processes using the principles of a circular economy.

The MIL is also continuing its work aimed at integrating recycled material into synthetic fibres such as polyester and nylon. In particular, 2016 saw the MIL continue its collaboration with Aquafil, the producer of Econyl®, a sustainable and innovative nylon fibre made from fishing nets or other waste nylon.

True to the principle of materiality that guides their actions, Kering and its brands have focused primarily on materials deemed strategic by virtue of their volume, their environmental impacts or their weight in collections.

The proportion of organic cotton used in the ready-to-wear collections continues to increase. Bottega Veneta used nearly 3,000 kg of cotton certified GOTS (Global Organic Textile Standard) in 2016. The brand also launched a major project to expand the use of GOTS certified organic cotton in all flannel bags protecting leather goods, jewelry and shoes, about 2 million of which are made each year. Organic cotton accounted for more than 80% of the cotton used in Stella McCartney jeans collections in 2016. Half of the Alexander McQueen 2017 Fall/Summer men's collections used organic cotton in 2016. Saint Laurent has in turn chosen to focus the integration of organic cotton and silk on its permanent collections. Lastly, after testing the integration of organic cotton in different items (shirts, jeans, T-shirts, etc.), Gucci plans to expand its use on a larger scale to cover all collections of children's products, for example, as well as materials used for lining ties (organic cotton and wool). In the Sport & Lifestyle business, PUMA, which is the biggest user of cotton in the Group, opted for BCI (Better Cotton Initiative) cotton, which accounted for nearly 20% of total cotton purchases in 2016.

Wool sourcing has also progressed within the Group, particularly on precious fibres such as cashmere. This is due to an innovative process to recover scrap production, which is sorted by quality and colour to be converted into a "regenerated" cashmere fibre. Depending on the collection and the level of quality required, a certain percentage of virgin fibre can be added before the spinning stage. The whole process takes place in Italy and is environmentally friendly, fully traceable and enabled the reuse of 11.4 tonnes of cashmere offcuts in 2016. Gucci has introduced this innovative cashmere fibre into its ready-to-wear collections. Starting this year, Stella McCartney has also confined the use of cashmere in its collections to this "regenerated" fibre.

Moreover, cellulosic fibres such as viscose are the subject of great attention, because they are made from wood pulp and as such carry significant risks in terms of deforestation. This is why Stella McCartney has made a commitment alongside the NGO Canopy to ensure that all cellulose based fibres used by the brand are traceable and sustainably sourced by 2017, ensuring that their production is not the cause of deforestation in areas with high ecosystem value such as Indonesia and Brazil. This objective was achieved in 2016, since all of the viscose used in the spring 2017 ready-to-wear collections was derived from sustainably managed forests in Sweden. The entire viscose production chain is traceable: the transformation of the pulp into filament takes place in Germany before the cloth itself is made in Italy. This traceability ensures that the production process does not have an adverse impact in terms of deforestation.

In leather goods, the brands continued the move to chrome- and metal-free tanning. The switch has now been made for the iconic Gucci handbags and customisable small leather items, while Bottega Veneta bought more than 140,000 sq.m of leather tanned without the use of chrome and metal in 2016, 47% more than in 2015. Kering in 2016 extended metal-free tanning to crocodile skins, notably those used for watchbands designed by its France Croco tannery, a first in the luxury sector. In the near future, Kering plans to publish the results of an analysis initiated in 2015 on the life cycle of different tanning methods in order to help create more sustainable tanning practices in the luxury sector. Also noteworthy is the increased use of knit technology by PUMA for its running line to significantly reduce the use of leather in favour of synthetic fibres, which has a far lower environmental impact.

In jewelry, Gucci continued to produce its Fairmined-certified gold ring in 2016. Dubbed the Good Gold Icon, it is made from gold mined in artisanal mines in southern Peru. This certification means that the gold used is ethical, or in other words that its extraction complies with stringent safety conditions, that it has a limited environmental footprint, particularly as regards the use of chemicals, and that a portion of the profit is donated to local communities in order to improve their living conditions (building schools, transport and drinking water networks, etc.). Moreover, this certification requires traceability along the entire production chain, guaranteeing the provenance of the gold used.

To strengthen the range of responsible products, it is essential to promote actions among customers, thereby helping them identify such products more easily. This involves an array of actions, such as training for teams in stores, displays of products' environmental characteristics on the web and the development of capsule collections like the Brioni *Sustainable* collection, which includes organic cotton shirts, and suits and jackets using merino wool of the highest quality (super 150S and 200S) made to very exacting environmental and animal welfare criteria. To go further in enhancing customer dialogue on aspects of sustainability, Brioni has developed a limited edition of 500 notebooks featuring a cover made from scrap fabric offcuts from Brioni workshops. These notebooks, which were offered for sale to customers during the 2016 Christmas period, served to initiate discussion about responsible initiatives taken by the brand. Half of the sales revenue was donated to HealthySeas, an NGO working for the protection of marine ecosystems. The association has been heavily involved in the recovery of plastic waste to be turned into recycled nylon filament used to make the famous Econyl® fabric used by other Group brands such as Volcom.

To go even further in the development of responsible products and to promote them with customers, Saint Laurent sought, as part of the new strategy, to play the guiding role in defining the criteria to be taken into account to qualify a product as responsible at every stage of its development (design, production, merchandising and distribution). It will also be important to develop tools to monitor the performance of these products and ensure that they make up an increasing part of the various collections. This pilot scheme should ultimately enable the Group to monitor and strengthen its responsible product offering by ushering in common criteria for all brands.

4.5. initiatives carried out by the kering foundation and sponsorship programmes

The Kering Foundation: a greater social impact to combat violence against women

Established in 2008, the Kering Foundation – formerly PPR Corporate Foundation for Women's Dignity and Rights – combats violence against women. The Foundation commits Kering to a key issue that ties in with its brands' activities and customers, and an area where the Group has a vital role to play alongside governments and NGOs.

Since 2014, to step up its international impact, the Kering Foundation has focused its actions on three geographic areas: the Americas, Western Europe and Asia. In each of these regions, the Foundation focuses on a main cause (sexual violence, harmful traditional practices and domestic violence, respectively) and selects a limited number of NGO partners. It also supports social entrepreneurs, expanding its efforts to raise awareness and prevent violence against women. The Kering Foundation involves the Group's 40,052 employees in its work.

As part of its business development in Asia, the Foundation once again held regular Steering Committee meetings every six months, attended by beneficiary NGOs, experts in the field and members of the Foundation. The purpose of the Steering Committee is to create a framework for discussion and cooperation with partner associations to assess and advance projects receiving support.

- **Working alongside NGOs**

Active in Europe in the fight against harmful traditional practices such as female genital mutilation (FGM) and forced marriage, the Foundation supports the *Maison des Femmes* in France alongside other corporate foundations (Elle Foundation, Raja, Sanofi Espoir, etc.). In response to the fact that 16% of patients at its maternity clinic have suffered genital mutilation, the team at the Centre Hospitalier de Saint-Denis decided to house the full range of services addressing the various problems faced by women who are vulnerable or victims of violence in a single location. These include access to sexual and reproductive healthcare, social outreach, support and advice for victims of FGM. *Maison des Femmes*, as the centre is known, was inaugurated in June 2016 and offers an undifferentiated welcome in a single place, allowing a comprehensive response to all the situations women can face. In addition to three years of financial support, the Foundation provides skills sponsorship whereby several Kering employees provide continued support to the project. Funds were raised for the association during the White Ribbon For Women campaign in 2016.

In the United Kingdom, the Foundation has joined forces with Trust For London, the Esmée Fairbairn Foundation, Comic Relief and the Rosa Fund in supporting the Tackling FGM Initiative launched in 2010 to coordinate the work of grassroots organisations involved in the prevention of FGM through interaction with communities.

As part of this partnership, the Foundation has pledged its support to two flagship projects:

- a capacity building programme between grassroots organisations, through the sharing of best practices that will involve men, religious leaders and young people in discussions about FGM and topics such as human rights;
- mental health training and coaching for the NGO Birmingham and Solihull Women's Aid (BSWA) through The Dahlia Project, a pioneering institution on the subject in London.

In Asia, the Foundation focuses its action on domestic violence in China, which affects 25% to 30% of women according to a study conducted by the All-China Women's Federation in 2004. It accordingly supports the Maple Women's Psychological Counselling Center in Beijing, which provides telephone support and multi-service coordination (accommodation, medical, psychological and legal assistance) for victims of domestic violence in Beijing. The second project supported by the Foundation since 2015 in China, the Zhongze Women's Legal Counseling and Service Center in Beijing, was closed down by a Chinese government decision dated January 30, 2016.

In Hong Kong, the Board of Directors of the Foundation decided to support the HER Fund as of 2016. HER is a women's rights fund that supports three grassroots associations to give marginalised women (migrants, ethnic minorities or LGBT) the tools to fight domestic violence. The HER Fund also supports these structures by strengthening their monitoring, evaluation and communication capacity.

In the Americas, the Foundation continued its support for the fight against rape on campuses, in particular through its partnership with the It's On Us campaign led by Civic Nation. One in five women are sexually assaulted on American campuses. The It's On Us campaign is a movement aiming to achieve a cultural sea change by fundamentally shifting the perspective on sexual assault on campuses. The project involves a range of partners, with collaborative work alongside student leaders to promote awareness campaigns and implement policy changes on campuses. In April, which is prevention of sexual assault month in the United States, a week of events is organised to encourage students to take action. During that week in 2016, 410 events were organised by and for students in 40 states. Since the beginning of this campaign, a total of 1,400 events have been organised on more than 533 campuses in the United States, and the petition to put an end to campus violence

has been signed by more than 360,000 people. Two grants have been awarded as part of this partnership to organisations created by student rape victims, namely End Rape On Campus (EROC) and Sexual Health Innovations (SHI).

Furthermore, sensitive to the refugee crisis and in particular the situation in which it places women, the Kering Foundation continued its support dating back to 2015 for Lebanese NGO Restart Center and its project promoting the socioeconomic integration of 200 Syrian women refugees. In 2016, the Foundation began new partnerships with *Gynécologues sans Frontières* and *Planning Familial* in camps in northern France, to offer these women medical, psychological and social support, but also to train NGO stakeholders in the "gender" approach to the deployment of their activities.

- **Partnering with social entrepreneurs acting for the benefit of women**

Since 2008, in line with Kering's entrepreneurial values, the Foundation has provided support to social entrepreneurs combining sustainable business models and solutions to social issues. In 2016, the Kering Foundation continued its support of the Starfish Project, which designs and produces jewelry in Beijing. Run by and for women victims of violence, the project won a grant of €30,000 and two years' mentoring with a Kering group executive. Furthermore, as part of a training programme, senior executives of the Group conducted a one-week assignment aimed at strengthening the expertise of Starfish and its business model.

Similarly, the Foundation continued its support for We End Violence, a social enterprise dedicated to the prevention of sexual violence in the United States, offering an innovative model to raise awareness and change the types of behaviour that induce gender-based violence.

- **Raising awareness among staff and the general public**

Combating violence against women means building awareness with a view to changing social representations and behaviour: the Kering Foundation has made raising awareness, both among its employees and the general public, a key part of its programme.

When François-Henri Pinault joined forces with *Fédération Nationale Solidarité Femmes* (FNSF) in 2010 to sign a Charter to prevent and combat domestic violence, the Group pledged to inform and train employees within its brands to provide better help for potential victims. This was done first in France and then in Italy, in 2013, in partnership with Donne in Rete contro la violenza (D.i.Re). In January 2015, the Kering Foundation joined forces with British NGO Women's Aid. In June 2016, the Foundation extended its activities in the United States alongside the NGOs National Alliance to End Sexual Violence (NAESV) and the National Network to End Domestic Violence (NNEDV). Since 2011, 621 employees have been trained on domestic violence issues.

To mark the Cannes Film Festival and the Kering for Women programme, the Foundation organised a roundtable in May 2016. Four speakers discussed the question "Can movies, the film industry and new forms of communication contribute to better addressing the cause of women's rights?" They were:

- Salma Hayek-Pinault, actress, Director and producer, member of the Board of Directors of the Kering Foundation;
- Su Mei Thomson, CEO of the Women's Foundation in Hong Kong;
- Zainab Selbi, founder of Women for Women International, producer of the Nidaa's Show;
- Lisa Azuelos, Director, producer and screenwriter.

In 2016, on the International Day for the Elimination of Violence against Women on November 25, the Foundation launched the fifth edition of its White Ribbon for Women campaign.

From November 18 to 27, 50,000 copies of the badge and 180,000 copies of stickers designed by Stella McCartney were distributed in 51 countries. Customers of over 800 Alexander McQueen, McQ, Balenciaga, Boucheron, Brioni, Dodo, Gucci, Pomellato, Qeelin and Stella McCartney stores, as well as the majority of the Group's employees and countless partners, journalists and opinion leaders, were exposed to the campaign in this way.

This year, male ambassadors, namely French footballer Antoine Griezmann, American surfer Kelly Slater, and Chinese actor Yang Yang, lent their voice to the campaign to show that the fight to end violence against women must be universal. In a series of portraits, the ambassadors embody the testimonies of women supported by the Kering Foundation after being victims of violence. Online, via the hashtag #BeHerVoice to encourage people to speak out about violence against women, the fifth edition potentially reached more than 1.1 billion people. A crowdfunding campaign was also launched to encourage the public to participate. The funds raised were paid directly to Kering Foundation partners working to support women victims of violence.

In conjunction with this programme, the Kering Foundation unites the Group's employees around its commitment to women: their skills, both professional and personal, are a valuable source of support for NGOs and social entrepreneurs.

Since 2014, employees who take two weeks' solidarity leave for an assignment in a foreign country have been given two to four days' paid leave. Employees who offer more regular support to local organisations are given six days. In 2016, the Group gave 60 days' paid leave for volunteer work in support of women, including 16 days' pre-departure training. For example, two employees of Kering France and Saint Laurent left to strengthen the skills of the team at Mercado Global, a Guatemalan NGO that gives indigenous women the means to escape poverty and become agents of change within their communities.

The philanthropy of the Kering group brands

Alongside the initiatives undertaken by the Kering Foundation in the Group's name, each brand is committed to its own causes, in the form of product donations (bags, shoes, jewelry, etc.), private sales, participation in support dinners, and long-term partnerships with local associations. Many such actions are carried out for the benefit of women, the theme on which Kering group wants to strengthen its social involvement.

Multiple initiatives benefiting women

In 2016, 29% of all initiatives carried out by brands, representing a total of 57 initiatives and funding in the amount of €1,247,000, were for the benefit of women. With its initiative Chime For Change, driven in partnership with the Global Citizen platform, Gucci is committed to the rights of women and girls and their access to education with the #BooksBuildLives, #SheWill and #LevelTheLaw campaigns. These initiatives came with a crowdfunding platform that has funded more than 420 projects in 88 countries since 2013. The Global Citizen festival was held again this year, calling for people to take action to achieve the United Nations Sustainable Development Objectives, and to give girls and women a voice worldwide. Moreover, Stella McCartney has chosen among other projects to support UN Women, Women's Aid and 100 Women in Hedge Funds through the provision of products for auctions. Volcom has done the same with the Manly Women's Shelter and the Alice Springs Aboriginal Women's Shelter in Australia. Boucheron by donating jewelry and Qeelin by sponsoring the premiere of *She Objects* have both supported The Women's Foundation in Hong Kong. *She Objects* is a documentary highlighting the representation of women in the media and the correlation with their self-esteem and the violence they suffer in their professional and personal lives. Brioni continues to support a nursery in Penne to facilitate the work/life balance of its employees. Again in Italy, Pomellato chose CADMI, a member of the D.i.Re network, to offer medical and psychological support to women victims of violence, and Dodo made a donation in kind to Oxfam Italy for women's rights projects. In the United Kingdom, Alexander McQueen donated the €4,790 raised from admission fees to its private sale in London to Women's Aid to fund their Power of Change programme.

The Group's brands also joined forces for the fifth edition of the White Ribbon for Women campaign with the organisation of different events, both internally for employees, and externally within stores for their customers. Brioni, Pomellato and Gucci organised screenings of documentaries, awareness breakfasts and special sales for associations supported by the Kering Foundation.

Diversified resources for education and training

Thirty-seven percent of the brands' philanthropic spending – more than €1,615,000 – was devoted to education and training in 2016. Brioni and Bottega Veneta gave fabric offcuts to schools such as the London College of Fashion to allow students to develop their creativity. Bottega Veneta also supported the 2016-2017 curriculum of Italy's Accademia di Belle Arti di Brera in the amount of €50,000. Qeelin devoted €65,933 to education in support of Hong Kong-based partners such as the French International School, with product donations for events or auctions. PUMA donated more than 10,000 footballs and 400 air pumps to Right to Play, an NGO based in nine countries, to contribute to the education of young people through sport and help them overcome the effects of poverty and conflict. An official partnership has been established for the three years to come. Boucheron donated a ring to the association *Avenir pour les Enfants du Monde* (AEM) for the education of children in Rwanda. Alexander McQueen donated items for auction to the Prince's Trust in the United Kingdom, which helps young people access education and enter the workplace. Gucci has given financial support amounting to €1 million to UNICEF for the Girls Empowerment Initiative. Balenciaga also showed its support for this body by donating a percentage of takings at its special sales. In the United States, Volcom focused on the training of young people through sport, in partnership with Soy Surf Camp.

A strong commitment to health and medical research

In 2016, 10% of the brands' philanthropic activities, representing a total of 121 initiatives and more than €461,800, were devoted to health and medical research. The fight against cancer is a priority for the brands. Stella McCartney holds an annual awareness campaign on this issue: a bra has been designed especially for the occasion and a percentage of sales is donated to the Linda McCartney Centre in the United Kingdom and the Breast Cancer Research Foundation in the United States. With products provided by Girard-Perregaux for auction, over €18,000 was raised for the Cancer Foundation in the United States for research and support for the most disadvantaged people affected by this disease. Ulysse Nardin supports the Kika Dutch Charity Foundation for

research and the fight against cancer. On October 16, 2016, 20 PUMA employees took part in the race against cancer promoted by Ernährung und Sport bei Krebs e.V, while Volcom provided financial support for the Children with Brain Cancer Fund in Australia. Saint Laurent also gives its support to *Esthétique et Cancer* and the international NGO We Delete Blood Cancer, and donates products to associations fighting against AIDS. Bottega Veneta supports the Korea Breast Cancer Foundation, and gave more than €25,000 to support Italian association Convivio in the fight against AIDS. Sixty-two projects sponsored by Gucci are dedicated to health and medical research. They include the Ogaan Cancer Foundation in India, the Fondazione Istituto Europeo di Oncologia in Italy and projects in the United States and Canada.

Culture & heritage

Thirty-four percent of the projects implemented by the brands are in the cultural sector, representing in total nearly €1.5 million. Brioni has since 1985 supported the *Scuola di Alta Sartoria* school in the Abruzzo region to preserve traditional tailoring skills. The brand is also a partner of the NGO MUSAP Onlus, and in particular of Arazzeria Pennese that produces tapestry artwork. Bottega Veneta has continued its sponsorship of the Hammer Museum in the United States for a fourth straight year with financial support of more than €290,000 for 2016. Meanwhile, Gucci has since 2011 been a sponsor of the Art Museum of Los Angeles County in the United States and the Veneranda Fabbrica del Duomo di Milano, contributing to the restoration of the Italian cathedral. Saint Laurent has devoted more than €40,000 to cultural projects, including the Institut du Costume and the Association pour le Rayonnement de l'Opéra National de Paris (AROP). In 2016, Balenciaga gave financial support of €4,000 to the Mona Bismarck American Center for the Promotion of American culture in France.

Lastly, following the natural disasters that hit central Italy during the summer of 2016, brands operating in the region sought to offer their support to affected people and sites: Bottega Veneta hosted a fundraiser among its employees, topping up the amounts raised to bring the total to €37,000. Pomellato gave €10,000 to the Protezione Civile Italiana, responsible for prevention and assistance in Italy.

5. cross-reference table

pursuant to articles r. 225-104 and r. 225-105 of the french commercial code (code de commerce)/global compact/gri g4

Justification of exclusions

This report contains information on all social, environmental and societal issues required by the decree governing the application of Article 225 of the Grenelle 2 law, with the exception of:

- noise, which is not applicable to Kering's sectors of activity;
- the amount of provisions and guarantees for environmental risk, which is not consolidated at Group level and concerns only a very small number of sites (tanneries and production sites).

This information relates to the activities and brands of the Group's Luxury and Sport & Lifestyle businesses. Subsidiaries whose activities are considered to be discontinued under IFRS rules have been deliberately excluded from the scope of the published information.

Pursuant to Grenelle II articles R. 225-104 and R. 225-105 of the French Commercial Code *(Code de commerce)*	GRI	Global compact	Section of the Reference Document
1° Social information			
Employment			
Total number of employees and breakdown of employees by gender, age and region	G4-10	3 to 6	Section 2.1.
Hires and redundancies	G4-LA1		Section 2.1.
Remuneration and changes in remuneration	G4-LA13		Section 2.2.
Work organisation			
Organisation of working time	G4-LA2	3 to 6	Section 2.6.
Absenteeism	G4-LA6		Section 2.6.
Social dialogue			
Organisation of social dialogue, procedures for informing, consulting and negotiating with employees	G4-LA4	3 to 6	Section 2.7.
Collective bargaining agreements in place within the Group and their impacts on econcomic performance and working conditions of employees	G4-LA5		Section 2.7.
Health and safety			
Health and safety in the workplace	G4-LA6 to 8	3 to 6	Section 2.6.
Bargaining agreements signed with trade unions and employee representatives concerning health and safety in the workplace	G4-LA6		Section 2.6.
Work-related accidents, in particular frequency and severity, and work-related illnesses	G4-LA7		Section 2.6.
Training			
Training policies	G4-LA11	3 to 6	Section 2.4.
Total number of training hours	G4-LA10		Section 2.4.
Diversity			
Measures taken to promote gender equality	G4-LA10	3 to 6	Section 2.5.
Measures taken to promote the employment and integration of people with disabilities	G4-LA12		Section 2.5.
Policy concerning the fight against discrimination	G4-LA12 and G4-HR3		Section 2.5.

Pursuant to Grenelle II articles R. 225-104 and R. 225-105 of the French Commercial Code *(Code de commerce)*	GRI	Global compact	Section of the Reference Document
Promotion and compliance with the provisions of the ILO conventions			
Compliance with freedom of association and the right to collective bargaining	G4-HR4 and G4-LA4	3 to 6	Sections 2.3., 2.5. and 4.3.
Elimination of discrimination in respect of employment and occupation	G4-HR3 and G4-LA13		Sections 2.3. and 2.5.
Elimination of forced and compulsory labour	G4-HR6		Sections 2.3., 2.5. and 4.3.
Effective abolition of child labour	G4-HR5		Sections 2.3., 2.5. and 4.3.
2° Environmental information			
General environmental policy			
Organisation of steps taken to address environmental issues and environmental assessment and certification procedures		7 to 9	Sections 1.3. and 3.1.
Initiatives taken to train and raise awareness among employees on environmental protection			Section 3.1.
Resources assigned to the prevention of environmental risks and pollution	G4-EN31		ND
Amount of provisions and guarantees covering environmental risks	G4-EN31 and G4-EC2		ND
Pollution			
Measures taken to prevent, reduce and rectify emissions into air, water and soil that have a significant impact on the environment	G4-EN22 to 26	7 to 9	Sections 3.2. to 3.5.
Steps taken to address noise and any other form of pollution relating to a specific activity			ND
Circular economy			
Measures taken to prevent, recycle and reuse waste, and other means of waste recovery and elimination	G4-EN23		Sections 3.4. and 4.4.
Steps taken to fight against food waste			Section 3.4.
Water consumption and supply of water in accordance with local regulations	G4-EN8	7 to 9	Sections 3.2. and 3.4.
Raw materials consumption and measures taken to promote more efficient use	G4-EN1 and G4-EN27		Sections 3.2., 3.4. and 4.4.
Energy consumption and measures taken to improve energy efficiency and use of renewable energy	G4-EN3 to EN7		Sections 3.2. and 3.3.
Land use			Sections 3.2. and 3.4.
Climate change			
Main sources of greenhouse gas emissions generated by the Group's businesses, in particular through the usage of the goods and services it produces	EN16, EN17, EN18, EN19, EN20	7 to 9	Sections 3.2. and 3.3.
Adapting to the consequences of climate change	EN18 and EC2		Sections 3.2. and 3.3.
Biodiversity			
Measures taken to protect and develop biodiversity	G4-EN11 to EN14	7 to 9	Section 3.5.

Pursuant to Grenelle II articles R. 225-104 and R. 225-105 of the French Commercial Code *(Code de commerce)*	GRI	Global compact	Section of the Reference Document
3° Societal information			
Territorial, economic and social impact of the Company's activities			
On employment and regional development	G4-EC7 and G4-EC8	1 to 10	Section 4.1.
On neighbouring or local populations	G4-EC1, 5 and 6		Section 4.1.
Stakeholder engagement			
Dialogue with stakeholders	G4-24 to 27	1 to 10	Sections 1.1., 4.2. and 4.3.
Partnership and sponsorship initiatives			Section 4.5.
Subcontracting and suppliers			
Incorporating social and environmental issues in the purchasing policy	G4-EC9, G4-HR4, 5, 6, 8, 10	1 to 10	Sections 4.3. and 4.4.
Scale of outsourcing and steps taken to raise awareness among suppliers and subcontractors with respect to corporate social responsibility			Section 4.3.
Fair practices			
Steps taken to fight against corruption	G4-SO3 to 5	1, 2 and 10	Sections 2.3. and 4.3.
Measures taken to promote consumer health and safety	G4-PR1 and G4-PR2		Sections 3.4. and 4.4.
Steps taken for the protection of human rights	G4-HR		Sections 2.2. and 4.3.

6. report by one of the statutory auditors,

appointed as independent third party, on the consolidated human resources, environmental and social information included in the management report

This is a free English translation of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Kering S.A (the "Company"), appointed as independent third party and certified by COFRAC under numbers 3-1048 (1), we hereby report to you on the consolidated human resources, environmental and social information for the year ended December 31st, 2016 included in the Management Report (hereinafter named "CSR Information"), pursuant to article L. 225-102-1 of the French Commercial Code (*Code de commerce*).

Company's responsibility

The Board of Directors is responsible for preparing a company's Management Report including the CSR Information required by article R. 225-105-1 of the French Commercial Code in accordance with the protocols used by the Company (hereinafter the "Guidelines"), summarised in the Management Report and available on request at the Human Resources and Sustainable Development Departments and summarised on Kering Internet website (www.kering.com).

Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics (*Code de déontologie*) of our profession and the requirements of article L. 822-11 of the French Commercial Code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional standards and applicable legal and regulatory requirements.

Statutory Auditor(s)'s responsibility

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the Management Report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R. 225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).

Our work involved seven persons and was conducted between October 2016 and March 2017 during a six week period. We were assisted in our work by our sustainability experts.

We performed our work in accordance with the order dated 13 May 2013 defining the conditions under which the independent third party performs its engagement and the professional guidance issued by the French Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) relating to this engagement and with ISAE 3000 (2) concerning our conclusion on the fairness of CSR Information.

(1) Whose scope is available at www.cofrac.fr.
(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

1. Attestation regarding the completeness of CSR Information

Nature and scope of our work

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programmes arising from them.

We compared the CSR Information presented in the Management Report with the list provided in article R. 225-105-1 of the French Commercial Code.

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R. 225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covers the scope of consolidation, i.e., the Company, its subsidiaries as defined by article L. 233-1 and the controlled entities as defined by article L. 233-3 of the French Commercial Code within the limitations set out in the methodological note, presented on the Group's website.

Conclusion

Based on the work performed and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the Management Report.

2. Conclusion on the fairness of CSR Information

Nature and scope of our work

We conducted about twenty interviews with the persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;
- verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important (1):

- at parent entity, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the Management Report;
- at the level of a representative sample of entities/divisions/sites selected by us (2) on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample of entities and sub-levels consolidation represents on average 72% of headcount and between 71% and 100% of quantitative environmental and societal data disclosed.

(1) The concerned quantitative and qualitative information are listed in the annex of this report.
*(2) **Entities audited on environmental and social indicators**: Bottega Veneta Italy, Brioni Italy, Gucci China, Ulysse Nardin, Puma et Gucci (sub-levels consolidation);*
***Entities audited on social indicators only**: Gucci Republic of Korea; YSL;*
***Entities audited on environmental indicators only**: Caravel, Luxury Tannery, Gucci MPC (packaging consumption), LGI (transport and energies and CO_2 associated only).*

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the Company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgement, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, March 28, 2017
One of the Statutory Auditors

Deloitte & Associés

Frédéric Moulin
Partner

Julien Rivals
Partner, Sustainability Services

appendix

csr information selected by the independent third party

Quantitative social information

Workforce registered on 31 December (breakdown by sex, status, type of contract, geographical region)
Allocation of hirings by permanent/non-permanent
Allocation of permanent departures by reason
Number of training hours (excluding safety training)
Number of trained people
Number of disabled workers
Frequency rate and severity rate of work accidents
Overall rate of absenteeism and illness
Number of collective agreements concluded; overtime (France only)

Qualitative social information

Promotion and respect of ethics
Development of skills and talents
Initiatives on diversity
Social dialogue initiatives

Quantitative environmental information

Energy consumption and associated CO_2 emissions
Renewable electricity proportion at Group level
Emissions associated to transport and travels
Tons of CO_2 offset
Packaging consumption
Industrial water consumption

Qualitative environmental information

Implementation of the EP&L
Governance & Organisation on sustainability issues
ISR index

Quantitative societal information

Number of trained employees as part of Kering's Charter to prevent and combat domestic violence

Societal information

Information regarding social audits
Partnerships with the Foundation and number of women involved and informed
PVC elimination objectives
Management for the elimination of hazardous chemicals
Gold and diamonds responsible purchasing
Responsible purchasing of leather
Uses of responsibly sourced precious skins and furs

chapter 4
corporate governance

1. Kering governance 142

1.1. Reference Corporate Governance Code 142
1.2. Combination of management roles 142
1.3. Complementary nature of the duties of the Chairman and Chief Executive Officer and the Group Managing Director 143
1.4. Balance of power on the Board of Directors 143
1.5. Dialogue with Executive Management and operational divisions 144

2. Membership of the Board of Directors and information on Directors and executive corporate officers 145

3. Remuneration of Directors and executive corporate officers 162

3.1. Remuneration of executive corporate officers (Chief Executive Officer and Group Managing Director) 162
3.2. Remuneration of non-executive corporate officers – Directors' fees 171
3.3. Regulatory information on Directors and executive corporate officers 173
3.4. Other information on the Company's Board of Directors 174

4. Group management 175

5. Report on the total remuneration of executive corporate officers policy 177

5.1. 2016 remuneration policy 177
5.2. 2017 remuneration policy 189

6. Report by the Chairman of the Board of Directors 197

6.1. Membership of the Board of Directors 197
6.2. Conditions of preparation and organisation of the work of the Board of Directors 199
6.3. Internal control and risk management procedures implemented by the Company 211

7. Statutory Auditors' report 220

1. kering governance

1.1. reference corporate governance code

The Company refers to the Corporate Governance Code of Listed Corporations resulting from the consolidation of the October 2003 AFEP and MEDEF report, the January 2007 and October 2008 AFEP and MEDEF recommendations on the remuneration of Directors and executive corporate officers and the April 2010 AFEP-MEDEF recommendation concerning the strengthening of the representation of women within the boards, as amended in November 2015 and November 2016 (the revised AFEP-MEDEF Code).

1.2. combination of management roles

In 2005, PPR adopted a governance structure with a Board of Directors and appointed François-Henri Pinault as Chairman of the Board of Directors and Chief Executive Officer.

Further to discussions of the Appointments Committee, the Board decided to combine the roles of Chairman of the Board and Chief Executive Officer and to renew this choice after the Combined General Meeting of June 18, 2013 renewed François-Henri Pinault's term of office as Director, considering that this arrangement was more in tune with Kering's specific characteristics. The decision to combine the roles of Chairman of the Board and Chief Executive Officer was considered best suited to the Group's organisation, *modus operandi* and businesses.

In its decision, the Board took particular note of François-Henri Pinault's specific position as both controlling shareholder and closely involved in conducting the Group's business, of which he has in-depth operational knowledge and extensive experience. The Board also underlined the benefits of combining management roles in the context of the Group's transformation drive on the grounds that this guarantees an effective strategic decision-making process, enables the Group's economic and financial performance to be optimised, and ensures strong, consistent communication.

This arrangement is also aligned with the Group's shareholder structure, which includes individual share ownership, a controlling shareholder and institutional shareholders, all of whom have a stake in Kering's long-term development.

François Pinault, founder of the Group, is Honorary Chairman of the Board of Directors but is not a Director.

1.3. complementary nature of the duties of the chairman and chief executive officer and the group managing director

Pursuant to a decision of February 26, 2008, Jean-François Palus, at that time PPR Chief Financial Officer, was appointed Group Managing Director. The Combined General Meeting on June 18, 2013 renewed his term of office as Director for four years, while the Board of Directors' meeting after the Combined General Meeting renewed his term of office as Group Managing Director for the same period.

Since October 2012, Jean-François Palus has headed Kering's Sport & Lifestyle activities and has also served as Chairman of the Board of Directors of PUMA SE since December 1, 2012. The Group Managing Director is also directly responsible for operations at several brands within the Luxury activities.

He also helps to define the Group's overall strategy alongside the Chairman and Chief Executive Officer.

1.4. balance of power on the board of directors

The Group strives to ensure and maintain an appropriate balance of power on its Board and seeks to ensure that Board membership is suitably balanced and diverse. Members of the Board have backgrounds in a variety of industries, are mainly independent (six out of the ten Board members, excluding the Director representing employees, are classified as independent Directors), and include seven women.

The operating rules and procedures of the Board of Directors are defined by law and the Company's Articles of Association along with the internal rules of the Board and its five specialised Committees (see Chairman's report, page 197):

- audit Committee;
- remuneration Committee;
- appointments Committee;
- sustainability Committee;
- strategy & development Committee.

The specific provisions of the Company's Articles of Association regarding Directors are in line with basic legal requirements. There are special provisions for the term of office of Directors (four years, renewable), the age limit (no more than one-third of the Directors may be over 70), the Director representing the employees (appointed by the Kering Works Council) and the minimum number of shares that each Director must own (500). Concerning this last point, it should be added that, in accordance with Article L. 225-25 of the French Commercial Code (*Code de commerce*), the Director representing employees is exempt from the obligation to hold shares.

In order to ensure a streamlined reappointment process for Board members, the Combined General Meeting on May 7, 2009 chose to implement the staggered renewal of the Board of Directors.

Directors are expected to be diligent and fully committed to the work of the Board and its Committees, which benefit from the diverse backgrounds, skills and expertise of their members. Directors with an in-depth, long-standing knowledge of the Group are a perfect complement to newly appointed Directors who bring a fresh perspective on the Group and help it evolve.

Notwithstanding the legal provisions governing the authorisations required to be granted by the Board (related-party agreements, endorsements, suretyships and guarantees, divestments of shareholdings or sale of real property, etc.), Article 15 of the Company's Articles of Association states that the following decisions require the prior approval of the Board:

- matters and transactions that have a substantive effect on the strategy of the Company or the Kering group more generally, its financial structure or its scope of business activity;
- except in the event of a decision by the Annual General Meeting, securities issues of all types that are liable to cause a change in the share capital;

- the following transactions by the Company or any entity controlled by the Group, insofar as they each exceed €500 million, amount set annually by the Board of Directors:
  - all investments or divestments, including the acquisition, sale or exchange of holdings in all existing or future businesses,
  - all purchases or sales of Company real property.

The internal rules of the Board provide that each Director must inform the Board of any existing or potential conflict of interest with Kering SA or any other Group company, and must not vote on any matters that concern them directly or indirectly. Each year, the Board of Directors assesses the position of the Directors with regard to conflicts of interest.

The internal rules are revised on a regular basis so they can be brought into line with changes in governance recommendations and practices. In 2016, changes were made mainly to reflect the entry into force of the EU Regulation on market abuse on July 3, 2016.

As indicated above, each Committee has its own internal rules, which are also updated on a regular basis. The last update concerned the internal rules of the Audit Committee which were amended to include rules covering the approval of services that may be provided by Statutory Auditors or their networks other than statutory audit services.

In accordance with the recommendations of the revised AFEP-MEDEF Code, every three years the Board of Directors appoints an independent expert to carry out a formal assessment. Each year, the Board also organises a discussion on its work. This annual self-assessment by the Board concerns its membership, organisation and operation. The assessment takes place in two stages:

- a questionnaire is given to each Director;
- each Director meets with the Vice-Chair of the Board (Patricia Barbizet), with the questionnaire used as the starting point for discussions.

At the end of these meetings, the Directors set new objectives for improving the quality of their organisation and ensure that all important issues have been suitably prepared and addressed.

In line with the recommendations of the revised AFEP-MEDEF Code and in the context of the ongoing initiative to improve the balance of power on the Board of Directors, meetings will be organised as from 2017 without the presence of the executive corporate officers.

1.5. dialogue with executive management and operational divisions

The Directors can take up matters with Executive Management at any time and with complete transparency, and Executive Management keeps the Directors regularly informed of all important events concerning the conduct of the Company's business. The Board has the resources to freely discuss all matters which concern it, particularly issues relating to the Group's strategies, the implementation of those strategies and their follow-up. The Directors also have all of the information needed to freely make informed decisions and help Executive Management draw up the agendas for the meetings.

The Board can meet with Group senior executives at certain meetings of the Board of Directors or its Committees (particularly during Strategy & Development Committee meetings). At a meeting of the Board in October 2016, the Directors were able to visit the Gucci store, showroom, workshops and new head office in Milan.

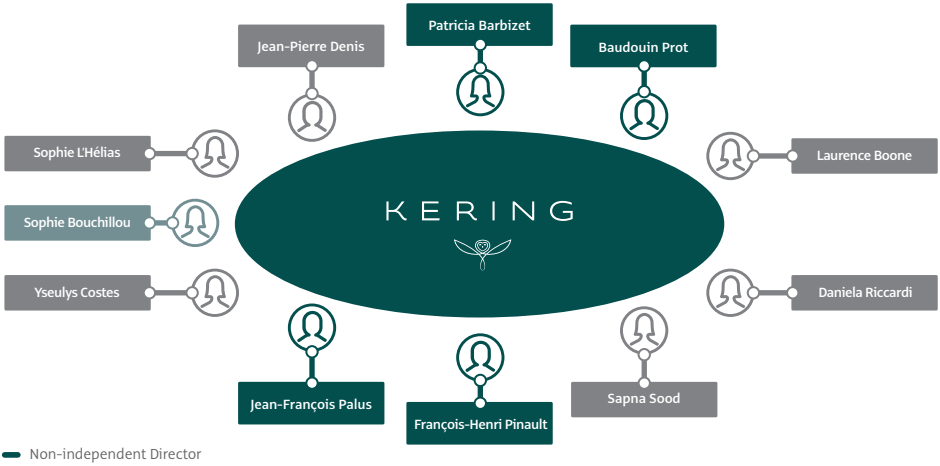
Each Director is also entitled, if he or she so wishes, to meet the Group's senior executives outside these meetings in order to gain a better insight into the Group's businesses or certain operational issues.

The Board's membership and role ensures that it acts in compliance with the Group's best interests at all times. It provides a platform for reflection and is a precious source of support for Executive Management, while ensuring that it protects the interests of all stakeholders.

2. membership of the board of directors and information on directors and executive corporate officers

As of December 31, 2016, the Board of Directors was composed of ten members, six of whom were independent Directors according to the Board of Directors' criteria.

In addition, there is one Director representing the employees appointed by the Kering Works Council.



- Non-independent Director
- Independent Director
- Director representing employees

François-Henri Pinault
Chairman of the Board of Directors and Chief Executive Officer

- Chairman of the Strategy & Development Committee
- Member of the Sustainability Committee

Patricia Barbizet
Vice-Chair of the Board of Directors

- Chair of the Appointments Committee
- Member of the Remuneration Committee
- Member of the Audit Committee

Laurence Boone
Director

- Member of the Strategy & Development Committee
- Member of the Audit Committee

Sophie Bouchillou
Director

Yseulys Costes
Director

- Member of the Remuneration Committee
- Member of the Appointments Committee

Jean-Pierre Denis
Director

- Chairman of the Audit Committee
- Member of the Remuneration Committee

Sophie L'Hélias
Director

- Chair of the Remuneration Committee
- Member of the Audit Committee

Jean-François Palus
Group Managing Director

- Member of the Sustainability Committee

Baudouin Prot
Director

- Member of the Strategy & Development Committee
- Member of the Appointments Committee

Daniela Riccardi
Director

- Member of the Sustainability Committee
- Member of the Strategy & Development Committee

Sapna Sood
Director

- Chair of the Sustainability Committee
- Member of the Appointments Committee

Following the Combined General Meeting on April 29, 2016, the membership of the Board's specialised Committees was reviewed pursuant to a Board decision. The new composition reflects the Group's wish to restructure the Committees as well as routine departures and arrivals of Directors.

Directors joining the Board in 2016

Laurence Boone
Sophie L'Hélias
Sapna Sood

Directors leaving the Board in 2016

Philippe Lagayette
Lucas Cordero di Montezemolo
Jochen Zeitz

Audit Committee

Members prior to the Combined General Meeting on April 29, 2016	*Members after the Combined General Meeting on April 29, 2016*
Jean-Pierre Denis (Chairman)	Jean-Pierre Denis (Chairman)
Patricia Barbizet	Patricia Barbizet
Yseulys Costes	Laurence Boone
	Sophie L'Hélias

Appointments Committee

Members prior to the Combined General Meeting on April 29, 2016	*Members after the Combined General Meeting on April 29, 2016*
Patricia Barbizet (Chair)	Patricia Barbizet (Chair)
Baudouin Prot	Baudouin Prot
Luca Cordero di Montezemolo	Yseulys Costes
	Sapna Sood

Remuneration Committee

Members prior to the Combined General Meeting on April 29, 2016	*Members after the Combined General Meeting on April 29, 2016*
Philippe Lagayette (Chairman)	Sophie L'Hélias (Chair)
Patricia Barbizet	Patricia Barbizet
Jean-Pierre Denis	Jean-Pierre Denis
Yseulys Costes	Yseulys Costes

Sustainability Committee

Members prior to the Combined General Meeting on April 29, 2016	*Members after the Combined General Meeting on April 29, 2016*
Jochen Zeitz (Chairman)	Sapna Sood (Chair)
Patricia Barbizet	Daniela Riccardi
François-Henri Pinault	François-Henri Pinault
Jean-François Palus	Jean-François Palus
Luca Cordero di Montezemolo	

Strategy & Development Committee

Members prior to the Combined General Meeting on April 29, 2016	*Members after the Combined General Meeting on April 29, 2016*
Patricia Barbizet (Chair)	François-Henri Pinault (Chairman)
François-Henri Pinault	Baudouin Prot
Yseulys Costes	Laurence Boone
Philippe Lagayette	Daniela Riccardi

List of members of the Board of Directors with information on their positions in other companies

The following information is presented separately for each Director:

- professional experience and expertise in the area of business management;
- directorships and positions held in 2016;
- other directorships and positions held in the last five years.

Among Kering's Directors and executive corporate officers, only François-Henri Pinault, Jean-François Palus and Patricia Barbizet hold or have held legal representative or executive corporate functions in the Group's main subsidiaries.

Director expertise


Leadership


Finance and accounting


Economics


Technology


Industry


Marketing



Corporate Social Responsibility


Risk management


Corporate governance

François-Henri Pinault

Chairman and Chief Executive Officer

Born on May 28, 1962 (54 years old)
Kering: 40 rue de Sèvres, 75007 Paris
French citizen
First appointed in 1993
Term of office last renewed on June 18, 2013
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ended December 31, 2016.

A graduate of HEC, François-Henri Pinault joined the Pinault group in 1987 where he had various responsibilities in the main subsidiaries of the Group. After starting off as a salesman in the Évreux branch of Pinault Distribution, a subsidiary specialised in wood importation and distribution, in 1988 he set up said company's purchasing group for which he was responsible until September 1989.

Appointed Chief Executive Officer of France Bois Industries, the Company comprising the industrial activities of the Pinault group, he managed the 14 plants of this subsidiary until December 1990, when he returned to Pinault Distribution to become Chairman. In 1993, his responsibilities were broadened upon his appointment as Chairman of Cfao and as member of the Executive Board of Pinault Printemps Redoute. Four years later, he was appointed Chairman and Chief Executive Officer of Fnac, a position he held until February 2000. He was then appointed Deputy Chief Executive Officer of Pinault Printemps Redoute with responsibility for developing the Group's Internet activities. François-Henri Pinault has been a member of the Board of Directors of Bouygues SA since December 1998. He became the co-manager of Financière Pinault in 2000 and was appointed Chairman of the Artémis group in 2003. In 2005, he was appointed Chairman of the Executive Board and then Chairman and Chief Executive Officer of PPR, since renamed Kering.

After serving as Chairman of the Executive Board of PPR (from March 21, 2005 to May 19, 2005), Vice-Chairman of the Supervisory Board (from May 22, 2003 to March 21, 2005), and member of the Supervisory Board (from January 17, 2001) and the Executive Board (from June 1993 to January 2001), François-Henri Pinault has been the Chairman and Chief Executive Officer of Kering since May 19, 2005. Following the Combined General Meeting on June 18, 2013, the Board of Directors renewed his term of office as Chairman and Chief Executive Officer for the duration of his directorship which will expire at the end of the Annual General Meeting called to approve the financial statements for the year ended December 31, 2016.

François-Henri Pinault is a member of the Strategy & Development Committee and of the Sustainability Committee. He attended all seven Board meetings in 2016 and all meetings of the Committees on which he sits (two Sustainability Committee meetings and one Strategy & Development Committee meeting), representing an attendance rate of 100%.

Other directorships and positions held as of December 31, 2016:

Position	Company	Country	Start 1st term of office
at the level of the majority shareholder group:			
Manager	Financière Pinault SCA	France	October 2000
Chairman of the Board of Directors	Artémis SA	France	May 2003
Member of the Management Board	SC Château Latour	France	June 1998
Chairman of the Board of Directors	Collection Pinault-Paris (SAS)	France	May 2016
within the Kering group:			
Vice-Chairman of the Board of Directors	PUMA SE (1)	Germany	July 2011
Chairman of the Strategy Committee	Boucheron Holding SAS	France	May 2005
Director	Stella McCartney Ltd	United Kingdom	June 2011
Director	Ulysse Nardin le Locle SA, manufacturer of prestige Swiss watches	Switzerland	November 2014
Director	Sapardis SE	France	May 2008
Chairman of the Board of Directors	Volcom Inc.	United States	July 2011
Director	Kering International Ltd	United Kingdom	May 2013
Director	Kering UK Services Ltd	United Kingdom	May 2014
Director	Kering Eyewear SpA	Italy	November 2014
Chairman of the Board of Directors	Yves Saint Laurent SAS	France	June 2013
outside the Kering group:			
Director	Soft Computing (1)	France	June 2001

(1) Listed companies (as of the date the position was held).

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Vice-Chairman of the Supervisory Board	Cfao [1]	France	from October 2009 to July 2012
Director	Fnac SA	France	from October 1994 to June 2013
Chairman of the Supervisory Board	Yves Saint Laurent SAS	France	from April 2005 to June 2013
Chairman of the Supervisory Board	Kering Holland NV	Netherlands	from October 2005 to April 2013
Director	Christie's International Plc	United Kingdom	from May 2003 to April 2014
Chairman of the Board of Directors	Sowind Group SA	Switzerland	from July 2011 to October 2015
Director	Brioni SpA	Italy	from January 2012 to May 2015
Non-executive Director	Kering Holland NV	Netherlands	from April 2013 to October 2016
Non-executive Director	Kering Netherlands BV	Netherlands	from April 2013 to October 2016
Director	Bouygues [1]	France	from December 1998 to April 2016

(1) Listed companies (as of the date the position was held).

Number of shares held: 36,201

François-Henri Pinault is manager and managing partner of Financière Pinault, which directly and indirectly held 51,617,767 Kering shares as of December 31, 2016.

Patricia Barbizet

Vice-Chair of the Board of Directors



Born on April 17, 1955 (61 years old)
Artémis: 12 rue François 1er, 75008 Paris
French citizen
First appointed in 1992
Term of office last renewed on June 18, 2013
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ended December 31, 2016.

A graduate of the *École Supérieure de Commerce de Paris*, Patricia Barbizet began her career with the Renault group as treasurer of Renault Véhicules Industriels then as Chief Financial Officer of Renault Crédit International. She joined the Pinault group in 1989 as Chief Financial Officer.

In 1992, she became Chief Executive Officer of Artémis and in 2004 Chief Executive Officer of Financière Pinault. She is also a Director of Total, Groupe Fnac, and member of the Supervisory Board of Peugeot SA. as well as being the Chair of the Supervisory Board of Ponant Holding since October 2015.

After serving as Chair of the Supervisory Board of PPR (from December 2001 to May 2005) and member of the Supervisory Board of PPR (from December 1992), Patricia Barbizet has been Vice-Chair of the Board of Directors of Kering since May 19, 2005. Her term of office was renewed by the Combined General Meeting on June 18, 2013 and will expire at the end of the Annual General Meeting called to approve the financial statements for the year ended December 31, 2016.

Patricia Barbizet is Chair of the Appointments Committee and member of the Audit and Remuneration Committees. Prior to the Combined General Meeting on April 29, 2016, she was also a member of the Sustainability Committee and Chair of the Strategy & Development Committee. She attended all seven Board meetings in 2016 and all meetings of the Committees on which she sits or sat (one Appointments Committee meeting, five Audit Committee meetings, five Remuneration Committee meetings and one Sustainability Committee meeting), representing an attendance rate of 100%.

Other directorships and positions held as of December 31, 2016:

Position	Company	Country	Start 1st term of office
at the level of the majority shareholder group, mainly:			
Chief Executive Officer and Director	Artémis SA	France	1992
Chief Executive Officer, non-corporate officer	Financière Pinault SCA	France	June 2004
Member of the Supervisory Board	Financière Pinault SCA	France	January 2001
Managing Director	Palazzo Grassi	Italy	September 2005
Member of the Management Board	SC Château Latour	France	July 1993
Permanent representative of Artémis on the Board of Directors	Agefi	France	July 2000
Permanent representative of Artémis on the Board of Directors	Sebdo Le Point	France	July 1997
Chair of the Supervisory Board	Compagnie du Ponant	France	October 2015
Member of the Supervisory Board	Compagnie du Ponant	France	December 2015
within the Kering group:			
Director	Yves Saint Laurent SAS	France	June 2013
outside the Kering group:			
Director	Total (1)	France	May 2008
Director	Groupe Fnac (1)	France	June 2013
Member of the Supervisory Board	Peugeot SA (1)	France	April 2013

(1) Listed companies (as of the date the position was held).

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Director	Air France-KLM [1]	France	from January 2003 to December 2013
Director	TF1 [1]	France	from July 2000 to April 2013
Director	Bouygues [1]	France	from December 1998 to April 2013
Director	Fonds Stratégique d'Investissement	France	from December 2008 to July 2013
Member of the Supervisory Board	Yves Saint Laurent SAS	France	from June 2003 to June 2013
Director	Tawa Plc [1]	United Kingdom	from April 2011 to June 2012
Group Managing Director	Société Nouvelle du Théâtre Marigny	France	from April 2010 to January 2012
Director	Société Nouvelle du Théâtre Marigny	France	from February 2000 to November 2015
Chair of the Board of Directors	Christie's International Plc	United Kingdom	from March 2003 to December 2016
Chief Executive Officer	Christie's International Plc	United Kingdom	from December 2014 to December 2016
Non-executive Director	Kering Holland NV	Netherlands	from July 1999 to October 2016

(1) Listed companies (as of the date the position was held).

Number of shares held: 1,040

Jean-François Palus

Director and Group Managing Director

Born on October 28, 1961 (55 years old)
Kering International: 6 Carlos Place, W1K 3AP London, United Kingdom
French citizen
First appointed in 2009
Term of office last renewed on June 18, 2013
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ended December 31, 2016.

A graduate of HEC (class of 1984), Jean-François Palus began his career in 1985 with Arthur Andersen where he carried out audit and financial advisory duties.

Before joining Artémis in 2001 as corporate officer and Director, he spent ten years within the PPR group, holding successively the positions of Deputy Chief Financial Officer of the wood industry branch of Pinault SA (from 1991 to 1993), Group Financial Control Director (from 1993 to 1997), then store manager at Fnac (from 1997 to 1998) and lastly Corporate Secretary and member of the Executive Board of Conforama (from 1998 to 2001).

Since March 2005, Jean-François Palus has been in charge of mergers and acquisitions at PPR (since renamed Kering), reporting to François-Henri Pinault, Chairman and Chief Executive Officer of the Group.

He was Chief Financial Officer of the PPR group from December 2005 to January 2012 and he has been Group Managing Director (*Directeur Général délégué*) of PPR (since renamed Kering) since February 26, 2008. Following the Combined General Meeting on June 18, 2013, the Board of Directors renewed his term of office as Group Managing Director for a term of four years.

Jean-François Palus has headed Kering's Sport & Lifestyle activities since October 2012. He has also held the position of Chairman of the Administrative Board of PUMA SE since December 1, 2012.

Jean-François Palus has been a Director of Kering since May 7, 2009. His term of office will expire at the end of the Annual General Meeting called to approve the financial statements for the year ended December 31, 2016.

Jean-François Palus is a member of the Sustainability Committee. He attended all seven Board meetings in 2016 and the two Sustainability Committee meetings, representing an attendance rate of 100%.

Other directorships and positions held as of December 31, 2016:

Position	Company	Country	Start 1st term of office
within the Kering group:			
Chairman of the Board of Directors	PUMA SE (1)	Germany	December 2012
Director	Pomellato SpA	Italy	July 2013
Director	Sowind Group SA	Switzerland	December 2013
Director	Kering Luxembourg SA	Luxembourg	May 2011
Director	Volcom LLC	United States	July 2011
Director	Kering Americas Inc.	United States	June 2011
Director	Volcom Luxembourg Holding SA	Luxembourg	October 2012
Director	Kering Tokyo Investment	Japan	November 2013
Director	Guccio Gucci SpA	Italy	June 2014
Director	Gucci America Inc.	United States	May 2014
Director	Kering Asia Pacific Ltd	Hong Kong	May 2014
Director	Yugen Kaisha Gucci	Japan	May 2014
Director	Kering South East Asia	Singapore	October 2014
Director	Birdswan Solutions Ltd	United Kingdom	May 2014
Director	Paintgate Ltd	United Kingdom	May 2014
Director	Christopher Kane Ltd	United Kingdom	June 2014
Director	Ulysse Nardin le Locle SA, manufacturer of prestige Swiss watches	Switzerland	November 2014
Director	Kering Eyewear SpA	Italy	November 2014

(1) Listed companies (as of the date the position was held).

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Director	Fnac SA	France	from November 2007 to June 2013
Director	Groupe Fnac	France	from September 2012 to June 2013
Chairman and Chief Executive Officer	Sapardis SE	France	from March 2007 to June 2013
Member of the Supervisory Board	Kering Holland NV	Netherlands	from May 2006 to April 2013
Member of the Supervisory Board	Yves Saint Laurent SAS	France	from March 2011 to March 2013
Permanent representative of Kering on the Board of Directors	Redcats SA	France	from April 2006 to February 2013
Member of the Supervisory Board	Cfao[1]	France	from October 2009 to July 2012
Director	Caumartin Participations SAS	France	from June 2008 to September 2012
Representative of Sapardis on the Management Board	SC Zinnia	France	from December 2009 to June 2013
Director	Brioni SpA	Italy	from January 2012 to October 2015
Chairman of the Board of Directors	Brioni SpA	Italy	from May 2014 to October 2015
Chairman of the Board of Directors	LGI SA	Switzerland	from April 2011 to June 2016

(1) Listed companies (as of the date the position was held).

Number of shares held: 69,426

Yseulys Costes

Independent Director



Born on December 5, 1972 (44 years old)
1000mercis: 28 rue de Châteaudun, 75009 Paris
French citizen
First appointed in 2010
Term of office last renewed on May 6, 2014
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2017.

Yseulys Costes holds a Master's degree in Management Sciences from Paris I Panthéon University, a postgraduate degree in marketing and strategy from Paris IX Dauphine University and an MBA from Robert O. Anderson School (US).

Author of a number of works and articles on the topics of online marketing and databases, she was also the coordinator of IAB France (Interactive Advertising Bureau) for two years before founding 1000mercis.com in February 2000, of which she is now the Chair and Chief Executive Officer. The 1000mercis group, present in Paris and in London, and listed on the Alternext market of NYSE Euronext Paris since January 2006, offers innovative solutions to companies seeking to optimise their advertising and marketing campaigns on interactive media (Internet, mobile phones, etc.). The 1000mercis group currently has more than 400 employees and posted consolidated revenues of €56.2 million in 2016.

A researcher in interactive marketing, Yseulys Costes was received as a guest researcher at Harvard Business School and is a lecturer in interactive marketing at several prestigious French higher education establishments (HEC, ESSEC, Paris IX Dauphine University).

Yseulys Costes has been a Director of Kering since May 19, 2010. Her term of office was renewed by the Combined General Meeting on May 6, 2014 and will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2017.

Yseulys Costes is a member of the Appointments and Remuneration Committees. Prior to the Combined General Meeting on April 29, 2016, she was also member of the Audit and Strategy & Development Committees. She attended all seven Board meetings in 2016 and all meetings of the Committees on which she sits or sat (two Audit Committee meetings and five Remuneration Committee meetings), representing an attendance rate of 100%.

Other directorships and positions held as of December 31, 2016:

Position	Company	Country	Start 1st term of office
Chair and Chief Executive Officer	1000mercis SA (1)	France	October 2000
Chair of the Supervisory Board	Ocito SAS (1000mercis group)	France	2010
Member of the Supervisory Board	Vivendi (1)	France	April 2013
Director	SEB group (1)	France	May 2013

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Member of the Supervisory Board	Numergy	France	from 2012 to 2014
Member of the Supervisory Board	Made in Presse SAS	France	from 2010 to 2012

(1) Listed companies (as of the date the position was held).

Number of shares held: 500

Jean-Pierre Denis

Independent Director



Born on July 12, 1960 (56 years old)
Arkéa group: 29808 Brest Cedex 09
French citizen
First appointed in 2008
Term of office last renewed on April 29, 2016
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019.

Jean-Pierre Denis is a Finance Inspector (*inspecteur des finances*) and a graduate of HEC and ENA. He served as Chairman and Chief Executive Officer of the Oséo group from 2005 to 2007, and member of the Executive Board of Vivendi Environnement, which became Veolia Environnement (from 2000 to 2003), Chairman of Dalkia (Vivendi group then Veolia Environnement) (from 1999 to 2003), Advisor to the Chair of CGE, which became Vivendi (from 1997 to 1999) and Deputy General Secretary of the French President's cabinet (from 1995 to 1997). He is currently Chairman of Crédit Mutuel Arkéa and Crédit Mutuel de Bretagne.

Jean-Pierre Denis has been a Director of Kering since June 9, 2008. His term of office was renewed by the Combined General Meeting on April 29, 2016 and will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019.

Jean-Pierre Denis is Chairman of the Audit Committee and member of the Remuneration Committee. He attended all seven Board meetings in 2016 and all meetings of the Committees on which he sits (five Audit Committee meetings and five Remuneration Committee meetings), representing an attendance rate of 100%.

Other directorships and positions held as of December 31, 2016:

Position	Company	Country
Chairman	Fédération du Crédit Mutuel de Bretagne	France
Chairman	Crédit Mutuel Arkéa	France
Director	Avril Gestion	France
Director	Caisse de Crédit Mutuel de Cap Sizun	France
Director	Altrad Investment Authority	France
Chairman	Château Calon-Ségur SAS	France
Director	Nexity[1]	France
Director	Paprec Holding	France
Director	JLPP Invest SAS	France

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Chairman	Arkéa Capital Partenaire	France	-
Member of the Supervisory Board	Oséo Bretagne	France	-
Director	Glon Sanders	France	until 2013
Director	Soprol	France	until 2015
Director	Newport	France	until 2015
Director and General Treasurer	French professional football league (association)	France	until 2016
Acting Chairman	French professional football league (association)	France	until 2016

(1) Listed companies (as of the date the position was held).

Number of shares held: 500

Baudouin Prot

Director



Born on May 24, 1951 (65 years old)
BNP Paribas: 3 rue d'Antin, 75002 Paris
French citizen
First appointed in 1998
Term of office last renewed on June 18, 2013
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ended December 31, 2016.

After graduating from HEC in 1972 and from ENA in 1976, Baudouin Prot joined the French Ministry of Finance where he spent four years before serving as Deputy Director of Energy and Raw Materials at the French Ministry of Industry for three years. He joined BNP in 1983 as Deputy Director of Banque Nationale de Paris Intercontinentale, before becoming the Director for Europe in 1985. He joined the Central Networks Department in 1987 and was promoted to Central Director in 1990 then Deputy Chief Executive Officer of BNP in charge of networks in 1992. He became Chief Executive Officer of BNP in 1996 and Deputy Chief Executive Officer of BNP Paribas in 1999. In March 2000, he was appointed Director and Deputy Chief Executive Officer of BNP Paribas then Director and Chief Executive Officer of BNP Paribas in May 2003. From December 2011 to December 2014, he served as non-executive Chairman of BNP Paribas. He is an Officer of the National Order of Merit and a Knight of the Legion of Honour.

Baudouin Prot has been a Director of Kering since May 19, 2005, after having served as a member of the Supervisory Board (from March 11, 1998 to May 19, 2005). His term of office was renewed by the Combined General Meeting on June 18, 2013 and will expire at the end of the Annual General Meeting called to approve the financial statements for the year ended December 31, 2016.

Baudouin Prot is a member of the Appointments and Strategy & Development Committees. He attended all seven Board meetings in 2016 and the two meetings of the Committees on which he sits, representing an attendance rate of 100%.

Other directorships and positions held as of December 31, 2016:

Position	Company	Country	Start 1st term of office
Director	Veolia Environnement SA (1)	France	April 2003
Director	BGL BNP Paribas (1)	Luxembourg	April 2015
Director	Foncia	France	December 2016

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Chairman of the Board of Directors	BNP Paribas SA (1)	France	from December 2011 to December 2014
Director	Erbe SA	Belgium	from June 2004 to December 2013
Director	Pargesa Holding SA (1)	Switzerland	from May 2004 to December 2013
Director	Lafarge SA (1)	France	from May 2011 to August 2016

(1) Listed companies (as of the date the position was held).

Number of shares held: 600

Daniela Riccardi

Independent Director



Born on April 4, 1960 (56 years old)
Baccarat: 11 place des États-Unis, 75116 Paris
Italian citizen
First appointed in 2014
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2017.

Daniela Riccardi, an Italian national, is the Chief Executive Officer of Baccarat. She has recognised experience in business development and branding in consumer retail and distribution. She joined Baccarat in May 2013 after having served as Chief Executive Officer of the international lifestyle brand Diesel since 2010. Daniela Riccardi was responsible for the creation and implementation of a strategic plan at Diesel which resulted in greater revenue growth and product exposure through an ambitious distribution policy. Prior to Diesel, Daniela served 25 years at Procter & Gamble in various senior management roles around the world, including Vice-President of P&G Columbia, Mexico and Venezuela. From 2001 and 2004, she was Vice-President and General Manager of P&G Eastern Europe and Russia, based in Moscow. Between 2005 and 2010, she was President of Procter & Gamble in China. She has been a member of the Colbert Committee since June 2015.

Daniela studied political science and international relations at Sapienza University of Rome, in Italy.

She has been a Director of Kering since May 6, 2014. Her term of office will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2017.

She is a member of the Sustainability and the Strategy & Development Committees. She attended six of the seven Board meetings in 2016 and the two meetings of the Committees on which she sits, representing an attendance rate of 89%.

Other directorships and positions held as of December 31, 2016:

Position	Company	Country	Start 1st term of office
Chief Executive Officer	Baccarat (1)	France	May 2013
Director	WPP Plc (1)	United Kingdom	September 2013

(1) Listed companies (as of the date the position was held).

Number of shares held: 500

Laurence Boone

Independent Director



Born on May 15, 1969 (47 years old)
AXA Investment Managers: Tour Majunga – 6 place des Pyramides, 92908 Paris-La Défense cedex
French citizen
First appointed in 2010 (resigned in 2014)
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019.

Laurence Boone is a graduate of the Faculty of Economics of Paris X Nanterre University and has a PhD in Economics from the London Business School.

She began her career as an analyst at Merrill Lynch Asset Management from 1995 to 1996. She then became a researcher at the *Centre d'Études Prospective et d'Informations Internationales* (CEPII) (France's leading institute for research on the international economy) before joining the OECD as an economist in 1998. She successively became Director of Barclays Capital France in 2004 and Managing Director and Chief Economist in 2010. She was Managing Director, European Economic Research at Bank of America Merrill Lynch from July 2011 to June 2014. Between June 2014 and March 2016 she served as special advisor to the French President on multilateral and European economic and financial affairs. Since March 2016, she has been Chief Economist at AXA group, Head of research and investment strategy at AXA Investment Managers, and member of the Management Board of AXA Investment Managers, for whom she is also responsible for developing relations with sovereign entities.

The author of numerous articles, Laurence taught at the *École Polytechnique*, ENSAE (the National School of Statistics) and the *École Normale Supérieure* and is currently an associate professor at the *Institut de Sciences politiques* of Paris. She is member of the French Circle of Economists and a Knight of the Legion of Honour.

Laurence Boone has been a Director of Kering since May 19, 2010. Her term of office was renewed at the 2014 Annual General Meeting but she resigned as on July 15, 2014 following her appointment to the Office of the French President as an advisor in economic and financial affairs. She was reappointed Director of Kering at the Combined General Meeting on April 29, 2016. Her term of office will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019.

Laurence Boone is a member of the Audit Committee and of the Strategy & Development Committee. Following her appointment at the Combined General Meeting on April 29, 2016, she attended all four Board meetings and all meetings of the Committees on which she sits (three Audit Committee meetings and one Strategy & Development Committee meeting), representing an attendance rate of 100%.

Laurence Boone did not hold any other directorships or positions at December 31, 2016, and has not held any other corporate office over the past five years.

Number of shares held: 500

Sophie L'Hélias

Independent Director



Born on December 15, 1963 (53 years old)
56 avenue Paul Doumer, 75116 Paris
French citizen
First appointed in 2016
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019.

An inactive member of the Paris and New York bars, Sophie L'Hélias holds an MBA from INSEAD, an LLM degree from the University of Pennsylvania Law School, a Masters of Law degree from the Paris I Pantheon-Sorbonne University and a degree from the European Law Institute at the University of Saarbrücken in Germany.

Sophie began her career as an attorney specialised in M&A and stock market law in New York and later in Paris. She also served as Managing Director of an arbitrage fund in New York and founded a corporate governance advisory firm.

An expert on governance issues, she is co-founder of the International Corporate Governance Network (www.icgn.org), the leading international network of institutional investors for corporate governance. She recently founded Leaderxxchange™ in the US which collaborates with institutional investors, business leaders and other market participants to promote diversity on corporate boards.

Author of the books "Le Retour de l'Actionnaire" ("The Shareholder Comeback"), she has frequently had articles published in Europe, the US and Canada, and is a regular speaker at international business or academic forums on corporate governance.

She has been a member of several non-profit and academic Boards in Canada and the US. She is a Senior Fellow at the Conference Board Governance Centre and at the Cardozo Law School in New York and a member of the Global Advisory Board at the Lazardis Institute in Canada.

Sophie has been a Director of Kering since April 29, 2016. Her term of office will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019.

She is Chair of the Appointments Committee and member of the Audit Committee. Following her appointment at the Combined General Meeting on April 29, 2016, she attended all four Board meetings and all meetings of the Committees on which she sits (three Audit Committee meetings and one Strategy & Development Committee meeting), representing an attendance rate of 100%.

Sophie did not hold any other directorships or positions at December 31, 2016, and has not held any other corporate office over the past five years.

Number of shares held: 500

Sapna Sood

Independent Director



Born on June 4, 1973 (43 years old)
Holcim Philippines: Holcim Building, Bacnotan – Luna – Balaoan Rd, Quirino, Bacnotan, La Union, Philippines
Australian citizen
First appointed in 2016
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019.

Sapna Sood has an Executive MBA from IMD Business School, a Graduate Certificate of Change Management from the Australian Graduate School of Management and a Bachelor of Engineering from the University of Sydney.

She is currently Chief Operating Officer of LafargeHolcim Philippines. Prior to this she served as Senior Vice-President, Health and Safety at LafargeHolcim based in Paris. Sapna began her career as an Applications Engineer with Fisher-Rosemount. In 1997, she joined the Linde group (formerly known as the BOC group) under their Graduate Development Program and subsequently held various senior positions in the Linde group in Australia, the US, Singapore, Germany and China. She joined the Lafarge group in 2013 as Senior Vice President of Health and Safety and with the merger of Lafarge and Holcim took on the same responsibility for the new group in July 2015.

Sapna has been a Director of Kering since April 29, 2016. Her term of office will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2019.

She is Chair of the Sustainability Committee and member of the Appointments Committee. Following her appointment at the Combined General Meeting on April 29, 2016, she attended all four Board meetings and the two meetings of the Committees on which she sits, representing an attendance rate of 100%.

Sapna Sood did not hold any other corporate office at December 31, 2016.

Other directorships and positions held in the last five years:

Position	Company	Country	Dates
Non-executive Director	Lafarge Malaysia Berhad	Malaysia	from November 2014 to 2016

Number of shares held: 500

Sophie Bouchillou

Director representing the employees

Born on March 1, 1962 (54 years old)
Kering: 40 rue de Sèvres, 75007 Paris
French citizen
First appointed in 2014
Term of office expires at the Annual General Meeting called to approve the financial statements for the year ending December 31, 2017.

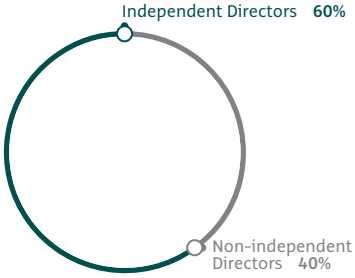
Sophie Bouchillou is Human Resources Project Coordinator at Kering SA. She joined the Group in 1981 working for Conforama as a sales and administrative agent and subsequently executive sales assistant. From 2001 to 2009, she held the position of executive purchasing assistant at PPR Purchasing. She has been working in the Human Resources Department of Kering SA since 2009.

Following the amendment of the Company's Articles of Association adopted by the Combined General Meeting on May 6, 2014, which provides for the appointment of a Director representing the employees in accordance with the law of June 14, 2013, Sophie Bouchillou was elected as a Director for a term of four years by the Kering Works Council on July 10, 2014.

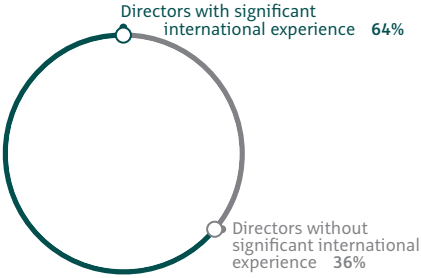
Her term of office will expire in July 2018.

Sophie Bouchillou did not hold any other corporate office at December 31, 2016.

INDEPENDENCE [1] OF THE BOARD OF DIRECTORS

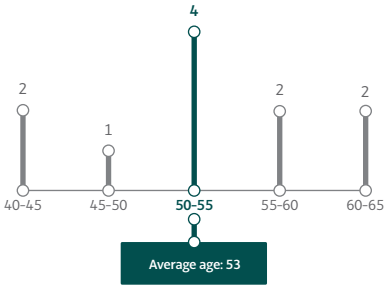


INTERNATIONAL EXPERIENCE ON THE BOARD OF DIRECTORS

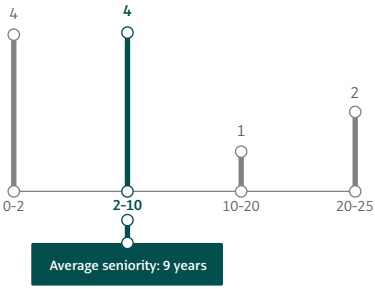


(1) In accordance with the recommendations of the revised AFEP-MEDEF Code, these percentages do not include the Director representing employees.

AGE PROFILE OF THE BOARD OF DIRECTORS



SENIORITY ON THE BOARD OF DIRECTORS



3. remuneration of directors and executive corporate officers

3.1. remuneration of executive corporate officers (chief executive officer and group managing director)

The remuneration of executive corporate officers includes a fixed portion and a variable portion. The Board of Directors establishes the rules for setting such remuneration each year based on the recommendations issued by the Remuneration Committee.

The amounts payable, which are shown in the two tables below, correspond to all remuneration granted to the executive corporate officer during each of the fiscal years shown, regardless of the actual payment date.

The amounts shown as paid correspond to all remuneration received by the executive corporate officer during each of the fiscal years shown.

Gross amounts *(in €)* François-Henri Pinault Chairman and Chief Executive Officer	2016		2015		
	Amounts payable for the year	Amounts paid during the year	Put to the advisory vote of the shareholders	Amounts payable for the year	Amounts paid during the year
Fixed remuneration	1,099,996	1,099,996	Yes	1,099,996	1,099,996
Annual variable remuneration	1,407,318	1,158,960	Yes	1,158,960	1,560,900 (1)
Multi-annual variable remuneration	0	0	Yes	0	0
Exceptional remuneration	0	0	Yes	0	0
Directors' fees *(Kering)*	64,679	74,431	Yes	74,431	68,867 (1)
Directors' fees *(subsidiaries)*	52,500	52,500	Yes	52,500	52,500
Benefits in kind	17,222	17,222	Yes	18,612	18,612
Total	**2,641,715**	**2,403,109**	**-**	**2,404,499**	**2,800,875**
Total employer contributions borne by the Group	*1,164,106 (2)*	*1,054,165*	-	*1,067,405 (2)*	*1,303,475*
TOTAL COST FOR THE GROUP	***3,805,821***	***3,457,274***	**-**	***3,494,123***	***4,104,350***

Gross amounts *(in € and at comparable exchange rates)* Jean-François Palus Group Managing Director	2016		2015 (restated (3))		
	Amounts payable for the year	Amounts paid during the year	Put to the advisory vote of the shareholders	Amounts payable for the year	Amounts paid during the year
Fixed remuneration (4)	1,018,622	1,018,622	Yes	1,018,622	1,018,622
Annual variable remuneration (5)	1,062,302	874,831	Yes	874,831	1,178,233 (1)
Multi-annual variable remuneration	0	0	Yes	0	0
Exceptional remuneration	0	0	Yes	0	0
Directors' fees *(Kering)*	60,355	65,087	Yes	65,087	62,463 (1)
Directors' fees *(subsidiaries)*	130,000	132,500	Yes	130,000	127,500
Benefits in kind (4) (6)	1,098,257	1,098,257	Yes	1,098,257	1,098,257
Total	**3,369,536**	**3,189,297**	**-**	**3,169,297**	**3,467,575**
Total employer contributions borne by the Group (4)	*294,796 (2)*	*281,907*	-	*281,907 (2)*	*302,765*
TOTAL COST FOR THE GROUP	***3,664,332***	***3,471,204***	**-**	***3,468,704***	***3,787,840***

(1) For 2014.
(2) Current estimates.
(3) Data restated to reflect the 2016 exchange rate to provide information at comparable exchange rates.
(4) Translated into euros at the average 2016 exchange rate (0.81948).
(5) Translated into euros at the December 31, 2016 closing exchange rate (0.85618).
(6) Benefits in kind correspond to an annual allowance for a residence in London to which the Group Managing Director has been entitled since July 1, 2013 (amounting to GBP 900,000 for the relevant fiscal year).

In the 2015 Reference Document, this data was presented as follows[1]:

Gross amounts *(in €)* Jean-François Palus Group Managing Director	2015 Amounts payable for the year	2015 Amounts paid during the year
Fixed remuneration	1,085,529	1,085,529
Annual variable remuneration	947,413	1,275,987[2]
Multi-annual variable remuneration	0	0
Exceptional remuneration	0	0
Directors' fees *(Kering)*	65,087	62,463[2]
Directors' fees *(subsidiaries)*	122,500	127,500
Benefits in kind	1,239,943	1,239,943
Total	**3,460,472**	**3,791,422**
Total employer contributions borne by the Group	*321,324*	*283,329*
TOTAL COST FOR THE GROUP	***3,781,796***	***4,074,751***

(1) Table provided by reference to restated data in the table on page 162.
(2) For 2014.

In terms of remuneration due to executive corporate officers, French law No. 2016-1691 of December 9, 2016 ("Sapin II") sets out a dual role for the Shareholders' Meeting of listed companies:

- the principles and criteria for determining, allocating and awarding fixed, variable and exceptional components making up total remuneration and benefits of any kind granted to the Chairman and Chief Executive Officer and Group Managing Director, in connection with their term of office, must be approved *ex ante* by the shareholders at least once a year. This provision is applicable as from the 2017 Annual General Meeting;
- in the following year, in addition to holding an *ex ante* vote for the following year, the Ordinary General Meeting must also decide *ex post* on the fixed, variable and exceptional components making up total remuneration and benefits of any kind paid or granted in respect of the previous fiscal year to the Chairman and Chief Executive Officer and the Group Managing Director under the terms of different resolutions. This provision is applicable as from the 2018 Annual General Meeting.

These "Sapin II" requirements are rounded out by the revised AFEP-MEDEF Code: Article 26 states that "the Board shall present executive remuneration arrangements to the Annual Ordinary Shareholders' Meeting. These will include components of remuneration due or awarded to each executive corporate officer in respect of the fiscal year ended [...]. It will be followed by a mandatory shareholder vote [...]". This recommendation is applicable to the 2017 Annual General Meeting called to approve the 2016 financial statements for the first and last time, and will then be replaced by the provisions of the Sapin II law on *ex post* shareholder approval.

In other words, shareholders will have a dual vote at the 2017 Annual General Meeting:

- a first *ex ante* vote as provided for under the Sapin II law on remuneration due to executive corporate officers. In the event shareholders reject the remuneration proposals, the previously approved principles and criteria will continue to apply;
- an advisory *ex post* vote on amounts paid, drawing on the recommendations of the revised AFEP-MEDEF Code. In the event shareholders reject the proposals, the Board of Directors shall meet to decide on the changes to be made and shall make its position known.

In light of the above, all annual variable remuneration due in respect of 2016 will be paid during first-half 2017.

Fees payable to Directors in respect of their duties as members of the Board of Kering for 2015 were paid in February 2016 and those payable for 2016 were paid in March 2017.

For 2016, the Board of Directors set the remuneration of the Chairman and Chief Executive Officer and of the Group Managing Director drawing on the recommendations of the Remuneration Committee. The structure of remuneration (i.e., the amount of the fixed portion and the rate of the variable portion) is decided based on an analysis of market practices for senior executives of CAC 40 companies.

Fixed remuneration

Acting on a recommendation of the Remuneration Committee, the Board of Directors' meeting on February 16, 2011 set the fixed remuneration of the Chairman and Chief Executive Officer at €1,099,996. This amount has remained unchanged since that date.

The fixed portion of the Group Managing Director's remuneration also remained unchanged in 2016. Following the relocation of part of the Group Managing Director's activities to London, as noted by the Board of Directors' meeting on June 18, 2013, based on a recommendation of the Remuneration Committee, Kering Netherlands BV, the Group's Dutch subsidiary and Kering International Ltd, the Group's subsidiary in the UK, each pay half of the Group Managing Director's fixed remuneration (€500,000 for Kering Netherlands BV and GBP 425,000 for Kering International Ltd). This is in accordance with the Employment Agreement and Service Agreement entered into with these two companies, respectively, covering the management of the Group's activities and the coordination of the Group's international support functions.

These two employment agreements are related to the Group Managing Director's term of office and will lapse on the termination thereof.

Annual variable remuneration

The variable remuneration of the Chairman and Chief Executive Officer is based on the achievement of precisely defined targets, set on the basis of the Group's results after the closing of the relevant fiscal year. For 2016, the variable portion is equal to 120% of fixed remuneration when targets are exactly met, and up to 180% of fixed remuneration when they are exceeded.

In 2015, there were two targets, each accounting for 50% of the variable portion of remuneration: consolidated recurring operating income and consolidated free cash flow from operations.

In 2016, acting on a recommendation of the Remuneration Committee, the Board decided to introduce new equally-weighted non-financial performance criteria that would base 30% of annual variable remuneration on three areas underpinning the Group's strategy: organisation and talent management, Corporate Social Responsibility and sustainability. From this point forward, the Chairman and Chief Executive Officer's variable remuneration is linked to the extent to which these targets are achieved, as follows:

Financial targets (quantitative)

Criteria	Weighting
Consolidated recurring operating income	35%
Consolidated free cash flow from operations	35%
TOTAL	**70%**

Non-financial targets (qualitative)

Criteria	Weighting
Organisation and talent management	10%
Corporate Social Responsibility	10%
Sustainability	10%
TOTAL	**30%**

In view of the fact that these two targets for 2015 were exceeded (consolidated recurring operating income and free cash flow from operations), 87.8% of the amount of variable remuneration due when targets are exactly met was awarded, representing payment of €1,158,960 in variable remuneration for the Chairman and Chief Executive Officer.

In light of the new non-financial performance-linked targets for determining a portion of annual variable remuneration, the Chairman and Chief Executive Officer was awarded variable remuneration of €1,407,318 for 2016. The rate of achievement for each of the targets is presented in the table below. The rate of achievement of each financial target must be at least 75% for variable remuneration to be paid. If targets are met exactly, the variable remuneration awarded corresponds to 100% of the target amount. If targets are exceeded by 140%, the variable remuneration awarded is increased to 150% of the target amount. Non-financial targets are assessed by the Board, after taking into account the performance of the Chairman and Chief Executive Officer and the Group Managing Director. This assessment is based on a detailed proposal prepared by the Remuneration Committee, which is strongly based on objective information reported by the Head of the Legal Department, the Head of Human Resources and the Head of Remuneration and Employee Benefits in relation to the strategic goals defined at the beginning of the year.

Rate of achievement of financial targets (versus target)	Percentage of bonus awarded (versus target amount)
<75%	0%
100%	100%
>140%	150%

Rate of achievement of targets in 2016

François-Henri Pinault Chairman and Chief Executive Officer	Criterion	Targets	Minimum theoretical achievement	% of target achieved	% awarded	% of total bonus	Amount (€)
Consolidated recurring operating income (in € millions)[1]	Financial	1,827	75%	103.2	104	36.4	480,480
Consolidated cash flow from operations (in € millions)[1]	Financial	1,062	75%	111.9	114.9	40.2	530,838
Organisation and talent management[2]	Non-financial	Management of talent pool for the Creative Division	Assessed by the Board	100	100	10	132,000
Corporate Social Responsibility[1]	Non-financial	Finalisation of the roll-out of the compliance program	Assessed by the Board	100	100	10	132,000
Sustainability[1]	Non-financial	Definition and launch of the "Advance" project	Assessed by the Board	100	100	10	132,000
TOTAL						**106.6**	**1,407,318**
Variable remuneration achieved *(in €)*							1,407,318
Variable remuneration achieved *(as % of fixed remuneration)*							127.9
Target variable remuneration *(in €)*							1,319,995
Target variable remuneration *(as % of fixed remuneration)*							120

(1) Targets applicable to both the Chairman and Chief Executive Officer and the Group Managing Director.
(2) Target applicable to the Chairman and Chief Executive Officer only.

Given the new performance-linked targets, in 2016 the Group Managing Director was awarded variable remuneration of €1,062,302. The rate of achievement for each of the targets is presented in the table below.

Rate of achievement of targets in 2016

Jean-François Palus Group Managing Director	Criterion	Targets	Minimum theoretical achievement	% of target achieved	% awarded	% of total bonus	Amount[3] *(€)*
Consolidated recurring operating income (in € millions)[1]	Financial	1,827	75%	103.2	104	36.4	362,686
Consolidated cash flow from operations (in € millions)[1]	Financial	1,062	75%	111.9	114.9	40.2	400,699
Organisation and talent management[2]	Non-financial	Finalisation of the implementation of all components of the new Kering Logistics and Industrial Operations (KLLIO) organisation	Assessed by the Board	100	100	10	99,639
Corporate Social Responsibility[1]	Non-financial	Finalisation of the roll-out of the compliance program	Assessed by the Board	100	100	10	99,639
Sustainability[1]	Non-financial	Definition and launch of the "Advance" project	Assessed by the Board	100	100	10	99,639
TOTAL						**106.6**	**1,062,302**
Variable remuneration achieved *(in €)*[3]							1,062,302
Variable remuneration achieved *(as % of fixed remuneration)*							104.3
Target variable remuneration *(in €)*[4]							1,018,622
Target variable remuneration *(as % of fixed remuneration)*							100

(1) Targets applicable to both the Chairman and Chief Executive Officer and the Group Managing Director.
(2) Target applicable to the Chairman and Chief Executive Officer only.
(3) Translated into euros at the December 31, 2016 closing exchange rate.
(4) Translated into euros at the average 2016 exchange rate.

Multi-annual variable remuneration

A new long-term incentive system was launched in 2013, based on Kering Monetary Units (and no longer on performance shares) known as "KMUs". The value of KMUs is indexed equally to both absolute changes in the Kering share price and to changes in the Kering share price relative to a basket of nine Luxury and Sport & Lifestyle stocks. These KMUs have a vesting period of three years as from January 1 of the year in which they are granted, after which they may be cashed by the beneficiaries over a two-year period (during two windows each year), when the beneficiaries may receive the cash equivalent of their KMUs based on the last assessed value.

Past awards of KMUs to the Chairman and Chief Executive Officer and Group Managing Director since 2013 are presented in the table below.

At its meeting on March 11, 2016, the Board of Directors, acting on a recommendation of the Remuneration Committee, decided to maintain the KMU scheme providing for a long-term performance bonus for the Chairman and Chief Executive Officer and the Group Managing Director. The value of this award is equal to 70% of their total annual cash-based remuneration paid in 2016 (total annual cash-based remuneration is determined by adding together the annual fixed remuneration and variable remuneration for 2015).

In this context, and in accordance with the decision of the Board of Directors' meeting on March 11, 2016, a total of 9,526 and 8,448 KMUs, with a unit value of €166 as of December 31, 2015, were awarded to the Chairman and Chief Executive Officer and to the Group Managing Director, respectively, corresponding to a respective value of €1,581,316 and €1,402,368.

For the Chairman and Chief Executive Officer and Group Managing Director, final vesting of the KMUs is subject to the condition of a minimum average increase in earnings per share from continuing operations attributable to owners over the vesting period. If the average increase is 5% or above, all vested KMUs may be cashed in; between 2.5% and 5%, the cash-in rights are reduced, and below 2.5%, no KMUs may be cashed in.

In accordance with the purpose of long-term remuneration schemes such as performance shares, and by analogy with the AFEP-MEDEF recommendations on deferred remuneration, the Board of Directors has set an obligation for each beneficiary to purchase Kering shares at the end of the three-year vesting period. Under this obligation, the beneficiaries must invest 30% of the fully vested net value of their KMUs in Kering shares and hold, for the duration of their term of office, a number of Kering shares corresponding to at least 30% of the sum of the amounts vested.

As with many other issuers, the Remuneration Committee assessed the potential impacts of this obligation, as it paradoxically results in the excessive exposure of the beneficiaries' assets to a single market value, especially in companies with stable management, such as Kering.

Following a benchmarking study, at its meeting on December 8, 2014 the Board of Directors, acting on a recommendation of the Remuneration Committee, decided to set a cap equal to the sum of the last two years of cash-based remuneration (fixed plus variable remuneration) at the date of assessment. The remuneration of both the Chairman and Chief Executive Officer and the Group Managing Director reached this cap.

The KMUs awarded to the Chairman and Chief Executive Officer and the Group Managing Director in 2014 have vested and may be cashed in, though this is subject to the performance condition of a minimum average increase in earnings per share from continuing operations attributable to owners over the vesting period, as mentioned above.

In this case, the abovementioned condition was not met (as in 2015), since earnings per share from continuing operations attributable to owners declined 1.9% over the last three years (versus an increase of 1.7% for 2013-2015). Accordingly, the Chairman and Chief Executive Officer and the Group Managing Director will not be able to cash in their KMUs and will not receive any payment as part of the long-term incentive plan set up in 2014.

This loss of the right to cash in KMUs does not however affect the December 2014 exceptional award of 9,900 KMUs to the Chairman and Chief Executive Officer (see below). These KMUs are not contingent on meeting performance conditions. Based on the price of a KMU at December 31, 2016 (€249), cashing in these 9,900 KMUs as from April 2017 could represent up to €2,465,100.

Summary of multi-annual variable remuneration for each executive corporate officer

KMUs

François-Henri Pinault Chairman and Chief Executive Officer	KMUs granted[1]	Unit value *(in €)*[2]	Grant value *(in €)*	Vesting date[3]	Target/Threshold[4]	Increase at the end of the exercise period	Minimum required
2013	11,874	152[5]	1,804,848	January 2016	Average increase in EPS/Increase of 2.5% or above	1.7%	Increase of 2.5% or above: **Not achieved**
2014	11,372	144[6]	1,637,568	January 2017	Average increase in EPS/Increase of 2.5% or above	-1.9%	Increase of 2.5% or above: **Not achieved**
	9,900	166[7]	1,643,400	January 2017	No performance condition required	N/A	N/A
2015	11,153	167[8]	1,862,551	January 2018	Average increase in EPS/Increase of 2.5% or above	TBD	TBD
2016	9,526	166[9]	1,581,316	January 2019	Average increase in EPS/Increase of 2.5% or above	TBD	TBD

KMUs

Jean-François Palus Group Managing Director	KMUs granted[1]	Unit value *(in €)*[2]	Grant value *(in €)*	Vesting date[3]	Target/Threshold[4]	Increase at the end of the exercise period	Minimum required
2013	9,763	152[5]	1,483,976	January 2016	Average increase in EPS/Increase of 2.5% or above	1.7%	Increase of 2.5% or above: **Not achieved**
2014	9,426	144[6]	1,357,344	January 2017	Average increase in EPS/Increase of 2.5% or above	-1.9%	Increase of 2.5% or above: **Not achieved**
2015	9,758	167[8]	1,629,586	January 2018	Average increase in EPS/Increase of 2.5% or above	TBD	TBD
2016	8,448	166[9]	1,402,368	January 2019	Average increase in EPS/Increase of 2.5% or above	TBD	TBD

(1) The value of the KMUs awarded is equal to 70% of the total annual cash-based remuneration paid during the year.
(2) The value of the KMUs is indexed equally to both absolute changes in the Kering share price and to changes in the Kering share price relative to a basket of nine Luxury and Sport & Lifestyle stocks.
(3) The KMU vesting period is set at three years as from January 1 of the year in which they are granted. Unit value of KMUs at December 31, 2016.
(4) If the average increase in EPS is (i) 5% or above, all vested KMUs may be cashed in; (ii) between 2.5% and 5% the cash-in rights are reduced; and (iii) below 2.5%, no KMUs may be cashed in.
(5) Unit value at July 21, 2013, date of the first KMU award.
(6) Unit value at December 31, 2013.
(7) Unit value at June 30, 2014.
(8) Unit value at December 31, 2014.
(9) Unit value at December 31, 2015.

Benefits in kind

Benefits in kind accruing to the Chairman and Chief Executive Officer correspond to the provision of a company car. Since July 1, 2013, the Group Managing Director has been entitled to an annual allowance for residence in London (amounting to GBP 900,000 for the relevant fiscal year or €1,098,257 at the average 2016 exchange rate). The allowance provides the Group Managing Director and his family with a residence in London following the relocation of his coordination activities for the Group's international support functions and the management of the Group's activities. The allowance meets the standards of the London real estate market to accommodate members of the top management of an international corporation.

Termination payments

No indemnity is payable to the Chairman and Chief Executive Officer or the Group Managing Director in the event of termination of their duties as corporate officers.

Supplementary pension plan

There are no supplementary defined benefit pension plans for the executive corporate officers.

Non-competition indemnities

Executive corporate officers will not be eligible for any such indemnities.

	Employment contract		Supplementary pension plan		Indemnities or benefits owed or that may be payable on termination or change of duties		Indemnities relating to a non-competition clause	
Executive corporate officers	Yes	No	Yes	No	Yes	No	Yes	No
François-Henri Pinault								
Chairman and Chief Executive Officer								
Start of term of office: May 19, 2005								
Expiry of term of office: 2017 AGM		X		X		X		X
Jean-François Palus								
Group Managing Director								
Start of term of office: February 26, 2008								
Expiry of term of office: 2017 AGM	X			X		X		X

At the beginning of 2010 the Board of Directors authorised the grant of a pension benefit to Jean-François Palus. This benefit takes the form of a capital transfer of an amount of €3.568 million to a fund entitling him to payment of a full pension (with a right of reversion) from the legal retirement age, and is not subject to his presence within the Group. However, the payment of the benefit was subject to Jean-François Palus not having left the Group for personal reasons before December 31, 2014 and the performance criteria for entitlement to the variable portion of his remuneration for 2009 and 2010 had to be fulfilled. The capital is intended to finance a target pension annuity of a non-guaranteed amount, representing approximately 25% of his annual remuneration paid in 2009 according to the actuarial rates applied within the Group.

On March 18, 2015, the Board of Directors noted that Jean-François Palus had not left the Group for personal reasons and that his performance conditions for 2009 and 2010 had been fulfilled. Consequently, the condition no longer applied. In addition, on March 11, 2016, the Board of Directors reviewed the agreement and agreed on its implementation, based on a total payment of €4,724,540 (following application of a 5% interest rate to the initial capital of €3,568,000 for the relevant period), and noted the extinguishment of the Group's debt under the aforementioned agreement.

It should be added that this benefit was not a pension plan within the meaning of Decree No. 2016-182 of February 23, 2016 in application of the provisions of the "Macron law" No. 2015-990 of August 6, 2015 codified as Article L. 225-102-1 of the French Commercial Code (*Code de commerce*), but the final payment of a fixed capital amount to an institution in charge of paying the deferred pension generated by this capital.

Other information and commitments

No stock subscription or purchase options were granted to executive corporate officers in 2016, and no stock options were outstanding for François-Henri Pinault or Jean-François Palus in respect of the options exercised during 2015.

The executive corporate officers have formally undertaken not to use hedges on their stock options or performance shares, and no such hedges are currently in place.

Performance shares granted to each executive corporate officer in 2016

Further to the decision by the Board of Directors to maintain the long-term incentive system based on monetary instruments, no performance shares have been granted to executive corporate officers since 2012.

Performance shares that became available during 2016 for each executive corporate officer

	Number and date of the plan	Number of shares that became available during the year	Vesting conditions
François-Henri Pinault	-	-	-
Jean-François Palus	2012-I Plan April 27, 2012	6,492	10% of the number of shares originally granted are to be purchased upon availability, within the limit of a ceiling equal to the sum of the last two years of cash-based remuneration (cumulative fixed and variable components) at the time of assessment
TOTAL		**6,492**	

In 2016, no performance shares vested for François-Henri Pinault or Jean-François Palus.

Summary of remuneration, options and performance shares granted to each executive corporate officer

Gross amounts *(in €)*

François-Henri Pinault Chairman and Chief Executive Officer	Amounts for 2016	Amounts for 2015
Remuneration payable	2,641,715	2,404,499
Value of multi-annual variable remuneration granted during the year (1)	1,092,633	1,154,337
Value of options granted during the year	-	-
Value of performance shares granted during the year	-	-
TOTAL	**3,734,348**	**3,558,836**

(1) This amount is determined at the grant date in accordance with IFRS 2 after taking into account any discount related to performance criteria and probability of presence in the Company at the end of the vesting period. The amount is recognised in the consolidated financial statements over the vesting period.

Gross amounts *(in €)*

Jean-François Palus Group Managing Director	Amounts for 2016	Amounts for 2015
Remuneration payable	3,352,036	3,460,472
Value of multi-annual variable remuneration granted during the year (1)	968,985	1,009,953
Value of options granted during the year (1)	-	-
Value of performance shares granted during the year (1)	-	-
TOTAL	**4,321,021**	**4,470,425**

(1) This amount corresponds to the value of the options and financial instruments at the grant date as determined in accordance with IFRS 2 after taking into account any discount related to performance criteria and probability of presence in the Company at the end of the vesting period, but prior to the recognition of the expense over the vesting period in accordance with IFRS 2.

3.2. remuneration of non-executive corporate officers – directors' fees

The Annual General Meeting on May 6, 2014 had increased the total amount of Directors' fees to be allocated to the members of the Board of Directors for 2014 from €809,000 to €877,000, due to the appointment of an additional Director. This amount remained unchanged in 2015 and 2016.

Based on recommendations of the Remuneration Committee, the Board of Directors' meeting on February 9, 2017 decided to allocate Directors' fees on the basis of the actual presence of members at meetings of the Board and its specialised Committees in 2016. In accordance with applicable legislation, members cannot use videoconference or other remote technologies to participate in meetings discussing the Annual Financial Statements and Management Report. Accordingly, Directors not physically in attendance at the Board meeting approving the financial statements are deemed absent and are not eligible for the related Directors' fees.

Out of the total amount set by the Annual General Meeting, the rule followed by the Board in order to comply with AFEP-MEDEF recommendation 20-1 for a significant variable portion is to divide the total amount between a 40% fixed portion and a 60% variable portion. The Directors' fees are allocated in the following manner:

a) a fixed portion, minus a special portion corresponding to the remuneration of the Chairs of the Audit, Remuneration and Appointments Committees, respectively (€23,000 each), the balance being allocated with a coefficient of 1 by Board membership, increased by 0.5 per Committee;

b) a variable portion, allocated with a coefficient of 1 (2 for the Vice-Chair) per presence at each meeting of the Board and 0.5 for each attendance of a Committee meeting.

For 2016, a total amount of €751,966 will be paid to the non-executive Directors, allocated as follows:

- €303,077 for the fixed portion, of which €69,000 for the special portion;
- €448,892 for the variable portion.

Non-voting Directors do not collect any Directors' fees in respect of their participation in meetings of the Board of Directors which they are invited to attend.

Directors' fees

The table below shows Directors' fees paid in 2015 and 2016 for fiscal years 2014 and 2015:

Members of the Board of Directors other than the Chief Executive Officer and Group Managing Director	Amounts paid during the year *(in €)* 2016	2015
Patricia Barbizet		
Directors' fees	174,870	173,552
Committee Chair	23,000	23,000
Fixed portion	48,112	44,832
Variable portion	103,758	105,721
Luca Cordero di Montezemolo		
Directors' fees	62,079	54,451
Committee Chairman	-	-
Fixed portion	27,493	25,618
Variable portion	34,586	28,833
Yseulys Costes		
Directors' fees	73,893	87,286
Committee Chair	-	-
Fixed portion	34,366	32,023
Variable portion	39,527	55,263
Jean-Pierre Denis		
Directors' fees	104,842	108,687
Committee Chairman	23,000	23,000
Fixed portion	27,493	25,618
Variable portion	54,349	60,068
Philippe Lagayette		
Directors' fees	97,431	99,076
Committee Chairman	23,000	23,000
Fixed portion	27,493	25,618
Variable portion	46,938	50,458
Baudouin Prot		
Directors' fees	62,617	45,644
Committee Chairman	-	-
Fixed portion	20,620	19,214
Variable portion	41,997	26,430
Daniela Riccardi (1)		
Directors' fees	48,332	2,804 (2)
Committee Chair	-	-
Fixed portion	13,746	869
Variable portion	34,586	1,935
Jochen Zeitz		
Directors' fees	60,146	52,852
Committee Chairman	-	-
Fixed portion	20,620	19,214
Variable portion	39,527	33,638
Laurence Boone (3)		
Directors' fees	-	40,842
Committee Chairman	-	-
Fixed portion	-	9,607
Variable portion	-	31,236
Caroline Puel (4)		
Directors' fees	-	23,449
Committee Chairman	-	-
Fixed portion	-	4,227
Variable portion	-	19,222
Sophie Bouchillou (5)		
Directors' fees	53,273	16,016
Committee Chair	-	-
Fixed portion	13,746	6,405
Variable portion	39,527	9,611
TOTAL	**737,483**	**704,659**

(1) The term of office of Daniela Riccardi started on May 6, 2014.
(2) In December 2014, Daniela Riccardi received an advance of €25,000 on her Directors' fees for 2014.
(3) The term of office of Laurence Boone expired on July 15, 2014.
(4) The term of office of Caroline Puel expired on May 6, 2014.
(5) Sophie Bouchillou, Director representing the employees, was appointed on July 10, 2014.

Neither the Company, nor any company that it controls, has made any commitment to its Directors or executive corporate officers on account of the commencement, termination or change of duties or subsequent thereto.

No non-executive corporate officer or Director benefits from any particular benefit or specific pension plan. They are not entitled to any conditional or deferred remuneration.

Other than the remuneration set out above, neither the Company, nor Artémis or Financière Pinault which control it, has paid any remuneration or granted any benefits, directly or indirectly, to its Directors or executive corporate officers in connection with their term of office, duties or assignments performed in or on behalf of the Company, and any company that it controls.

3.3. *regulatory information on directors and executive corporate officers*

To the Company's knowledge:

- none of the Directors or executive corporate officers have been convicted for fraud in the last five years;
- none of the Directors or executive corporate officers have been associated in the last five years with bankruptcy, receivership or liquidation proceedings as a member of an administrative, management or supervisory body or as Chief Executive Officer;
- no court order has been entered over the last five years against any of the Directors or executive corporate officers that prohibits them from acting as a member of an administrative, management or supervisory body of an issuer or from intervening in the management or running of the business of an issuer;
- no incrimination and/or official public penalty has been entered against any of the Directors or executive corporate officers by statutory or regulatory authorities (including designated professional bodies);
- none of the Directors or executive corporate officers have been given a commitment by the Company or any of its subsidiaries corresponding to items of remuneration, indemnities or benefits payable or potentially payable on account of the commencement, termination or change of his or her duties or subsequent thereto;
- none of the Directors or executive corporate officers have indicated the existence of an agreement with a main shareholder, customer or supplier of the Company pursuant to which he or she was designated as Director or executive corporate officer.

Moreover, no service contract providing for the granting of benefits binds the Directors with the Kering group.

No assets belonging directly or indirectly to the Company's senior executives are used in Group operations.

In general, to the Company's knowledge, none of the Directors or executive corporate officers are in a position of potential conflict of interest between their duties with regards to the Company and their private interests or other duties or have existing family ties with another Director or executive corporate officer of the Company.

In accordance with Article L. 225-102-1 of the French Commercial Code, François-Henri Pinault and Patricia Barbizet were paid €1,225,208 and €1,690,350 respectively for 2016 in respect of positions held at Financière Pinault SCA and Artémis SA.

The amounts stated above are unrelated to the corporate office held within Kering. They are paid by the Company concerned only.

3.4. other information on the company's board of directors

Honorary Chairman of the Board of Directors

In accordance with the possibility provided for under the Company's Articles of Association, in its meeting on June 18, 2013 which followed the Combined General Meeting, the Board of Directors decided to confirm François Pinault, founder of the PPR group, since renamed Kering, as Honorary Chairman of the Board of Directors. In this capacity, François Pinault is invited to participate in the meetings of the Board of Directors and of the Strategy & Development Committee on a consultative basis. He did not participate in any of these meetings in 2016.

Vice-Chairman of the Board of Directors

In accordance with the possibility provided for under the Company's Articles of Association, in its meeting on June 18, 2013 which followed the Combined General Meeting, the Board of Directors renewed Patricia Barbizet's term of office as Vice-Chair of the Board of Directors for the same duration as her term of office as Director. In this capacity, Patricia Barbizet prepares and coordinates the work of the Board of Directors and may chair Board meetings when the Chairman is absent.

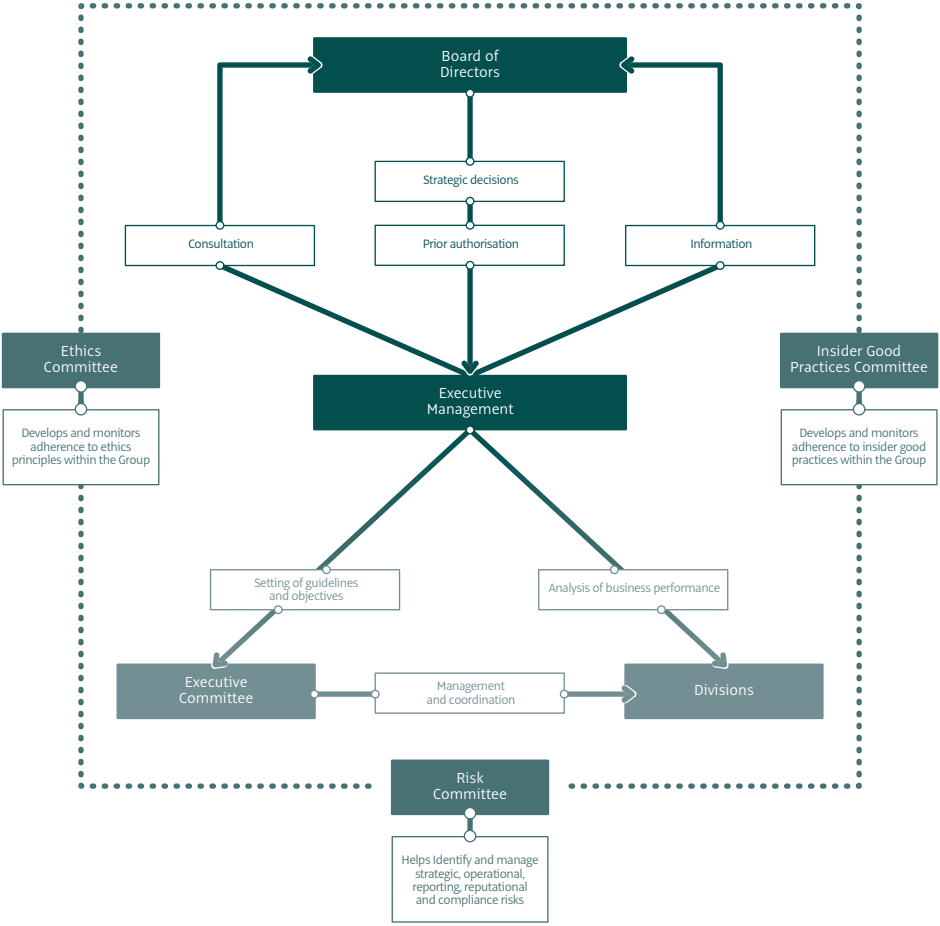
Non-voting Directors

- Marco Bizzarri, Chairman and Chief Executive Officer of Gucci (appointed by the Board of Directors at its meeting on June 18, 2013);
- Björn Gulden, Chief Executive Officer of PUMA (appointed by the Board of Directors at its meeting on October 24, 2013);
- Albert Bensoussan, CEO of Kering's Luxury – Watches & Jewelry division (appointed by the Board of Directors at its meeting on July 30, 2014);

The main role of non-voting Directors is to attend Strategy & Development Committee meetings and, as required, Board of Directors' meetings, to provide the necessary information, expertise and knowledge of the Group's various businesses. They serve on a consultative basis. The non-voting Directors are appointed by the Board of Directors.

4. group management

Group management is composed of the Group Executive Committee headed by François-Henri Pinault, Chairman and Chief Executive Officer, and Jean-François Palus, Group Managing Director.



Executive Committee

The Executive Committee meets regularly, with the Chief Executive Officers of the Group's major brands and Kering's main operating officers. The 14-member Executive Committee is the Group's key operational body and reflects Kering's transformation into a more integrated group. It affords the Chief Executive Officers of its activities and major brands the opportunity to be more closely involved in the Group's key strategic decision-making processes, alongside Kering's main operating officers.

Members of the Executive Committee

- François-Henri Pinault (since March 2005), Chairman and Chief Executive Officer;
- Jean-François Palus (since December 2005), Group Managing Director;
- Jean-Philippe Bailly (since April 2016), Chief Operating Officer;
- Francesca Bellettini (since October 2015), Chief Executive Officer, Saint Laurent;
- Carlo Alberto Beretta (since October 2015), Group Chief Client & Marketing Officer;
- Marco Bizzarri (since February 2012), Chairman and Chief Executive Officer, Gucci;
- Jean-Marc Duplaix (since February 2012), Group Chief Financial Officer;
- Béatrice Lazat (since March 2016), Senior Vice-President, Group Human Resources;
- Marie-Claire Daveu (since September 2012), Group Chief Sustainability Officer and Head of International Affairs;
- Björn Gulden (since July 2013), Chief Executive Officer, PUMA;
- Albert Bensoussan (since June 2014), Chief Executive Officer of Kering's Luxury – Watches & Jewelry division;
- Roberto Vedovotto (since March 2015), Chairman and Chief Executive Officer, Kering Eyewear;
- Valérie Duport (since May 2016), Group Senior Vice-President, Communications and Image;
- Claus-Dietrich Lahrs (since October 2016), Chief Executive Officer, Bottega Veneta.

Monthly activity and budget review meetings

The Executive Management of Kering, and the Chief Executive Officers of the major brands, hold regular meetings to assess business developments. This assessment is based on operational and financial metrics.

Insider Good Practices Committee

Composed of the Group Managing Director and the Head of the Legal Department, the Insider Good Practices Committee draws up the timetable of black-out periods for trading in Kering securities, lists of insiders, letters of information and monitoring in relation to rules on insider dealing, which are sent to the relevant managers and senior executives of the Group as well as to occasional and permanent insiders, in accordance with the General Regulations of the French financial markets authority (*Autorité des marchés financiers* – AMF) and Regulation (EU) No. 596/2014 of April 16, 2014 of the European Parliament and of the Council on market abuse. The members of the Group's Executive Committee are required to consult the Insider Good Practices Committee before trading in Company shares or similar financial instruments.

Pursuant to the provisions of Article 223-26 of the AMF's General Regulations, to the Company's knowledge, no transactions were carried out by the individuals referred to in Article L. 621-18-2 of the French Monetary and Financial Code (*Code monétaire et financier*) on Kering's financial instruments during 2016, except as follows:

- on August 2, 2016, Marco Bizzarri sold 2,590 shares at a price of €168.25 per share.
- on May 5, 2016, in accordance with the provisions of the Company's Articles of Association, Sophie L'Hélias, newly appointed as a Director, acquired 500 shares at a price of €150.59 per share.

Ethics Committee

Kering's Ethics Committee was set up in 2005, and is now supported by two regional Ethics Committees: the Asia-Pacific Ethics Committee and the Americas Ethics Committee and an international hotline available for all Group staff. The Ethics Committees are composed of representatives of the Group's brands and Kering staff. Their regional organisation reflects the Group's policy of delegating responsibility, which results in better quality responses to queries. Operating on a "last resort" basis under the authority of the Group Ethics Committee to which they report, these Committees ensure that the Group's ethical principles are applied consistently.

5. report on the total remuneration of executive corporate officers policy

Pursuant to Sapin II French Law, we set out below the principles and criteria for determining, allocating and awarding components making up the total remuneration of executive corporate officers. This report was prepared with the assistance of the Remuneration Committee and was approved by the Board of Directors at its meeting on March 10, 2017.

In its analysis and proposals, the Remuneration Committee strives to comply with the recommendations of the revised AFEP-MEDEF Code.

The remuneration policy takes into account the principles of completeness, balance, coherence, intelligibility and proportion. All components of executive corporate officer remuneration are reviewed each year.

At various meetings held in 2016 and early 2017, the Remuneration Committee performed an in-depth review of the structure of executive corporate officer remuneration.

Certain proposals were adopted by the Board and were applied as from 2016. These include the introduction of three qualitative performance-based criteria on which 30% of annual variable remuneration is based: one criterion linked to a sustainability target, one to a Corporate Social Responsibility target and one relating to organisation and talent management. The Committee also looked to introduce greater linearity between the rate of achievement of the targets and the rate of remuneration awarded.

Elements relating to the remuneration policy and applicable in 2016 are set out below, in section 5.1.

At its meeting on March 10, 2017, the Board also approved all of the proposals made by the Remuneration Committee as regards the overhaul of executive pay. These are set out hereinafter, in section 5.2.

5.1. 2016 remuneration policy

The remuneration structure changed in 2016, with the introduction of non-financial criteria for annual variable remuneration aimed at promoting the achievement of short- and medium-term targets. The purpose of the revised policy is to objectify and align the interests of executive corporate officers with those of the Company and its shareholders.

The remuneration structure in 2016 continued to be made up of three components:

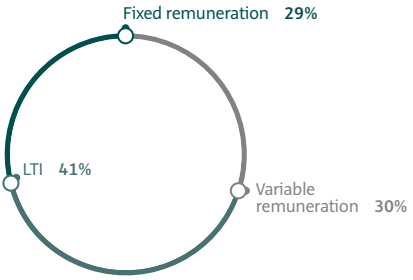
- a fixed annual portion;
- a variable annual portion;
- a multi-annual variable portion (KMUs).

An independent firm performed an in-depth study and benchmarked comparable companies with regard to these components, assisted by the members of the Remuneration Committee. The companies benchmarked are:

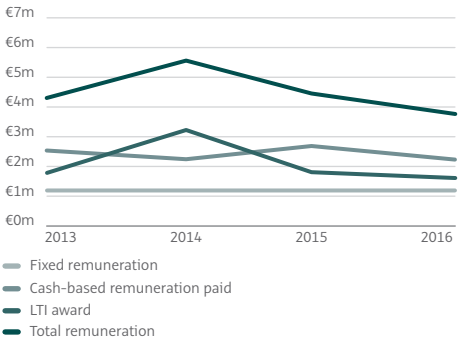
- international industry-based panel (13 companies): Burberry, Coach, Estée Lauder, Hermès, Hugo Boss, L'Oréal, Luxottica, LVMH, Prada, Ralph Lauren, Richemont, Swatch, Tiffany & Co;
- CAC 40 panel (14 companies): Accor, Cap Gemini, Danone, Essilor International, Lafarge, Legrand, L'Oréal, LVMH, Pernod Ricard, Publicis Groupe, Safran, Solvay, Valeo, Vivendi.

The amounts corresponding to 2016 remuneration are shown in the tables on page 162 *et seq.*

STRUCTURE OF TOTAL REMUNERATION OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER



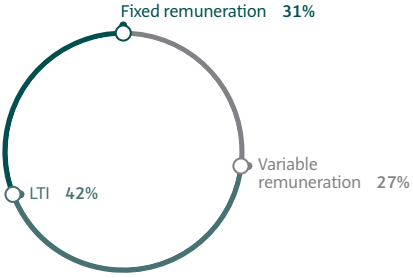
HISTORICAL TOTAL REMUNERATION OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER



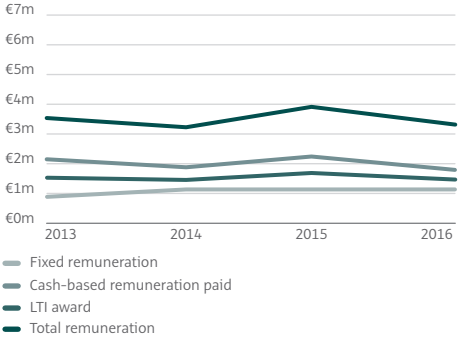
Remuneration [1] *(in euros)*	2013	2014	2015	2016
Fixed remuneration	1,099,996	1,099,996	1,099,996	1,099,996
Cash-based remuneration paid [2]	2,578,396	2,339,476	2,660,896	2,258,956
LTI award [3]	1,804,848	3,280,568 [4]	1,862,551	1,581,316
Total remuneration	4,383,244	5,620,044	4,523,447	3,840,272

(1) Amounts paid during the year.
(2) Cash-based remuneration paid during the year includes fixed and annual variable remuneration.
(3) The LTI award corresponds to an estimate based on an award equivalent to 70% [fixed remuneration Y + annual variable remuneration due for Y-1]/Value of KMUs at December 31 of Y-1.
(4) The LTI award in 2014 includes the exceptional award of 9,900 KMUs.

STRUCTURE OF TOTAL REMUNERATION OF THE GROUP MANAGING DIRECTOR



HISTORICAL TOTAL REMUNERATION OF THE GROUP MANAGING DIRECTOR



Remuneration [1] *(in euros and at comparable exchange rates)*	2013	2014	2015	2016
Fixed remuneration [2]	998,195	1,018,622	1,018,622	1,018,622
Cash-based remuneration paid [3]	2,118,195	1,967,442	2,294,609	1,893,453
LTI award [4]	1,483,976	1,357,344	1,629,586	1,402,368
Total remuneration	3,602,171	3,324,786	3,924,195	3,295,821

(1) Amounts paid during the year.
(2) Fixed remuneration translated into euros at the average 2016 exchange rate.
(3) Cash-based remuneration paid includes fixed and annual variable remuneration.
(4) The LTI award corresponds to an estimate based on an award equivalent to 70% [fixed remuneration Y + annual variable remuneration due for Y-1]/Value of KMUs at December 31 of Y-1.

5.1.1. Fixed remuneration

The annual fixed remuneration of the Chairman and Chief Executive Officer and Group Managing Director reflects their roles and responsibilities. The Chairman and Chief Executive Officer's remuneration has remained unchanged since 2011, while the Group Managing Director's remuneration has remained unchanged since 2012.

5.1.2. Annual variable remuneration

Variable remuneration is designed to align the reward accruing to executive corporate officers with the Group's annual performance and to help drive forward the Group's strategy year after year. Variable remuneration is expressed as a percentage of annual fixed remuneration.

In 2016, the Remuneration Committee changed the variable remuneration for executive corporate officers in order to (i) introduce qualitative criteria, and (ii) increase the linearity between the rate of achievement of the targets set and the bonus paid.

Variable remuneration therefore reflects the senior executive's ability to achieve the performance targets and his/her ability to create value for shareholders.

5.1.2.1. Alignment between the rate of achievement of targets and the bonus paid

Acting on a recommendation of the Remuneration Committee, the Board of Directors considered the best ways to achieve greater linearity between the rate of the bonus awarded and the rate of achievement, and introduced the following mechanism:

- minimum target achievement rate: 75%;
- full linearity for an achievement rate of between 75% and 100% (e.g., an 87.5% achievement rate gives rise to the payment of 50% of the bonus);
- maximum of 150% potentially met when the achievement rate is 140% or more.

5.1.2.2. Introduction of qualitative criteria

Acting on a recommendation of the Remuneration Committee, the Board of Directors decided to introduce equally-weighted non-financial performance criteria that are in line with the Group's sustainability objectives to determine 30% of the variable remuneration of executive corporate officers. These criteria are based around the following three indicators:

- organisation and talent management;
- Corporate Social Responsibility;
- sustainability.

The targets associated with these three indicators are formulated and proposed to the Board of Directors on a yearly basis by the Remuneration Committee, assisted by the competent Board Committees. These same Committees document and place on record the extent to which each criterion has been met.

The criteria to be met for each target are both annual and multi-annual when the achievement of the associated target is also assessed over the long term.

Depending on the year, these targets may be the same or different for each executive corporate officer.

5.1.2.3. Targets set for 2016

Based on a recommendation of its Committees, at the beginning of the year the Board of Directors determines specific and ambitious qualitative and quantitative targets for the year ahead. Targets are assigned that apply to both the Chairman and Chief Executive Officer and Group Managing Director as well to each officer individually:

Targets applicable to both the Chairman and Chief Executive Officer and the Group Managing Director		Weighting
Recurring operating income (financial criterion)		35%
Free cash flow from operations (financial criterion)		35%
Sustainability: definition and launch of the "Advance" project at Group level and at the level of the brands (non-financial criterion)		10%
Corporate Social Responsibility: finalisation of the roll-out of the Group's compliance program (non-financial criterion)		10%
Targets applicable specifically to the Chairman and Chief Executive Officer	**Targets applicable specifically to the Group Managing Director**	
Organisation and talent management: management of the talent pool for the Creative Division for all of the Group's brands (non-financial criterion)	Organisation and talent management: finalisation of the implementation of all components of the new KLLIO organisation (non-financial criterion)	10%

5.1.2.4. Achievements in 2016

For each target, the Committee concerned drew up a list of criteria to help determine the extent to which non-financial targets had been met. Based on this, the Board of Directors then assessed the rate of achievement of each of the targets (for more details on the achievement rates for each target, see pages 165 and 166).

Targets	Basis for assessment in determining the extent to which targets are met
Sustainability: definition and launch of the "Advance" project at Group level and at the level of the brands (non-financial criterion) *Target applicable to both the Chairman and Chief Executive Officer and the Group Managing Director*	• meetings with the Executive Committees of the brands; • meetings with designers and their teams; • introduction of a specific Steering Committee involving all of Kering's Executive Committee members; • support by Executive Committee members of Groupwide strategic issues; • organisation of workshops with each of the brands to prepare the "Advance" strategy and action plan; • internal and worldwide communication.
Corporate Social Responsibility: finalisation of the roll-out of the Group's compliance program (non-financial criterion) *Target applicable to both the Chairman and Chief Executive Officer and the Group Managing Director*	• roll-out of a network of Compliance Officers for the brands worldwide, responsible for implementing policies and procedures devised by the Group's Chief Compliance Officer; • finalisation of guidelines, comprising: - an anti-corruption policy and six related procedures, - a competition policy (adapted to local laws) and a procedure covering involvement in professional associations, rounded out by a series of recommendations and a training kit, - a campaign to increase awareness of competition law and an e-learning programme, - a review of contracts for the brands and distribution contract templates.
Organisation and talent management: management of the talent pool for the Creative Division for all of the Group's brands (non-financial criterion) *Target applicable specifically to the Chairman and Chief Executive Officer*	Recruitment of two Creative Directors, breathing new life into three Luxury brands: • Demna Gvasalia (Balenciaga): highly visible in the media and on social networks after presenting his first collection in February. A good degree of buzz, creating a renewed keen interest in the brand. Demna Gvasalia picked up a prize for his Balenciaga collections at the Fashion Awards for best Prêt-à-Porter Designer; • Anthony Vacarello (Saint Laurent): Anthony succeeded Hedi Slimane and his first collection unveiled in Paris in October was warmly received. Stellar results should also be mentioned at Gucci, where Alessandro Michele, promoted internally in 2015, helped turn around the brand. The creative positioning of Gucci and the desirability of its products attracted new customers across all regions. Alessandro Michele picked up several international awards in 2016, including the CFDA in New York and Fashion Awards in London.
Organisation and talent management: finalisation of the implementation of all components of the new Kering Logistics and Industrial Operations (KLLIO) organisation (non-financial criterion) *Target applicable specifically to the Group Managing Director*	Introduction of a shared "Operations" service to assist and support the development and growth of Luxury brands: • four operational functions (Logistics, Industry, Product Development and IT) focused on KLLIO core businesses. These are fully responsible for the quality of the services provided on behalf of the brands, from product and service design to execution; • two Group-wide functions (Sustainability and Sourcing) arranged in an effort to harmonise processes and leverage volume effects; • three support functions (Finance, Human Resources and Legal) focused on organisation, HR and cost optimisation issues. A considerable amount of time was spent rallying a team around common values, and on defining and aligning roles and responsibilities, particularly in managing relations with client brands.

5.1.3. Multi-annual variable remuneration

From 2013 onwards, the multi-annual variable remuneration system was changed to include Kering Monetary Units (KMUs), also awarded based on a performance condition (minimum average increase in Kering earnings per share from continuing operations attributable to owners).

The extent to which the performance condition applicable to executive corporate officers is achieved is assessed as follows: the number of KMUs exercisable at the end of the three-year vesting period is reduced accordingly if the minimum average increase in earnings per share from continuing operations attributable to owners for the period is less than 5%, and no KMUs can be exercised if the average increase is 2.5% or less.

5.1.4. Exceptional remuneration

Executive corporate officers were not awarded any exceptional remuneration in 2016.

5.1.5. Directors' fees

Executive corporate officers receive Directors' fees for some of the offices they hold within the Group.

5.1.6. Allotment of stock options and/or performance shares

Since the long-term incentive system based on Kering monetary instruments remains in force, no performance shares or stock options were granted to executive corporate officers for 2016.

5.1.7. Benefits for taking up a position or termination payments

Executive corporate officers are not entitled to any benefits for taking up a position or termination payments.

5.1.8. Supplementary pension plan

Executive corporate officers are not eligible for any supplementary pension plans. Pension benefits in the form of capital accruing to the Group Managing Director since 2010 were closed out following payment of said capital amount pursuant to a decision of the Board of Directors on March 11, 2016.

5.1.9. Non-competition indemnities

Executive corporate officers are not eligible for any such indemnities.

5.1.10. Benefits in kind

The Chairman and Chief Executive Officer is entitled to a company car with a driver.

Since July 1, 2013, the Group Managing Director has been based in London. For this reason he receives an annual residence allowance representing a total of GBP 900,000. The allowance provides the Group Managing Director and his family with a residence in London following the relocation of his coordination activities for the Group's international support functions and the management of the Group's activities.

Summary of changes to remuneration of the Chairman and Chief Executive Officer and Group Managing Director for 2016

Fixed remuneration

Principles applicable in 2015	Changes introduced in 2016
The Board of Directors set the fixed remuneration for the Chairman and Chief Executive Officer at its meeting of February 16, 2011.	**This amount remains unchanged.**
At its meeting on June 18, 2013, the Board of Directors noted, on the recommendation of the Remuneration Committee, the relocation to London of part of the Group Managing Director's activities in the context of the deployment of the Group's international activities. Consequently, the Board decided to implement for the Group Managing Director with effect from July 1, 2013, an Employment Agreement with Kering Netherlands BV, a Group subsidiary governed by Dutch law, as well as a Service Agreement (similar to an employment agreement) with Kering International Ltd, a Group subsidiary governed by English law. Under the terms of these two agreements, which cover the management of the Group's activities and the coordination of the Group's international support functions respectively, these two companies will each pay half of the Group Managing Director's fixed annual remuneration (€500,000 for Kering Netherlands BV and GBP 425,000 for Kering International Ltd).	

François-Henri Pinault
Chairman and Chief Executive Officer

Fixed remuneration due for the year 2015:

Payment of fixed remuneration of **€1,099,996**.

Fixed remuneration due for the year 2016:

Payment of fixed remuneration of **€1,099,996**.

Jean-François Palus
Group Managing Director

Fixed remuneration due for the year 2015:

Payment of fixed remuneration of **€1,018,622**[1].

Fixed remuneration due for the year 2016:

Payment of fixed remuneration of **€1,018,622**[2].

(1) Data restated to reflect the 2016 exchange rate.
(2) Translated into euros at the average 2016 exchange rate.

Annual variable remuneration

Principles applicable in 2015	Changes introduced in 2016
The annual variable remuneration awarded depends on the extent to which the targets set have been achieved, as assessed after the end of the fiscal year. Kering Netherlands BV and Kering International Ltd each pay half of the Group Managing Director's annual variable remuneration.	**Introduction of non-financial targets.** These were introduced by the Board of Directors based on a recommendation of the Remuneration Committee and are designed to meet the demands of certain investors, as relayed by rating agencies. The introduction of non-financial targets fulfils a dual purpose: (i) to increase the linearity between the rate of achievement of the targets and the bonus awarded, and (ii) to introduce certain qualitative criteria within performance conditions. In accordance with the recommendations of the revised AFEP-MEDEF Code, the rules for setting annual variable remuneration are consistent with the yearly assessment of the Chairman and Chief Executive Officer's performance and with Kering's strategy.
Target amount: The rate of achievement of each of these targets must be at least 90% for variable remuneration to be paid: • when the rate of achievement is below 90%, no bonus is awarded; • when the rate of achievement is 90%, a bonus is awarded equal to 75% of fixed remuneration, excluding any KMU-based remuneration; • when the rate of achievement is 100%, a bonus is awarded equal to 120% of fixed remuneration for the Chairman and Chief Executive Officer and to 100% of fixed remuneration for the Group Managing Director, excluding any KMU-based remuneration; • when the rate of achievement is 115%, a bonus is awarded equal to 150% of fixed remuneration for the Chairman and Chief Executive Officer and Group Managing Director, excluding any KMU-based remuneration; • when the rate of achievement is 125%, a bonus is awarded equal to 180% of fixed remuneration for the Chairman and Chief Executive Officer only, excluding any KMU-based remuneration.	**Target amount:** The rate of achievement of each of these financial targets must be at least 75% for variable remuneration to be paid. When the rate of achievement is below 75%, no bonus is awarded for the portion based on financial targets, i.e., 70% of annual variable remuneration. The minimum achievement rate for non-financial targets is subject to the Board's approval.
Targets: There are two equally-weighted financial targets when calculating variable remuneration: • consolidated recurring operating income (50%); • consolidated cash flow from operations (50%).	**Targets:** Financial targets now determine 70% of annual variable remuneration: • consolidated recurring operating income (35%); • consolidated free cash flow from operations (35%). Introduction of new equally-weighted qualitative performance criteria determining 30% of annual variable remuneration: • organisation and talent management (10%): - build-up of the talent pool for the Creative Division for all of the Group's brands (target applying to the Chairman and Chief Executive Officer), - finalisation of the roll-out of all components (operational, HR and legal) of the new KLLIO organisation (target applying to the Group Managing Director); • corporate Social Responsibility (finalisation of the roll-out of the Group's compliance program (10%); • sustainability (definition and launch of the "Advance" project at Group level and at the level of the brands (10%).

François-Henri Pinault
Chairman and Chief Executive Officer

Variable remuneration due for 2015:

- rate of achievement for the "Consolidated recurring operating income" target: 98.3%;
- rate of achievement for the "Consolidated free cash flow from operations" target: 91.9%;
- **combined rate of award: 87.8%.**

Resulting in payment of variable remuneration of **€1,158,960**.

Variable remuneration due for 2016:

- rate of achievement for the "Consolidated recurring operating income" target: 36.4%;
- rate of achievement for the "Consolidated free cash flow from operations" target: 40.2%;
- rate of achievement for the "Organisation and talent management" target: 10%;
- rate of achievement for the "Corporate Social Responsibility" target: 10%;
- rate of achievement for the "Sustainability" target: 10%;
- **combined rate of award: 106.6%.**

Resulting in payment of variable remuneration of **€1,407,318**.

Jean-François Palus
Group Managing Director

Variable remuneration due for 2015:

- rate of achievement for the "Consolidated recurring operating income" target: 98.3%;
- rate of achievement for the "Consolidated free cash flow from operations" target: 91.9%;
- **combined rate of award: 87.8%.**

Resulting in payment of variable remuneration of **€874,831**[(1)].

Variable remuneration due for 2016:

- rate of achievement for the "Consolidated recurring operating income" target: 36.4%;
- rate of achievement for the "Consolidated free cash flow from operations" target: 40.2%;
- rate of achievement for the "Organisation and talent management" target: 10%;
- rate of achievement for the "Corporate Social Responsibility" target: 10%;
- rate of achievement for the "Sustainability" target: 10%;
- **combined rate of award: 106.6%.**

Resulting in payment of variable remuneration of **€1,062,302**[(2)].

(1) Data restated to reflect the 2016 exchange rate.
(2) Translated into euros at the December 31, 2016 closing exchange rate.

Multi-annual variable remuneration (KMUs)

Principles applicable in 2015	Changes introduced in 2016
Long-term incentive scheme introduced in 2013 and based on Kering Monetary Units, whose value is indexed equally to both absolute changes in the Kering share price and changes in the Kering share price relative to a basket of nine Luxury and Sport & Lifestyle stocks.	**No changes were made.**
Award: The value of the multi-annual variable remuneration award is equal to 70% of total annual cash-based remuneration paid in year Y. The number of KMUs awarded in year Y therefore corresponds to: 70% [fixed remuneration Y + annual variable remuneration due for Y-1]/Value of KMUs at December 31 of Y-1.	**No changes were made.**
Benchmark: The following companies were used to compile the benchmark: Adidas/Burberry/Ferragamo/LVMH/Nike/Prada/Richemont/Swatch/Tod's.	**No changes were made.**
Vesting period: The KMU vesting period is set at three years as from January 1 of the year in which they are granted.	**No changes were made.**
Cash-ins: A two-year cash-in period begins at the end of the vesting period, with KMUs able to be cashed in twice a year, in April and October.	**No changes were made.**
Vesting conditions: KMU vesting is subject to several cumulative conditions: • increase in earnings per share from continuing operations excluding non-recurring items for Y-1 versus the previous year, in accordance with the Group's sustainable growth target: - if the increase is less than 2.5%, no KMUs are awarded, - if the increase is between 2.5% and 5%, KMUs are awarded on a linear basis from 0% to 100%, - if the increase is more than 5%, 100% of KMUs are awarded (award capped); • performance of the Kering share relative to a panel of companies at the vesting date; • vesting and holding of a portion of Kering shares equal to at least 30% of the net statutory and tax value of the cash-ins, subject to a cap equal to the sum of the last two years of cash-based remuneration (cumulative fixed and variable components) at the time of the assessment; • continuation of a qualifying activity within the Group.	**No changes were made.**

François-Henri Pinault
Chairman and Chief Executive Officer

Award during 2015:

Award of 11,153 KMUs with a unit value of €167 at December 31, 2014, representing an award value of **€1,862,551**.

The KMUs may be cashed in as from April 2018, subject to meeting the aforementioned conditions.

Award during 2016:

Award of 9,526 KMUs with a unit value of €166 at December 31, 2015, representing an award value of **€1,581,316**.

The KMUs may be cashed in as from April 2019, subject to meeting the aforementioned conditions.

Cash-ins during 2015:

Loss of the right to cash in the 11,874 KMUs awarded in 2013 owing to the increase of 1.7% in earnings per share from continuing operations attributable to owners over the past three years.

Cash-ins during 2016:

Loss of the right to cash in the 11,372 KMUs awarded in 2014 owing to the decrease of 1.9% in earnings per share from continuing operations attributable to owners over the past three years.

This loss of cash-in rights does not however concern the 9,900 KMUs awarded to the Chairman and Chief Executive Officer on an exceptional basis pursuant to a decision of the Board of Directors' meeting on December 8, 2014, acting on a recommendation of the Remuneration Committee, which is not subject to any performance conditions. This award of a long-term performance bonus to the Chairman and Chief Executive Officer was approved in recognition of the Group's transformation into a Luxury and Sport & Lifestyle business. The value of this bonus award in the form of KMUs was equal to 70% of his total annual cash-based remuneration paid in 2014, which amounted to €2,339,480. On this basis, 9,900 KMUs were granted with a unit value of €166 as of June 30, 2014, corresponding to a total value of €1,643,400.

Based on the price of a KMU at December 31, 2016 (€249), cashing in these 9,900 KMUs as from April 2017 could represent up to €2,465,100.

Jean-François Palus
Group Managing Director

Award during 2015:

Award of 9,758 KMUs with a unit value of €167 at December 31, 2014, representing an award value of **€1,629,586**.

The KMUs may be cashed in as from April 2018, subject to meeting the aforementioned conditions.

Award during 2016:

Award of 8,448 KMUs with a unit value of €166 at December 31, 2015, representing an award value of **€1,402,368**.

The KMUs may be cashed in as from April 2019, subject to meeting the aforementioned conditions.

Cash-ins during 2015:

Loss of the right to cash in the 9,763 KMUs awarded in 2013 owing to the increase of 1.7% in earnings per share from continuing operations attributable to owners over the past three years.

Cash-ins during 2016:

Loss of the right to cash in the 9,426 KMUs awarded in 2014 owing to the decrease of 1.9% in earnings per share from continuing operations attributable to owners over the past three years.

Benefits in kind

Principles applicable in 2015	Changes introduced in 2016
Benefits in kind accruing to the Chairman and Chief Executive Officer correspond to the provision of a company car. Since July 1, 2013, the Group Managing Director has been entitled to an annual allowance for residence in London (amounting to GBP 900,000 for the relevant fiscal year). The allowance provides the Group Managing Director and his family with a residence in London following the relocation of his coordination activities for the Group's international support functions and the management of the Group's activities.	**No changes were made to benefits in kind.**

François-Henri Pinault
Chairman and Chief Executive Officer

Value of benefits in kind granted for 2015:
The estimated value of benefits in kind was **€18,612**.

Value of benefits in kind granted for 2016:
The estimated value of benefits in kind was **€17,222**.

Jean-François Palus
Group Managing Director

Value of benefits in kind granted for 2015:
The estimated value of benefits in kind was **€1,098,257** (1).

Value of benefits in kind granted for 2016:
The estimated value of benefits in kind was **€1,098,257** (2).

(1) Data restated to reflect the 2016 exchange rate.
(2) Translated into euros at the average 2016 exchange rate.

Indemnities or benefits owed or that may be payable on termination or change of duties

Principles applicable in 2015	Changes introduced in 2016
The Chairman and Chief Executive Officer is not eligible for any indemnities in the event of termination of duties. This is also the case for the Group Managing Director.	**No changes were made.**

Non-competition indemnities

Principles applicable in 2015	Changes introduced in 2016
The Chairman and Chief Executive Officer is not eligible for any non-competition indemnities. This is also the case for the Group Managing Director.	**No changes were made.**

Supplementary pension plan

Principles applicable in 2015	Changes introduced in 2016
There are no supplementary defined benefit pension plans for the Chairman and Chief Executive Officer. Concerning the Group Managing Director, at the beginning of 2010 the Board of Directors authorised the grant of a pension benefit to Jean-François Palus. This benefit takes the form of a capital transfer of an amount of €3.568 million to a fund entitling him to payment of a full pension (with a right of reversion) from the legal retirement age, and is not subject to his presence within the Group. However, to benefit from the plan, Jean-François Palus must not have left the Group for personal reasons before December 31, 2014 and the performance criteria for entitlement to the variable portion of his remuneration for 2009 and 2010 must be fulfilled. The capital was intended to finance a target pension annuity of a non-guaranteed amount, representing approximately 25% of his annual remuneration paid in 2009 according to the actuarial rates applied within the Group.	On March 18, 2015, the Board of Directors noted that Jean-François Palus had not left the Group for personal reasons and that his performance conditions for 2009 and 2010 had been fulfilled. Consequently, the condition no longer applied. In addition, on March 11, 2016, the Board of Directors reviewed the agreement and agreed on its implementation, based on a total payment of €4,724,540 (following application of a 5% interest rate to the initial capital of €3,568,000 for the relevant period). The Board of Directors therefore noted the extinguishment of the Group's debt under the aforementioned agreement.

Directors' fees

Principles applicable in 2015	Changes introduced in 2016
Out of the total amount set by the Annual General Meeting, the rule followed by the Board in order to comply with AFEP-MEDEF Recommendation 21-1 (recommended significant variable portion) is to divide the total amount between a 40% fixed portion and a 60% variable portion. The Directors' fees are allocated in the following manner: a. a fixed portion, minus a special portion corresponding to the remuneration of the Chairs of the Audit, Remuneration and Appointments Committees, respectively (€23,000 each), the balance being allocated with a coefficient of 1 by Board membership, increased by 0.5 per Committee; b. a variable portion, allocated with a coefficient of 1 (2 for the Vice-Chair) per presence at each meeting of the Board and 0.5 for each attendance of a Committee meeting. These Directors' fees are increased by the Directors' fees paid by the Group's subsidiaries.	**No changes were made.**

François-Henri Pinault
Chairman and Chief Executive Officer

Directors' fees payable for 2015:

Directors' fees payable for 2015 totalled **€126,931**. A total of €74,431 relates to Directors' fees paid by Kering:

- €27,493 for the fixed portion;
- €46,938 for the variable portion.

And €52,500 relates to Directors' fees paid by the Group's subsidiaries.

Directors' fees payable for 2016:

Directors' fees payable for 2016 totalled **€117,179**. A total of €64,679 relates to Directors' fees paid by Kering:

- €27,271 for the fixed portion;
- €37,408 for the variable portion.

And €52,500 relates to Directors' fees paid by the Group's subsidiaries.

Jean-François Palus
Group Managing Director

Directors' fees payable for 2015:

Directors' fees payable for 2015 totalled **€195,087**. A total of €65,087 relates to Directors' fees paid by Kering:

- €20,620 for the fixed portion;
- €44,468 for the variable portion.

And €130,000 relates to Directors' fees paid by the Group's subsidiaries.

Directors' fees payable for 2016:

Directors' fees payable for 2016 totalled **€190,355**. A total of €60,355 relates to Directors' fees paid by Kering:

- €20,453 for the fixed portion;
- €39,901 for the variable portion.

And €130,000 relates to Directors' fees paid by the Group's subsidiaries.

Exceptional remuneration

Principles applicable in 2015	Changes introduced in 2016
No exceptional remuneration was granted to the Chairman and Chief Executive Officer in 2015.	**No exceptional remuneration was approved in 2016.**
This is also the case for the Group Managing Director.	

On April 29, 2016, the Annual General Meeting gave a favourable opinion on the remuneration due or awarded to the Chairman and Chief Executive Officer and the Group Managing Director for 2015.

5.2. 2017 remuneration policy

Acting on a recommendation of the Remuneration Committee, the Board of Directors' meeting on February 9, 2017 approved the remuneration policy for the Chairman and Chief Executive Officer and the Group Managing Director for 2017.

In compliance with the provisions of Article L. 225-37-2 of the French Commercial Code, the remuneration policy described below, which includes the principles and criteria for determining, allocating and awarding fixed, variable and exceptional components making up total remuneration and benefits of any kind granted to executive corporate officers, will be submitted to the approval of Kering's 2017 Annual General Meeting (the remuneration due or awarded to the Chairman and Chief Executive Officer and the Group Managing Director for 2016, which is described above, will be submitted to the advisory opinion of the shareholders).

5.2.1. Change in operating environment

The Remuneration Committee's meetings took into account the changes that the Group underwent in 2015-2016 as well as the changes in its regulatory environment, to ensure that the proposal submitted for the Board's approval complies with the demands of shareholders at the 2017 Annual General Meeting.

The elements adopted by the Board were reviewed by independent experts, who considered the pertinence of both the remuneration structure put in place and the performance criteria used.

The Board noted that another decisive step had been taken towards the creation of a truly integrated Luxury Group generating added value. Initiatives aimed at getting the Group back on a profitable organic growth track focused on return on capital employed for each brand also paid dividends in an unstable economic climate, giving Kering a strong positioning relative to its peers (for further details of the Group's strategy, see pages 8 *et seq.*). These deep-seated changes have prompted a redefinition of the roles of certain members of the management team, and particularly the Group Managing Director, who now has a direct say in the strategic and operational management of certain brands, and whose relocation to London is part of this global management drive.

5.2.2. A remuneration structure that reflects the Group's medium- and long-term strategic goals

As described above, the executive remuneration policy adopted by the Board is aimed at putting in place a balanced mechanism with a focus on the long term so as to guarantee that the highest level of remuneration can only be achieved as a result of consistent performances over a fairly long period of time. The wide variety of performance criteria adopted enable the Group's strategic goals to be reflected as closely as possible. The varied criteria also serve to spread risk, avoiding an overriding focus on one single indicator. And at least in the current environment, the Group is maintaining a cash-based remuneration policy in the interests of simplicity and alignment with the remuneration payable to all of the Group's managerial-grade employees.

The proposed remuneration policy to be put to the vote of the shareholders is described below.

5.2.2.1. Fixed remuneration

The Board recommends a fixed remuneration amount of €1,200,000 for the two executive corporate officers, representing 23% of the overall target remuneration for the Chairman and Chief Executive Officer and 28% for the Group Managing Director. This amount is in line with executive pay practices adopted by some of the Group's CAC 40 and (International) Luxury market peers. The companies selected for the benchmarking study are:

- CAC 40 (14 companies): Accor, Cap Gemini, Danone, Essilor International, Lafarge, Legrand, L'Oréal, LVMH, Pernod Ricard, Publicis Groupe, Safran, Solvay, Valeo, Vivendi;
- international market (13 companies): Burberry, Coach, Estée Lauder, Hermès, Hugo Boss, L'Oréal, Luxottica, LVMH, Prada, Ralph Lauren, Richemont, Swatch, Tiffany & Co.

It also takes into account the roles and responsibilities of the two senior executives (see part 1.3, page 143 of the Reference Document).

In accordance with the recommendations of the revised AFEP-MEDEF Code, the fixed remuneration amount may only be reviewed at relatively long intervals.

5.2.2.2. Annual variable remuneration

5.2.2.2.1. Annual variable remuneration structure

Variable remuneration is designed to align the reward accruing to executive corporate officers with the Group's annual performance and to help drive forward the Group's strategy year after year. Variable remuneration is expressed as a percentage of annual fixed remuneration.

The Board recommends maintaining the structure of annual variable remuneration as follows:

- for the Chairman and Chief Executive Officer, annual variable remuneration will be equal to 120% of fixed remuneration if the related performance targets are achieved at a rate of 100%, representing 27% of the overall target remuneration. It may equal up to 150% of fixed remuneration if targets are exceeded;
- for the Group Managing Director, annual variable remuneration will be equal to 100% of fixed remuneration if the related performance targets are achieved at a rate of 100%, representing 28% of the overall target remuneration. It may equal up to 150% of fixed remuneration if targets are exceeded.

The principles applied in 2016 aligning the criteria defining the annual variable remuneration for senior executives with those measuring the Group's performance (from both a financial and sustainability perspective) would therefore be maintained.

Total variable remuneration due for 2017 will be paid in 2018, following the Annual General Meeting's approval of the financial statements. Payment is also subject to the Annual General Meeting's approval of the 2017 remuneration policy.

5.2.2.2.2. Specific, predefined and ambitious performance criteria aligned with Kering's strategy and the interests of its investors

The financial criteria are those used to assess the Group's performance (free cash flow from operations and recurring operating income – each determining 35% of the award) and ensure that amounts paid are aligned as closely as possible with the extent to which the Group's strategic goals have been achieved. This also applies to non-financial performance targets (sustainability – 10%, Corporate Social Responsibility – 10% and talent management – 10%), which reflect Kering's goals in these areas.

Criteria for the non-financial targets defined for 2017 are listed below. For confidentiality reasons, the targets associated with financial criteria are not disclosed.

Financial criteria (quantitative) used to calculate annual variable remuneration	Weighting
Free cash flow from operations	35%
Recurring operating income	35%
SUB-TOTAL	**70%**

Non-financial criteria (qualitative) used to calculate annual variable remuneration	2017 targets	Weighting
Talent management	Active support regarding implementation of the talent management policy from brand management teams and of succession plans for members of the Group Executive Committee, CEOs and Creative Directors.	10%
Corporate Social Responsibility	Dissemination of a culture of performance and integrity within the Group through personal commitment and regular communication on these issues	10%
Sustainability	Operational implementation of the "Advance 2025" plan though the definition and roll-out of action plans for each brand	10%
SUB-TOTAL		**30%**
TOTAL		**100%**

Annual variable remuneration is aimed at better aligning the Group with market practices and at encouraging executive corporate officers to adopt a management approach focused on long-term value creation. Performance criteria were therefore revised with a dual aim in mind: to take into account a wide variety of indicators reflecting the actual situation and the impacts of Kering's strategy.

5.2.2.2.3. Factors determining the payment of annual variable remuneration for 2017

The factors determining payment of annual variable remuneration function as described in the table below, it being specified that for confidentiality reasons, specific quantified targets will only be disclosed *a posteriori* at the time of payment (rather than when targets are set). The Company recommends making the calculation rules used to determine amounts payable more symmetrical with the extent to which targets are achieved.

Actual performance versus targets set	Percentage of bonus awarded
<75%	0%
100%	100%
>125%	150%

5.2.2.3. Multi-annual variable remuneration

5.2.2.3.1. Multi-annual variable remuneration structure

Multi-annual variable remuneration will continue to be based on Kering Monetary Units (KMUs). However, several changes are recommended:

Award:

For the Chairman and Chief Executive Officer, the value of the multi-annual variable remuneration award will be equal to 100% of the total annual cash-based remuneration paid in year Y (compared to 70% currently). The number of KMUs awarded in year Y will therefore correspond to: 100% [fixed remuneration Y + annual variable remuneration due for Y-1]/Value of KMUs at December 31 of Y-1.

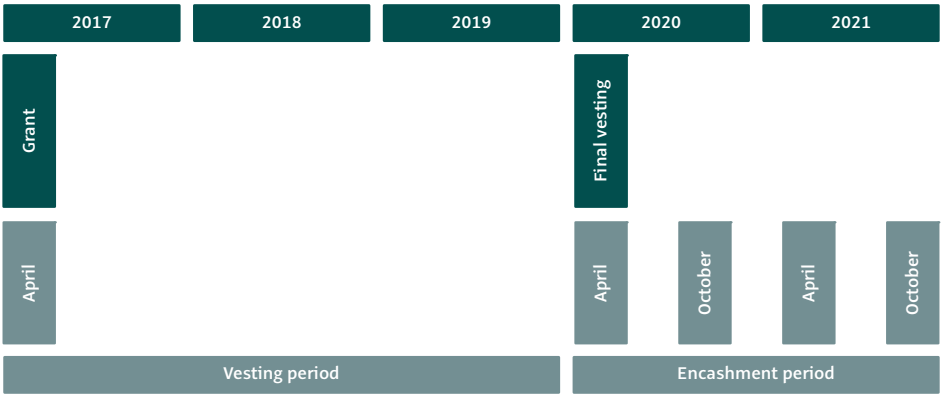
For the Group Managing Director, the value of the multi-annual variable remuneration award will be equal to 80% of the total annual cash-based remuneration paid in year Y (compared to 70% currently).

Vesting period:

The KMU vesting period will continue to be three years as from January 1 of the year of the grant.

Cash-ins:

The cash-in period will start once the vesting period is complete and will be maintained at two years, with units able to be cashed in twice per year, in April and October.



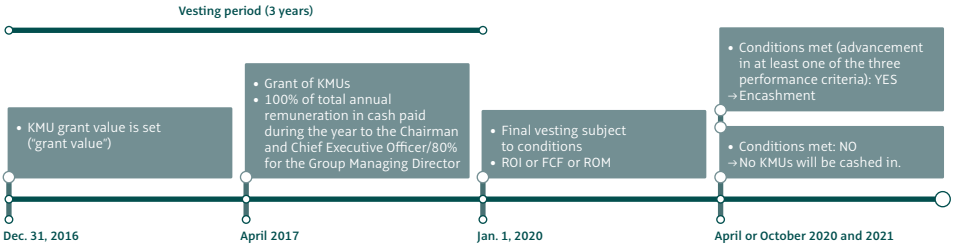
Vesting conditions:

Based on a recommendation of the Remuneration Committee, the Board of Directors considered that the performance conditions attached to long-term incentive pay for executive corporate officers should reflect the Group's economic and strategic priorities more directly. As from 2017, final vesting will therefore be subject to performance criteria based on three indicators:

- recurring operating income (ROI);
- free cash flow from operations (FCF);
- recurring operating margin (ROM).

If an increase is observed in at least one of these three indicators between the average amount over the three-year vesting period and the amount shown in Kering's consolidated financial statements for the year preceding the year of the grant, 100% of the KMUs granted may be cashed in. Failing this, no KMUs will be cashed in.

The accounting criteria are also based on the indicators used to assess the Group's performance. The mechanism in place meets stricter requirements, since the KMU value is not in itself a performance condition but influences the amount actually paid at the exercise date.



5.2.2.3.2. Description of Kering Monetary Units (KMUs)

The long-term component of executive remuneration consists of Kering Monetary Units (KMUs), which are paid on the same basis as the long-term remuneration plans for other managerial-grade employees of the Group eligible for such remuneration. However, the exercise of KMUs is subject to the performance conditions outlined above.

The long-term remuneration plan is therefore based on Kering Monetary Units (and no longer on performance shares) whose initial value of €100 (at December 31, 2011) is indexed to changes in the Kering share price relative to a basket of nine Luxury and Sport & Lifestyle stocks. These KMUs have a vesting period of three years as from their grant date, after which they may be cashed in by the beneficiaries over a two-year period (during two windows each year), based on the value determined during the last opened window.

5.2.2.3.3. Method applied to value KMUs

The value of a KMU was set at €100 on December 31, 2011. Changes in the KMU value are assessed on a six-monthly basis (at June 30 and December 31 each year), based on the Kering share price during the last 30 trading days, and the value is weighted for the performance of the Kering share relative to the basket of other stocks.

At the end of each six-month period, the value of a Kering Monetary Unit is calculated as follows:

$$UVs+1 = UVs \times ([1+VKs+1] + ([1+VKs+1] \times [1+VKs+1] / [1+VPVs+1])) / 2$$

Where:

UV = unit of value.

s+1 = the six-monthly closing date at which the unit of value is assessed (06/30 or 12/31).

s = the previous six-monthly closing.

VK = the change in the Kering share price over the six-month period, using the average share price over the 30 days preceding the six-monthly closing as the reference price.

VPV = the change in the price of a basket of stocks over the six-month period, equal to the arithmetic average change in these stocks, using the average share price over the 30 days preceding the six-monthly closing as the reference price.

The following companies were used to compile the benchmark: Adidas/Burberry/Ferragamo/LVMH/Nike/Prada/Richemont/Swatch/Tod's.

Since December 31, 2011, based on the valuation method described above, changes in the value of KMUs are as follows:

Date	KMU value
December 31, 2011	€100
June 30, 2012	€102
December 31, 2012	€131
July 21, 2013 (1)	€152
December 31, 2013 (1)	€144
June 30, 2014	€166
December 31, 2014	€167
June 30, 2015	€160
December 31, 2015	€166
June 30, 2016	€157
December 31, 2016	€249

(1) Date of the first award of KMUs.

The following four scenarios illustrate the sensitivity of the KMUs to the Kering share price and the value of the basket of stocks:

Option	KMU impact
-15% (Kering) vs -15% (basket)	15% decrease in KMU value
-10% (Kering) vs +5% (basket)	16.4% decrease in KMU value
+10% (Kering) vs -5% (basket)	18.7% increase in KMU value
+15% (Kering) vs +15% (basket)	15% increase in KMU value

KMU value would fall significantly in the event of a collapse in the Kering share price (e.g., of around 80%).

5.2.2.4. Exceptional remuneration

Besides changes in the roles shared between the two senior executives following the departure of PUMA's long-standing CEO Jochen Zeitz along with his successor Franz Koch, the Group Managing Director served as acting Chief Executive Officer, in addition to his duties within the Group, as from late 2012. 2013 was spent defining an action plan to restore profitability for the brand which had been declining since 2009. The "Warm-Up" project in particular, devised in conjunction with PUMA, outlined the principles for assisting the new CEO and management team with the following objectives: to determine the positioning of the brand in France, the US, Germany and China, and to draw up recommendations and analyse product processes from design to store in a bid to identify areas for improvement. This was the basis for the roll-out of a new vision and the associated strategy. The new CEO, Björn Gulden, rolled out this action plan and has helped revamp the products offered since that date, with convincing results as from the second half of 2015.

These positive results were confirmed in 2016 with a 7% rise in revenue as reported (10.4% on a comparable basis) versus 2015 in a still fiercely competitive market, and an increase of 80 basis points in the profit margin to 3.5%, at last reversing the brand's downward financial trend.

Another decisive step was taken towards the creation of an integrated Luxury Group built around a corporate structure bolstered by the expertise and added value provided to the Group's brands.

Similarly, under the aegis of the Group Managing Director, initiatives aimed at getting back on a path of profitable organic growth focused on each brand's return on capital employed have paid off in an unstable economic environment that has affected virtually all Luxury brands. Kering's solid market positioning compared to its peers has driven sharp gains in its share price over the second half of 2016.

In this context, the Group decided to award 5,000 KMUs on an exceptional basis to the Group Managing Director in recognition of this performance. This proposed exceptional remuneration in the form of a fairly long-term retention bonus meets the requirements set out in the revised AFEP-MEDEF Code, which states that "exceptional remuneration may only be awarded in very specific circumstances (e.g., matters of great significance for the Company or matters which are significant in terms of the commitment they call for and/or the difficulties they present)". In view of the exceptional nature of this award, it is granted under the same conditions as those applicable to the plans of the Group's employees benefiting from remuneration of this type.

On the basis of 5,000 KMUs with a unit value of €249 as of December 31, 2016, the corresponding total value of the award would be €1,245,000. The KMUs may be cashed in as from April 2020. The vesting of the 5,000 KMUs is subject to beneficiaries' continued presence within the Group.

5.2.2.5. Directors' fees

The Board recommends maintaining the current policy of allocating Directors' fees. Executive corporate officers receive Directors' fees for some of the offices they hold within the Group.

5.2.2.6. Allotment of stock options and/or performance shares

Since long-term incentive arrangements based on Kering Monetary Units are to be maintained, the remuneration policy for executive corporate officers in 2017 will not include any performance share or stock option awards.

5.2.2.7. Benefits for taking up a position or termination payments

Executive corporate officers will not be eligible for any benefits for taking up a position or termination payments.

5.2.2.8. Supplementary pension plan

Executive corporate officers will not be eligible for any supplementary pension plans.

5.2.2.9. Non-competition indemnities

Executive corporate officers will not be eligible for any such indemnities.

5.2.2.10. Benefits in kind

The Chairman and Chief Executive Officer will continue to benefit from a company car with a driver.

The Board recommends maintaining the Group Managing Director's residence allowance (representing a total of GBP 900,000 per year).

5.2.3. Components of the remuneration structure

The principles outlined above are reflected in the remuneration structure, the components of which are detailed in the following table:

Overall remuneration components	Fixed remuneration	Annual variable remuneration (bonus)	Multi-annual variable remuneration (KMUs)
Grant date	Reviewed at fairly long intervals	Set in March by the Board of Directors, based on a recommendation of the Remuneration Committee	Set in March by the Board of Directors, based on a recommendation of the Remuneration Committee
Reference performance period	Current year	1 year	3 years
Instrument	Cash	Cash	Exercise of Kering Monetary Units (KMUs), paid in cash
Performance conditions determining payment	None	• Non-financial targets: sustainability (10%), Corporate Social Responsibility (10%), talent management (10%) • Financial targets: free cash flow from operations (35%), recurring operating income (35%)	• At least 1 of the 3 financial targets must be achieved: recurring operating income, free cash flow from operations, recurring operating margin • Failing this, no KMUs will be cashed in
Verification of performance conditions	N/A	By the Remuneration Committee based on the financial statements and reports drawn up by the managers concerned on the achievement of non-quantitative targets	By the Remuneration Committee based on the Company's financial statements and calculations of KMU value

5.2.4. Changes in the remuneration policy

5.2.4.1. Chairman and Chief Executive Officer remuneration

	2016	2017
Target remuneration		
Fixed remuneration	€1,099,996	€1,200,000
Target bonus	120% base	120% base
Target cash remuneration	€1,319,995	€1,440,000
Benefits in kind	€17,222	€17,222 (2)
Long-term incentive (1)	70% [base + bonus]	100% [base + bonus]
Total target remuneration	€4,131,207	€5,297,222

(1) Value of award at December 31 of the year preceding the award.
(2) Estimated based on the value of benefits in kind for 2016.

5.2.4.2. Group Managing Director remuneration

	2016	2017
Target remuneration		
Fixed remuneration	€1,018,622 (1)	€1,200,000
Target bonus	100% base	100% base
Target cash remuneration	€1,018,622	€1,200,000
Benefits in kind (1)	€1,098,257	€1,098,257 (2)
Long-term incentive (3)	70% [base + bonus]	80% [base + bonus]
Exceptional remuneration	-	€1,245,000 (4)
Total target remuneration	€4,561,572	€6,663,257

(1) Translated into euros at the average 2016 exchange rate.
(2) Estimated based on the value of benefits in kind for 2016.
(3) Value of award at December 31 of the year preceding the award.
(4) Corresponding to the award of 5,000 KMUs with a value of €249.

5.2.5. Shareholder vote on remuneration accruing to executive corporate officers

In accordance with the Sapin II law and with the recommendations of the revised AFEP-MEDEF Code, shareholders at the Annual General Meeting on April 27, 2017 will be asked to vote on the following:

- remuneration due or awarded to each of the Company's executive corporate officers in respect of the past year, in two separate resolutions. The items of remuneration concerned are as follows:
  - fixed portion,
  - annual variable portion,
  - multi-annual variable portion,
  - exceptional remuneration,
  - stock options, performance shares, and any other long-term remuneration,
  - benefits for taking up a position or termination payments,
  - supplementary pension plan,
  - any other benefits.
- in accordance with the *ex ante* vote as provided for by the Sapin II law, the principles and criteria for determining, allocating and awarding fixed, variable and exceptional components making up total remuneration and benefits of any kind granted to the Chairman and Chief Executive Officer and the Group Managing Director include:
  - fixed portion,
  - annual variable portion,
  - multi-annual variable portion,
  - exceptional remuneration,
  - stock options, performance shares, and any other long-term remuneration,
  - benefits for taking up a position or termination payments,
  - supplementary pension plan,
  - any other benefits.

6. report by the chairman of the board of directors

on the composition of the board of directors and the application of the principle of balanced representation of women and men on the board, on the conditions of preparation and organisation of the work performed by the board, on the internal control and risk management procedures implemented by the company, on financial risks with regard to climate change, and on the measures taken by the company to reduce these risks

Pursuant to Article L. 225-37, paragraph 6 of the French Commercial Code (*Code de commerce*) amended by Act No. 2008-649 of July 3, 2008, Ordinance No. 2009-80 of January 22, 2009, Act No. 2011-103 of January 27, 2011 and Act No. 2015-992 of August 17, 2015, the composition of the Board of Directors, the application of the principle of the balanced representation of women and men on the Board, and the conditions of preparation and organisation of the work performed by the Board of Directors and the internal control and risk management procedures implemented by the Company are reported hereinafter. This report specifies, in particular, the procedures relating to the preparation and processing of financial and accounting information for the consolidated financial statements and the parent company financial statements. In addition, this report indicates any potential limitations set by the Board on the powers of the Chairman and Chief Executive Officer. It also reports on financial risks with regard to climate change and the measures taken by the Company to reduce these risks by implementing a low-carbon strategy across all its activities. The first part of this report was presented to the Appointments Committee on February 2, 2017 and the second part was the subject of deliberations by the Company's Audit Committee on February 7, 2017.

The Board of Directors approved the entire report at its meeting on February 9, 2017 in accordance with the provisions of Article L. 225-37 of the French Commercial Code.

6.1. membership of the board of directors

6.1.1. Current membership of the Board

The Board is composed of Directors with wide and diversified experience, relating in particular to corporate strategy, finance, governance, insurance, economics, social and environmental responsibility, the retail sector, industry, accounting, management and supervision of commercial and financial corporations. The Articles of Association provide for a renewable four-year term of office for Directors.

In order to avoid reappointing the entire Board simultaneously and to facilitate a smooth renewal process, the Combined General Meeting on May 7, 2009 adopted an amendment to Article 10 of the Company's Articles of Association implementing the staggered renewal of the Board of Directors.

After having considered the Board of Directors' report and the favourable opinion issued by the Company's Works Council, the Combined General Meeting on May 6, 2014 decided to amend Article 10 of the Articles of Association in order to establish the procedures for appointing Directors representing the employees in accordance with the French law dated June 14, 2013 in relation to job security.

The Board is currently made up of eleven Directors:

				Participation in a committee							
Name	Position	Age	Independent Director[1]	Audit	Remuneration	Appointments	Strategy & Development	Sustainability	Start of 1st term of office	End of current term of office	Nationality
François-Henri Pinault	Chairman and Chief Executive Officer	54					√	√	1993[2]	2017	French
Patricia Barbizet	Vice-Chair	61		√	√	√			1992[3]	2017	French
Jean-François Palus	Group Managing Director	55						√	2009	2017	French
Yseulys Costes	Director	44	√		√	√			2010	2018	French
Jean-Pierre Denis	Director	56	√	√	√				2008	2020	French
Baudouin Prot	Director	65				√	√		1998[3]	2017	French
Daniela Riccardi	Director	56	√				√	√	2014	2018	Italian
Laurence Boone	Director	47	√	√			√		2010	2020	French
Sophie L'Hélias	Director	53	√	√	√				2016	2020	French
Sapna Sood	Director	43	√			√		√	2016	2020	Australian
Sophie Bouchillou	Director representing the employees	54							2014	2018	French

	Average age	DI :	DI :	DI :	DI :	DI :	DI :	Average seniority
	53 years	60%	75%	75%	50%	50%	50%	9 years

DI *Degree of independence (in accordance with the provisions of the revised AFEP-MEDEF Code, the Director representing employees is not included in the calculation of the degree of independence).*

(1) According to the criteria of the revised AFEP-MEDEF Code and the Board of Directors set out below.
(2) Member of the Executive Board from 1993 to 2001 and the Supervisory Board from 2001 to 2005.
(3) Member of the Supervisory Board until 2005.

Three non-voting Directors appointed by the Board of Directors for a term of four years pursuant to Article 18 of the Company's Articles of Association attend meetings of the Board of Directors, as required, on a consultative basis.

The Board has set up five Committees responsible for assisting it in performing its task: the Audit Committee, the Remuneration Committee, the Appointments Committee, the Strategy & Development Committee and the Sustainability Committee.

A detailed list of the Directors and the non-voting Directors is set out in a previous section of the Reference Document, on pages 145 to 160 and 176.

6.1.2. Changes in the membership of the Board of Directors

The composition of the Board of Directors changed during the 2016 fiscal year on account of terms of office expiring, and not being renewed, for three Directors: Philippe Lagayette, Luca Cordero di Montezemolo and Jochen Zeitz. Three new persons, including a former Director, were therefore appointed to the Board following the Combined General Meeting of 29 April 2016: Sophie L'Hélias, Sapna Sood and Laurence Boone. These appointments enhance the Board's technical competence, diversity and international coverage.

Jean-Pierre Denis's directorship was renewed.

A detailed list of Directors appears in a previous section of the Reference Document, on pages 145 to 160.

6.2. conditions of preparation and organisation of the work of the board of directors

6.2.1. Internal rules of the Board

The Board of Directors performs the duties and exercises the powers granted to it by law and the Articles of Association.

It determines and assesses the strategy, objectives and performance of the Company and ensures their implementation. The Board of Directors defines the financial communications policy and ensures that shareholders and investors are provided with relevant, balanced and educational information which covers Kering's strategy, development model, integration of non-financial challenges that have a material impact on the Company, as well as its long-term outlook. Subject to the powers expressly granted to Annual General Meetings and within the limit of the corporate purpose, the Board reviews all issues concerning the smooth running of the Company and acts on all matters over which it has authority.

The Board carries out the controls and verifications it deems appropriate.

The conditions of preparation and organisation of the work of the Board of Directors are defined by law, the Company's Articles of Association, the internal rules of the Board and the work of its specialised Committees. The Board has established internal rules for each committee.

Pursuant to its internal rules and the law, the Board of Directors meets at least four times a year. To enable Directors to prepare in the best possible way for the topics to be examined during the meeting, a comprehensive file is sent to them in due time ahead of the meeting; it includes, per topic addressed, the necessary information on all items on the agenda.

In line with the relevant regulatory requirements, the internal rules also set the rules applicable to Directors in relation to restrictions on trading in the securities of the Company, or more generally the Group, by establishing black-out periods (in this respect, the internal rules of the Board were updated on October 18, 2016 to reflect the entry into force of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuse):

- the Directors must refrain from trading directly or indirectly in the listed securities and financial instruments of the Company and the Group for a period of 30 calendar days preceding each of the periodic publications relating to the annual and half-year consolidated financial statements and 15 calendar days preceding each of the quarterly publications relating to consolidated revenue and ending at the close of the trading day following the publication of the relevant official press release. In no way does this black-out period replace the legal and regulatory provisions regarding insider trading with which each member of the Board must comply at the time he/she decides to trade, no matter when this might occur outside the defined black-out periods;
- the same obligations apply to each Director insofar as the Director has knowledge of inside information relating to any financial instrument listed on a regulated market, where the issuer of those financial instruments has an insider relationship with the Group. In compliance with current regulations, the internal rules also require Directors to declare trading in these securities.

The internal rules set the frequency and conditions of Board meetings and provide for meeting participation by videoconference and/or conference call.

They also establish the principle of regular assessment of the functioning of the Board and set the terms and conditions by which Directors' fees are allocated.

According to the internal rules, Directors are required to inform the Chairman of the Board of any conflicts of interest, or of any possible conflicts, between their duties towards the Company and their private interests and/or other duties, and they may not vote on any matters that concern them directly or indirectly.

The Chairman of the Board of Directors may ask the Directors at any time for a written statement confirming that they are not involved in any conflicts of interest.

To reinforce its methods of functioning and in the interest of good governance, the internal rules of the Board of Directors set forth and formally lay down the rules governing the organisation and operating methods of the Board as well as the missions of its five Committees: the Audit Committee, the Remuneration Committee, the Appointments Committee, the Strategy & Development Committee and the Sustainability Committee.

Executive Management may in all circumstances be heard within said Committees.

6.2.2. Executive Management

After the Combined General Meeting on May 19, 2005 adopted the new Articles of Association of Kering (then PPR), introducing governance by a Board of Directors, the Board of Directors opted to combine the duties of Chairman and Chief Executive Officer, and maintained this option in May 2009. This choice has contributed to efficient governance in light of the organisation of the Kering group within which François-Henri Pinault is the

Chairman and Chief Executive Officer of Kering, the Group's parent company. He is related to the controlling shareholder, is closely involved in conducting the Group's business and has precise operational knowledge and in-depth experience of this business. On the proposal of the Chairman and Chief Executive Officer, the Board of Directors' meeting on February 22, 2008 appointed a Group Managing Director (*Directeur Général délégué*) whose term of office was renewed on June 18, 2013 and who has the same powers with regard to third parties as the Chief Executive Officer. The Group Managing Director was appointed as Director by the Combined General Meeting on May 7, 2009 for a four-year term, renewed on June 18, 2013 for another four years.

Management of the Luxury activities is the responsibility of the Chairman and Chief Executive Officer and the Group Managing Director. The Group Managing Director is also in charge of the Sport & Lifestyle activities. More specifically, within the Luxury activities, the Chairman and Chief Executive Officer takes direct charge of the operations of the Gucci, Bottega Veneta and Yves Saint Laurent brands while the Group Managing Director takes charge of the other Luxury – Couture and Leather Goods brands.

The Chairman and Chief Executive Officer and the Group Managing Director both take part, on an equal level, in the work of the Board of Directors, 60% of whose members are independent Directors. The Board operates smoothly thanks to frequent meetings, the regular attendance of its members and the assistance of its specialised Committees, as described below.

The Chairmen and Chief Executive Officers of the main brands (Gucci and PUMA) and the Chief Executive Officer of the Luxury – Watches & Jewelry division are members of the Executive Committee and attend Board of Directors' meetings as non-voting Directors. They are all thus able to provide, at those Board meetings they are invited to attend, their views and information concerning the Group's activities and brands so that the non-executive Directors and more generally the Board may be well-informed.

6.2.3. Limitations by the Board of Directors on the powers of the Chief Executive Officer and Group Managing Director

In connection with the Board of Directors' statutory role of determining the business orientation of the Company and ensuring its implementation, and without prejudice to the legal provisions governing the authorisations required to be granted by the Board (related-party agreements, endorsements, suretyships and guarantees, divestments of shareholdings or sale of real property, etc.), the Company's Articles of Association provide that certain decisions of the Chief Executive Officer and Group Managing Director, by virtue of their nature or significance, require the prior approval of the Board of Directors:

a) matters and transactions that have a substantive effect on the strategy of the Group, its financial structure or its scope of business activity;

b) except in the event of a decision by the Annual General Meeting, issues of securities, regardless of the nature thereof, that are liable to lead to a change in the share capital;

c) the following transactions by the Company or any entity controlled by the Group, insofar as they each exceed an amount set annually by the Board of Directors (which was €500 million in 2016):

- all investments or divestments, including the acquisition, sale or exchange of holdings in all existing or future businesses,
- all purchases or sales of Company real property.

These transactions are regularly submitted to the Board of Directors, which examines them carefully.

6.2.4. Compliance with a code of corporate governance

On October 22, 2008, the Board of Directors announced that it had examined and adopted, as a reference corporate governance framework, the AFEP-MEDEF recommendations of October 6, 2008 on the remuneration of executive corporate officers of listed companies and deemed that the corporate governance policies already implemented by the Company complied with all the aforementioned recommendations.

Accordingly, the Company now refers to the Corporate Governance Code of Listed Corporations resulting from the consolidation of the October 2003 AFEP and MEDEF report, the aforementioned January 2007 and October 2008 AFEP-MEDEF recommendations and the April 2010 AFEP-MEDEF recommendation concerning the strengthening of the representation of women within boards, as amended in June 2013, November 2015 and November 2016 ("the revised AFEP-MEDEF Code") and its December 2016 implementing guidelines, and has done so, in particular, for the preparation of this report. The revised AFEP-MEDEF Code is available in English on the AFEP website at http://www.afep.com/en/content/focus/corporate-governance-code-listed-corporations.

Three provisions of the revised AFEP-MEDEF Code were not adopted:

AFEP-MEDEF recommendations	Kering practice and explanations
Composition of the Appointments Committee (section 16.1 of the Code) – the Committee should have a majority of independent Directors.	The Committee currently comprises four Directors: Patricia Barbizet, Chair, Baudouin Prot, Yseulys Costes and Sapna Sood. The Company does not comply with the AFEP-MEDEF recommendations regarding the proportion of independent members within the Appointments Committee. The Board of Directors considers that this does not affect the Committee's work. The Committee comprises four non-executive Directors, two of whom are independent, which ensures free discussion. In addition, the Committee's work, recommendations and decisions are written up in detailed reports and discussed by all Directors at Board meetings.
Composition of the Remuneration Committee (section 17.1 of the Code) – it is recommended that the Committee should include an employee representative Director.	The Committee currently comprises four Directors: Sophie L'Hélias, Chair, Patricia Barbizet, Jean-Pierre Denis and Yseulys Costes. The Company does not comply with the AFEP-MEDEF recommendations, since the employee representative Director is not a member of the Committee. Since the Remuneration Committee comprises a majority of independent Directors, and is chaired by an independent Director, it was not considered necessary to appoint the employee representative Director to the Committee, especially since the employee representative Director has access to the Strategy & Development Committee, which meets during the October Board Meeting. The employee representative Director is therefore involved in examining the overall Group strategy and operations of strategic importance, and in reviewing the competition and the Group's medium- and long-term outlook. In addition, the Committee's work, recommendations and decisions are written up in detailed reports and discussed by all Directors at Board meetings. As part of its continuous improvement programme in governance matters, the Board of Directors is nevertheless considering appointing the employee representative Director to the Remuneration Committee in 2017.
Board meetings (section 10.3 of the Code) – it is recommended to hold yearly meetings not attended by executive corporate officers.	The Company does not comply with the AFEP-MEDEF, since no Board meetings are held that are not attended by executive corporate officers. The Board of Directors considers that open discussion at meetings is no way impeded by the presence of executive corporate officers, who are highly attentive to seeing that the Directors have access to all the information needed, and are able to express themselves freely and ask any questions they wish. The minutes of the Board meetings give a detailed account of the many such discussions that take place. Given the functions performed by the executive corporate officers within the Group, the Board of Directors also considers that their presence at its meetings makes a major contribution to the quality of its work. We also note that the Board comprises a majority of independent Directors. As part of its continuous improvement programme in governance matters, the Board of Directors is nevertheless considering holding a meeting not attended by executive corporate officers in 2017.

6.2.5. Independence of Directors

In order to assess the independence of a Director and to avoid possible risks of conflicts of interest, the Board applied the criteria defined in the revised AFEP-MEDEF Code, whereby a Director cannot:

- be an employee or executive corporate officer of the Company, or have been in such position in the past five years;
- be an employee, executive corporate officer or Director of its parent or of a company that the latter consolidates, or have been in such position in the past five years;
- be an executive corporate officer of a company in which the Company holds a directorship, directly or indirectly, or in which an employee appointed as such or a Director or executive corporate officer of the Company (currently in office or having held office within the past five years) is a Director;
- be a significant customer, supplier, investment banker, or commercial banker of the Company or the Group, or for which the Company or the Group represents a significant portion of the activity;
- have any close family ties with a Director or executive corporate officer;
- have been the auditor of the Company within the past five years;
- be a Director of the company for more than twelve years, the maximum period for which a Director is considered independent.

Upon analysing the situation of each Director with regard to these criteria and following a review by the Appointments Committee on February 2, 2017, the Board of Directors classified as independent Directors, without prejudging the independence of the other Directors, the following members: Yseulys Costes, Daniela Riccardi, Laurence Boone, Sophie L'Hélias, Sapna Sood and Jean-Pierre Denis.

Accordingly, six of the ten[(1)] Directors currently serving on the Board are classified as independent Directors, it being noted that the revised AFEP-MEDEF Code recommends that those companies with a controlling shareholder, which is the case of Kering, comply with the rule that at least one-third of the Board members should be independent Directors.

6.2.6. Activity of the Board of Directors and its specialised Committees

Activity of the Board of Directors in 2016 and up to February 9, 2017

Activity of the Board of Directors in 2016

During 2016, the Board met seven times with an average attendance rate of 95%; the Chairman of the Board chaired all Board meetings.

Dates	Directors present *(attendance rate)*
February 18	*11/11 (100%)*
March 11	*11/11 (100%)*
April 29 (before the Combined General Meeting)	*8/11 (72.7%)[(1)]*
April 29 (after the Combined General Meeting)	*11/11 (100%)*
July 28	*11/11 (100%)*
October 18	*11/11 (100%)*
December 15	*10/11 (90.9%)*

(1) The three Directors who did not take place in this meeting were Philippe Lagayette, Luca Cordero di Montezemolo and Jochen Zeitz, whose terms of office were to expire and not be renewed. Laurence Boone, Sophie L'Hélias and Sapna Sood, whose directorship nominations were put to the shareholders' vote the same day, took part in the meeting as guests.

The following persons took part in the Board meetings:

- the Directors;
- the Board secretary (the Head of the Legal Department);
- the Works Council representative;
- the Statutory Auditors, the Internal Audit Director and non-voting Directors (at some meetings).

The agendas for Board meetings are drawn up by the secretary following discussions with the Chairman and Chief Executive Officer and the Group Managing Director and examination of the agendas of specialised committee meetings and Directors' proposals.

Several days before each Board meeting, each Director receives, via a secure file-sharing system, a copy of the agenda, the draft minutes of the previous meeting, and documentation relevant to the items on the agenda.

The minutes of each Board meeting are submitted for explicit approval at the subsequent meeting.

In compliance with the internal rules of the Board, some matters undergo preliminary examination by the relevant Committees, who can therefore issue their opinions for submission to the Board of Directors. The Chairman reports on these preliminary Committee meetings at each Board meeting.

(1) The AFEP-MEDEF Code does not include Directors representing employees when calculating the percentage of independent Directors on the Board. This explains why the proportion of independent Directors on the Board is calculated based on 10 Directors instead of 11.

In 2016, the work of the Board of Directors mainly involved reviewing the annual and interim financial statements, the Group's business activity and strategic issues.

At the February 18, 2016 Board meeting the main item on the agenda concerned the review of parent company and consolidated financial statements for 2015. The following documents in particular were examined here:

- chairman's report on activity of the Board, internal control and risk management;
- statutory forecast documents (cash flow forecast management: current assets and liabilities as of December 31, 2015; uses and sources of funds for 2016; funding plan; forecast income statement);
- statutory Auditors' report.

The Board reviewed the work of the Audit Committee on the key points raised with a view to the adoption of the 2015 financial statements and on the Internal Audit activity within the Group during the 2015 fiscal year. The Board accordingly approved the annual financial statements and reports for the 2015 fiscal year for the Combined General Meeting, and adopted the draft Management Report of the Board of Directors to be put before the Annual General Meeting. The Directors discussed and approved the regulatory conventions, and granted and allocated the Directors' fees for 2015 in accordance with the terms and conditions of its internal rules. The Board also decided to renew the EMTN programme. The Board issued a decision on the update to Article 6 of the Articles of Association following the increase in share capital resulting from the exercise of stock options in 2015.

On March 11, 2016, the Board met to deliberate on the Group's 2016 budget. The Directors examined the work of the Remuneration Committee, on remuneration for members of the Executive Committee, on the Group's remuneration policies and on remuneration for executive corporate officers. They heard the report on the work of the Appointments Committee, on matters including the independence of Directors and the new Board composition. The Board examined the work carried out by the Sustainability Committee in 2016. At this meeting, the Directors also discussed the findings of the assessment of the Board's work carried out by an independent third-party expert.

The meeting concluded with a decision to convene the Combined General Meeting of April 29, 2016.

On April 29, 2016, the Board met prior to the Combined General Meeting held on the same day. This meeting was attended by the applicants to the vacant directorships. Following discussions on preparations for the Combined General Meeting, including an examination of written questions received, the Board reviewed an outline of the business market.

The Board of Directors met again after the Combined General Meeting on April 29, 2016. The Board renewed the authorisation given to the Chief Executive Officer, with the possibility to sub-delegate such authorisation, to carry out certain transactions, in particular those referred to in Article 15-2 of the Company's Articles of Association, with a ceiling set at €500 million. The Board approved the implementation of the share buy-back programme authorised by the Annual General Meeting on the same day. The Board then proceeded with reforming each of its Committees.

On July 28, 2016, the Board reviewed the work of the Audit Committee, which had met on July 26, 2016, heard the findings of the Statutory Auditors and a report on business activity for the first half of 2016, and adopted the interim financial statements and reports. The agenda also included an item on governance, the main aim being to inform Directors on recent legislative and regulatory changes, including:

- application of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuse; and
- application of the Ordinance No. 2016-315 of March 17, 2016 relating to Statutory Auditors and implementing the recent audit reform.

Under this agenda item the Board also discussed the revised AFEP-MEDEF Code of Corporate Governance. The Directors approved relocation of the Company's head office to 40 rue de Sèvres, 75007 Paris.

The Board meeting of October 18, 2016 was held exceptionally in Milan. This was an opportunity for Directors to visit the Gucci store, showroom, and workshops and the new Milan head office. At this meeting, the board heard a full account of third-quarter sales. This was followed by a review of Group activity and strategic issues. Two points were discussed here. First, the Directors confirmed the three pillars of the Group strategy determined in 2015:

- assert the leadership of the Kering group;
- maintain top ranking on sustainability;
- achieve leadership in return on capital employed.

Second, the Directors reviewed the four strategic action plans:

- tap full growth potential by fielding a balanced portfolio of complementary brands;
- implement a development strategy rooted in organic growth, operating profitability and return on capital employed for each brand;
- create value through Group-wide integration;
- maintain leadership in sustainable development.

The Board then examined the risk map presented by the Internal Audit Director on the basis of Audit Committee recommendations. The Directors adopted the new Code of Conduct on prevention of insider trading and the Board's revised internal rules. The meeting concluded with discussion and approval of the disclosure statement on the UK Slavery Act.

On December 15, 2016, the Board decided to pay an interim dividend for 2016 as from January 18, 2017. The Board then heard a report on the work carried out by the Audit Committee.

Activity of the Board of Directors in 2017 up to February 9

Between January 1, 2017 and February 9, 2017, the Board of Directors met once.

On February 9, 2017, the Board of Directors met to adopt the 2016 annual financial statements and reports to be submitted to the Annual General Meeting as well as to approve this report. It also heard a report on the Group's financial position. The Board then reviewed related-party agreements and decided to grant and allocate the Directors' fees for 2016 in accordance with the criteria adopted in March 2014, which remained unchanged. Lastly, the Board issued a favourable opinion on the continuation of the EMTN programme.

Assessment of the Board of Directors

In accordance with its internal rules, since 2004 the Board of Directors has carried out an annual self-assessment. At least once every three years, an independent Director or third-party expert appointed by the Board assesses and reports on its members and activity. The last assessment by a third-party expert was carried out by a specialised firm which reported to the Board on March 11, 2016. Overall, the assessment gave grounds for satisfaction as to the quality of the work carried out by the Board and its Committees. It did, however, pinpoint a number of areas for improvement, the main ones of which are listed in the table below:

Area for improvement	Remedial action
Strategy	
Presentation of brands by their senior executives	A Brand presentation by its Chief Executive Officer was included in the Board meeting on strategy
Provision of details on comparison with the competition and understanding of the luxury sector	Documents on strategy and competition analysis are put up on the secure file-sharing system
Systematic analysis of risk/opportunity scenarios at the Board meeting on strategy	A presentation is made and discussions held on opportunities and strategic dilemmas. The Internal Audit Director addressed the Board meeting on strategy with presentation of a document drawn up based on the recommendations of the Audit Committee and submitted to the Board
Off-site Board meetings	The Board meeting on strategy was held in Milan, with prior visits to the Gucci Montenapoleone store and showroom and the Gucci workshops
Yearly debate on shifts in perception of the Company as a "luxury group" and on sustainability issues, attended by new human resources and communications managers	This point is covered at the Board meeting on strategy, not attended by human resources or communications managers. A report submitted to the Board of Directors after each meeting of the Sustainability Committee
Organisation	
Information provided further in advance of Board meetings	Preliminary documents for Board and Committee meetings are provided to Directors via the secure file-sharing system
More regular interaction with the management team outside Board meetings, and ability to contribute to setting the agenda	Directors can meet the management team on request, and may request amendments to the Board meeting's agenda
Corporate governance	
Consideration of the need to add the skills of other Directors with recognised experience in the luxury sector	This matter was discussed at a meeting of the Appointments Committee
Annual sessions not attended by executive corporate officers (meetings of independent Directors)	No meeting was held without executive corporate officers in 2016, but there are plans to hold one in 2017

Area for improvement	Remedial action
Work of Committees	
Presentation of Committees' work by their respective Chairs	All Board meetings include a review of the work of the Committees. Each Committee's Chair reports on the points covered
New Chair for the Remuneration Committee, a position requiring authority and independence	Sophie L'Hélias took over from Philippe Lagayette as Chair of the Remuneration Committee. She is independent and has the experience and capacities needed in this position
New Chair for the Sustainability Committee, a position requiring firm commitment aligned with Group strategy	Sapna Sood was appointed Chair of the Sustainability Committee following the 2016 Combined General Meeting. She was formerly Health and Safety Director with LafargeHolcim and Chair of the WBCSD Cement Sustainability Initiative's working group on health and safety
Discussions on Appointments Committee succession plans, with reports to the Board	This point was not addressed in 2016

In line with Recommendation 9.2 of the revised AFEP-MEDEF Code, this assessment by a third-party expert also covered the effective contributions of individual Directors. This involved confidential questionnaire-based interviews of each Director by the third-party expert. Each was invited to express opinions on fulfilment of the Directors' respective missions, and the Chair of the Appointments Committee used this input to report to each Director on his or her specific contributions.

The questionnaire items were as follows:

- general impression on corporate governance;
- chairmanship of the Board of Directors;
- top management (Chairman and Chief Executive Officer and Group Managing Director);
- vice-Chair of the Board of Directors;
- functions of Committee Chairs;
- individual contributions of Directors other than the Chairman and Chief Executive Officer and the Group Managing Director.

The Board uses the results of this questionnaire to assess the contribution and involvement of each Director in the work of the Board and its Committees.

In addition, Directors are free to express themselves at any time on any dysfunction, and the contributions of each Director are assessed by both the Appointments Committee and the Board of Directors, for example, when it comes to renewing the terms of office of Directors and Committee members.

For fiscal year 2016, in line with recommendations of the revised AFEP-MEDEF Code, it was decided to carry out a self-assessment of Board composition, organisation and operation. This assessment, begun at the start of fiscal year 2017, is carried out using a questionnaire sent to each Director. Input from the completed questionnaires provided the basis for individual interviews of the Directors by the Vice-Chair of the Board of Directors. The issues covered included the scheduling of Board meetings not attended by executive corporate officers, the involvement of operational departments at the Board meeting on strategy, the activity and composition of Committees, and the quality and relevance of information received. The Board will be hearing a report on these interviews at the end of the first quarter 2017.

Audit Committee

Duties

Set up in December 2002, the main assignment of the Audit Committee, within the limit of the duties of the Board of Directors, is to review the annual and interim financial statements, to verify the relevance, continuity and reliability of accounting methods applied within the Company and the main subsidiaries and the implementation of internal control and risk management procedures in the Group, to be familiar with the policies implemented within the Group in relation to sustainability and respect for the environment, and to hear and question the Statutory Auditors. The Committee is notified of the main problems identified by the Kering group's Internal Audit Department. In addition to these responsibilities, during the review of the financial statements, the Audit Committee examines any major transactions that may involve a conflict of interest.

The Audit Committee reports to the Board on a regular basis and provides it with its opinions or recommendations on all matters within its scope of duties. The Audit Committee reviews risks and material off-balance sheet commitments and informs the Board of Directors, when necessary. Meetings of the Audit Committee give rise to a written and approved report.

The Committee may call on external experts and hear any person.

Each year it reviews the fees charged by the Company's Statutory Auditors and assesses their independence. The Committee also considers potential Statutory Auditors for appointment.

Composition

The Kering Audit Committee comprises four Directors: Jean-Pierre Denis, Chairman, independent Director, Patricia Barbizet, Sophie L'Hélias, independent Director, and Laurence Boone, independent Director.

The four members of the Audit Committee have recognised financial or accounting skills, combining their expertise in general and operational management of banks and businesses as confirmed by their professional careers (see pages 150, 155, 158 and 159 of the Reference Document).

In accordance with the revised AFEP-MEDEF Code, two-thirds of the members of the Committee are independent Directors, and no member is an executive corporate officer.

Activities of the Audit Committee in 2016 and up to February 7, 2017

In 2016, the Committee met five times, with an average attendance rate of 100%.

During 2016, the Chief Financial Officer and Group Internal Audit Director were regularly invited to present their work and answer questions at meetings of the Committee.

On January 18, 2016, the Audit Committee reviewed Internal Audit activities (audit missions and action plan tracking) and Group risk exposure, and heard the Internal Audit Director's presentation of the 2016 audit plan. With a view to submitting its recommendations to the Board of Directors, it also reviewed the accounting options for the annual financial statements, the off-balance-sheet commitments, the scope of the Statutory Auditors' engagement, the independence of the Statutory Auditors, and their general programme for audit work.

On February 15, 2016, the Committee met prior to the Board meeting held to adopt the 2015 financial statements, a topic to which it devoted most of its work (with a presentation of the financial statements by the Group Chief Financial Officer), and heard the Statutory Auditors in relation to their reports on the financial statements. It also reviewed the services provided by Artémis in 2015.

At its meeting on June 8, 2016, the Committee began by reviewing the interim financial statements, on the basis of a presentation by the Group Chief Financial Officer. This was followed by a presentation of Group Internal Audit missions by the Audit Director. The Committee also heard a report on the development of the Group compliance programme given by the Chief Compliance Officer, who has a direct link to the Board of Directors via the Audit Committee. The Chief Compliance Officer is thus fully independent, an important factor in any compliance programme.

With a view to the meeting of the Board on July 28, 2016 to adopt the interim financial statements, the Committee met on July 26 to review the financial statements. This meeting was attended by the Chief Financial Officer, the Financial Control Director, the Financing and Treasury Director and the Investor Relations Director. The Committee also heard the Statutory Auditors' reports on the interim financial statements, and reviewed an interim report on the audit reform. The Head of the Legal Department closed the session with an interim report on compliance issues, with particular reference to European regulations on market abuse.

The last Audit Committee meeting in 2016 was on September 9, to prepare for the Board meeting on strategy. A specific objective of this extraordinary session was to prepare for discussions under the agenda item on risks. The Group Internal Audit Director reported to the Board on Internal Audit work.

The Audit Committee has met twice in 2017 so far, with an average attendance rate of 87.5%.

On January 11, 2017, the Head of the Internal Audit Department reported to the Committee on the Internal Audit activities and the Group's risk exposure. With a view to submitting its recommendations to the Board of Directors, the Committee reviewed the accounting options for the annual financial statements, off-balance-sheet commitments, the scope of the Statutory Auditors' assignment, the independence of the Statutory Auditors, and their general programme for audit work.

On February 7, 2017, the Committee met before the meeting of the Board to adopt the 2016 financial statements, a topic to which it devoted most of its work, and heard the Statutory Auditors in relation to their reports on the financial statements. It also reviewed the services provided by Artémis in 2016, and heard a report on the performance of the Kering share. The Committee members also examined the Chairman's report on internal control and risk management.

On February 9, 2017, the Committee informed the Board of its work and recommendations.

Remuneration Committee

Duties

The Remuneration Committee's role is to review and make proposals to the Board of Directors on all items and terms of remuneration of the Chairman and Chief Executive Officer and the Group Managing Director (as explained above in the section "Remuneration of executive corporate officers") and the method of allocating Directors' fees granted to the Board by the Annual General Meeting. It reviews and assesses the remuneration policy for senior executives as well as the remuneration and benefits received or deferred, stock options, free share grants and/or similar benefits including retirement benefits and any other benefits granted to members of the Kering group Executive Committee.

Composition

The Remuneration Committee currently comprises four Directors: Sophie L'Hélias, Chair, independent Director, Patricia Barbizet, Yseulys Costes, independent Director, and Jean-Pierre Denis, independent Director. Accordingly, with regard to the criteria of the revised AFEP-MEDEF Code, independent Directors represented the majority of the Remuneration Committee's members and no member is an executive corporate officer. However, contrary to the Code's recommendations, the employee representative Director is not a member of the Committee.

Activities of the Remuneration Committee in 2016 and up to February 7, 2017

In 2016, the Committee met five times, with an average attendance rate of 100%.

It met for the first time, with all its members, on February 15, 2016, to discuss the remuneration of the members of the Executive Committee for 2015. This meeting also examined proposals for change in the variable remuneration system for executive corporate officers and orientations on long-term remuneration components (i.e., performance shares and Kering Monetary Units).

On March 7, 2016, the Committee met to review and determine the variable components of the remuneration awarded to the Chairman and Chief Executive Officer and to the Group Managing Director for 2015, and the components of remuneration for 2016. It determined qualitative performance criteria conditioning 30% of their respective variable remuneration (as detailed in the section "Remuneration of executive corporate officers").

The three following meetings, on 10 June, 2 December and 12 December 2016, were given over entirely to the matter of remuneration components for executive corporate officers. The Committee began by approving the Board's validation of a more linear connection between target achievement rates and bonus payment rates in the annual variable remuneration system, and a 30% proportion of qualitative criteria based on corporate social responsibility objectives. It then discussed setting up a new structure governing remuneration for the Chairman and Chief Executive Officer and the Group Managing Director. Points covered here included the relevance of performance conditions applicable to long-term remuneration, and the need for a link between risk and reward. The Group Human Resources Director and the Remuneration and Benefits Director took part in these discussions.

On February 7, 2017, all the members of the Committee met to conclude matters following the discussions of the three previous meetings. The Committee issued a proposal on reconfiguring the system of remuneration for executive corporate officers, and this was submitted to the Board of Directors at its meeting on February 9, 2017. This Committee's review was carried out on the basis of estimates; the Committee will determine the rate of achievement for all remuneration at its next meeting, based on the Group's 2016 results.

The Remuneration Committee reported on its work and recommendations to the Board of Directors.

Appointments Committee

Duties

Set up in March 2003, the Appointments Committee reviews the proposed appointment of Directors as well as their situation with regard to the independence criteria defined by the Board. This review must be carried out prior to each appointment and at any time deemed appropriate by the Committee. It provides its opinions and recommendations in these matters to the Board.

Composition

The Committee comprises four Directors: Patricia Barbizet, Chair, Yseulys Costes, independent Director, Sapna Sood, independent Director, and Baudouin Prot.

In accordance with the revised AFEP-MEDEF Code, no executive corporate officers are a member of the Committee.

Activities of the Appointments Committee in 2016 and up to February 2, 2017

In 2016, the Appointments Committee met once and all of its members were present.

On February 11, 2016, the Committee met for a progress report on the assessment of the Board of Directors and to review the resulting proposals in view of renewing the Board and its Committees in connection with the expiry of the terms of office of Jean-Pierre Denis, Philippe Lagayette, Luca Cordero Di Montezemolo, and Jochen Zeitz, and of the seat vacated by Laurence Boone. In addition, it reviewed a draft of the section of this report on corporate governance.

On February 2, 2017, all Committee members met to discuss Directors' independence and composition of the Board and its Committees. They also discussed the Chair's report on governance. The Committee proceeded with an interim review of work on Board assessment, with a view to submitting conclusions to the Board meeting of March 10, 2017.

The Appointments Committee accordingly reported on its work and made its recommendations to the Board of Directors.

Strategy & Development Committee

Duties

Within the limits of the duties of the Board of Directors, the Strategy & Development Committee's role is to identify, analyse and support the Kering group's strategic development initiatives.

Composition

The Committee comprises four Directors: François-Henri Pinault, Chair, Baudouin Prot, Daniela Riccardi, independent Director, and Laurence Boone, independent Director.

Activities of the Strategy & Development Committee in 2016 and 2017

As in 2015, the Strategy & Development Committee met once in 2016, on the occasion of the Board of Directors' meeting of October 18, 2016. All the members of the Committee attended the meeting. This unusual arrangement was carried over in 2016 because it was considered useful that all Directors should be able to take part in discussions on Group strategy.

The Committee did not meet in early 2017.

Sustainability Committee

Duties

The Sustainability Committee's role is to support the Company and the Group in establishing, implementing and monitoring good corporate governance, taking into account the aim of the Board of Directors and Executive Management to maintain a high level of sustainability in their economic, social and environmental context, the Group's clear ambitions in terms of ethics and the corporate citizenship policies and practices upheld by the Group, its senior executives and employees.

Composition

The Committee comprises four Directors: Sapna Sood, Chair, François-Henri Pinault, Daniela Riccardi and Jean-François Palus.

Activities of the Sustainability Committee in 2016 and 2017

In 2016, the Committee met twice, with an average attendance rate of 67%.

The Committee met on March 16, 2016 to discuss Group activities with regard to sustainability, consistent with the targets set for 2016. Specific issues covered included the Group sustainability priorities of the EP&L, innovative projects and sustainable sourcing.

A second meeting was held on October 27, 2016. Given the new Committee composition, members were reminded of the reasons for the major emphasis placed on sustainability in Kering's strategy, and they proceeded with a brief interim review of the targets set for the period 2012-2016. The Committee then reviewed the plan for the next ten years (the Advance project), announced to the public in January 2017. The Committee members noted that this new plan goes beyond strictly environmental issues to cover two other points – social responsibility and development of new business models – and thus position the Group as a catalyst for positive change in these areas.

The Group Sustainability and Institutional Affairs Director took part in both meetings of the Sustainability Committee.

The Committee did not meet in early 2017.

6.2.7. Shareholder participation

All shareholders are entitled to attend Annual General Meetings in accordance with the conditions provided for by law. The terms and conditions of said attendance are specified in the provisions of Article 20 of the Articles of Association and are set out on page 381 of the Reference Document.

6.2.8. Information likely to have an impact in the event of a public offer

No information other than that related to (i) the current shareholding structure (Artémis being the majority shareholder, with 40.88% of the capital and 57.41% of voting rights of Kering), (ii) the double voting right provided for under the Articles of Association, (iii) the share buy-back programme, and (iv) the authorisations given by the Annual General Meeting to increase the capital, as expressly described in the Reference Document, is liable to have an impact in the event of a public offer or can have the effect of delaying, deferring or preventing a change of control.

To the Company's knowledge, there are no agreements between shareholders that could restrict the transfer of shares or the exercise of voting rights.

6.2.9. 2016 remuneration policy with regard to Directors and executive corporate officers

Directors' fees paid to the members of the Board of Directors

The Annual General Meeting determines the total amount of Directors' fees allocated to members of the Board of Directors.

Based on the recommendations of the Remuneration Committee, the Board of Directors allocates Directors' fees according to the actual presence of members at meetings of the Board and of specialised Committees held during the relevant fiscal year.

Out of the total amount set by the Annual General Meeting, the rule followed by the Board in order to comply with AFEP-MEDEF Recommendation 20-1 for a significant variable portion is to divide the total amount between a 40% fixed portion and a 60% variable portion. The Directors' fees are allocated in the following manner:

a) a fixed portion, minus a special portion corresponding to the remuneration of the Chairs of the Audit, Remuneration and Appointments Committees, respectively (€23,000 each), the balance being allocated with a coefficient of 1 by Board membership, increased by 0.5 per Committee;

b) a variable portion, allocated with a coefficient of 1 (2 for the Vice-Chair) per presence at each meeting of the Board and 0.5 for each attendance of a Committee meeting.

In respect of 2016, Kering paid the members of its Board of Directors €877,000 in Directors' fees.

Other remuneration

The remuneration and benefits granted to executive corporate officers primarily depend on the level of responsibilities attached to their position, the Group's results and achievement of the targets pursued. They also take into account the remuneration paid by companies that are comparable in terms of size, business sector and international presence.

The variable portion of the remuneration paid to executive corporate officers is based on the achievement of financial and non-financial targets. The Board of Directors adopted two financial criteria for fiscal year 2016:

- recurring operating income;
- free cash flow from operations.

Each of these criteria is weighted at 50%. This variable remuneration portion is triggered at 75% achievement of each budgetary objective, then rises linearly up to a 140% achievement rate, which gives rise to payment of a maximum bonus set at 150% of the target bonus.

There are three non-financial objectives:

- organisation and talent management;
- corporate social responsibility;
- sustainability.

These non-financial objectives determine 30% of the variable portion.

When targets are exactly met, the variable portion is equal to 120% of the fixed remuneration of the Chairman and Chief Executive Officer and 100% of that of the Group Managing Director.

The multi-annual variable portion is based on Kering Monetary Units (KMUs), with an initial value of €152, then indexed equally to both absolute changes in the Kering share and changes in the Kering share price relative to a basket of nine Luxury and Sport & Lifestyle stocks. These KMUs have a vesting period of three years as from their grant date, after which they may be cashed by the beneficiaries over a two-year period (during two windows each year), based on the most recently determined value.

The grant value of this remuneration is equal to 70% of the Chairman and Chief Executive Officer's total annual cash-based remuneration (fixed remuneration plus variable remuneration for the previous year). This is also the case for the Group Managing Director.

Final vesting of the KMUs is subject to the condition of a minimum average increase in earnings per share from continuing operations attributable to owners over the vesting period:

- if this is 5% or more, the whole of this remuneration component can be cashed;
- if it is from 2.5% to 5%, the remuneration component can be partially cashed;
- if it is less than 2.5%, it cannot be cashed.

None of Kering's executive corporate officers benefit from provisions granting them a specific indemnity in the event that they leave the Group.

Details on the remuneration policy and on individual remuneration for Kering Directors and executive corporate officers appear on pages 162 to 172 of the Reference Document.

6.3. internal control and risk management procedures implemented by the company

This part of the Report by the Chairman of the Board of Directors on the risk management and internal control system within the Group is based on the AMF's Reference Framework published in July 2010. The Reference Framework takes into account the legislative and regulatory changes since it was first published in 2007, including Act No. 2008-649 of July 3, 2008 and the Ordinance No. 2008-1278 of December 8, 2008, which adapted French law to EU Directives 2006/46/EC of June 14, 2006 and 2006/43/CE of May 17, 2006, and also supplemented the Financial Security Act No. 2003-706 of August 1, 2003. It also takes account of the requirements set out in article 173 of the Act No. 2015-992 of August 17, 2015 on energy transition for sustainable development.

The AMF's framework is based not only on the aforementioned French and EU legislation and regulations, but also on internal control and risk management good practices and international standards, in particular ISO 31000 and COSO II. The COSO II internal control framework was analysed in depth when the risk management policy was drafted. This policy is set out in the section "The components of risk management".

6.3.1. Scope and principles of organisation

Kering is the parent company of the Kering group, whose main operating entities are the Luxury and the Sport & Lifestyle activities. The following report aims to describe the internal control procedures in the Group, in particular, the procedures relating to the preparation and processing of financial and accounting information. The scope of the Group covered by the report includes all fully-consolidated subsidiaries, *i.e.*, the companies in which the Group directly or indirectly exercises exclusive control.

As a holding company, Kering's own operations consist of defining and implementing its strategy, organising and managing its holdings, stimulating the development of its activities, coordinating their financing, providing support and communication functions, and defining and implementing the insurance cover policy.

The internal control function follows the general organisation of the Group. It is both:

- decentralised at the level of the activities: Executive Management of the operating and legal entities is responsible for managing and coordinating the internal control process;
- unified around a common methodology and a single set of standards. The Kering holding company coordinates its deployment across the Group, supported by teams at Kering APAC and Kering Americas.

The section dedicated to internal control procedures covers the Luxury activities. PUMA AG, listed on the German stock market, is subject to regulatory obligations applicable to internal control and risk reporting, which are described in the Company's annual report and which may be consulted to supplement this report. It should be noted that the Kering group's best practices in this area have been adopted by the PUMA group. PUMA SE's Audit Committee keeps the Kering Audit Committee regularly informed.

6.3.2. General principles of risk management

According to the definition of the AMF, risks represent the possibility that an event may occur and could have an impact on people, assets, the environment, the Company's objectives and its reputation.

Risk management covers areas that are much wider than just financial risks: for example, strategic, operational, reputational and compliance risk. Risk management is a key management tool that helps:

- create and preserve the value, assets and reputation of the Company;
- render the Company's decision-making and processes secure in order to support the achievement of its objectives;
- mitigate the risk of unexpected outcomes and operating losses;
- ensure that initiatives are consistent with the Company's values;
- bring Company employees together to develop a shared view of the main risks.

6.3.3. The components of risk management

The Group constantly strives to make its operations more secure and to improve its methodology to identify and deal with risks. In 2016, the Group pressed ahead with changes to its risk management methodology initiated in 2011 and the means used for its risk management system. The Group's risk management system provides an organisational framework, a three-step risk management process and continuous monitoring of the system.

6.3.3.1. Organisational framework

This organisational framework includes:

- an organisation that sets out the roles and responsibilities of the various persons involved and sets out procedures, as well as consistent and clear standards, for the system;
- a risk management policy that sets out the objectives of the system in line with the Company's culture, the shared language used, and the process to identify, analyse and deal with risks;
- an IT system that makes it possible to share information about risks internally.

Risk Committee

Within the scope of the Group's risk management policy and in accordance with Kering's corporate governance, Kering's Executive Management created a "Kering group Risk Committee" in 2011. This Committee comprises the Group Managing Director, the Chief Financial Officer, the Head of the Legal Department, the Head of the Internal Audit Department and the Head of the Security Department. As the Group's operations and activities expand, and become more complex and more international, the Risk Committee helps identify and manage strategic, operational, reporting, reputational and compliance risks that could have an impact on the Group's business operations. Internal rules establish the rules for the Committee and how it operates.

The Risk Committee reviews (i) the validation and monitoring process for the Group's risk management policy, (ii) the monitoring of the topicality and relevance of the analysis of strategic, operational, reporting, reputational and compliance risks, (iii) the analysis summaries of general and specific risks, and (iv) the validation and monitoring of the roll-out of action plans aimed at better controlling identified risks.

The Risk Committee's work is brought to the attention of the Audit Committee, which is informed of the Committee's internal rules and has access to the reports from its meetings.

Risk manager

The risk manager function was also created within the Company to coordinate this reinforced risk management system, ensure that the Executive Management teams of the activities analyse the main risks within their scope of business, and provide the members of the Risk Committee, prior to each meeting, with the information and documents necessary for their work and their discussions.

Risk management policy

After reviewing in particular the COSO II internal control framework, the Group implemented a risk management policy that was sent to the Kering and PUMA internal control departments as well as the Executive Management teams of the activities and brands. This document describes the methods used by the Group for the risk analysis work that it conducts every two years.

6.3.3.2. A three-step risk management process: The risk management process involves:

- identifying risks: this step makes it possible to identify and centralise the main risks. A risk is characterised by an event, one or more internal or external sources, and one or more consequences. Risk identification within the Group is part of a continuous effort with assessments in principle on a twice-yearly basis;
- analysing risks: this step involves reviewing the potential consequences of the main risks (for example, financial, human, legal or reputational consequences) and assessing their impact, whether they may occur as well as the level of risk control. This is also a continuous effort, and assessments are conducted in principle twice a year during work group sessions with the main managers of the activities; the risk management policy describes in detail the criteria and procedures for these assessments;
- dealing with risk: during this last step, the most appropriate action plan(s) for the Company is (are) identified.

This risk mapping system was put in place several years ago and has been strengthened since 2011 with the presentation made to the Risk Committee of a consolidated risk map for each of the activities. The risk management process is monitored over the long-term.

In 2013, the Group deployed special software for the management of risk identification and analysis which guarantees a common methodology across both activities and extends the responsibilities of the managers included in these workshops.

In 2014, the Group extended its risk identification process through work sessions with the holding company's main managers.

In 2015, the Group extended its risk identification process through work sessions with the key managers of Kering's regional divisions in the Americas and Asia-Pacific.

6.3.3.3. Oversight of the risk management system

The risk management system is monitored and reviewed on a regular basis to help continuously improve the system. The objective is to identify and analyse the main risks and to learn from risks that have materialised.

The Risk Committee meets in principle at least twice a year to review the risk maps drawn up by the Internal Audit Department of the Group and of PUMA, and to monitor the progress of the specific action plans.

The Committee discusses its self-assessment once a year.

The Risk Committee met once in 2016, and the Audit Committee and Board of Directors were apprised of its work in December 2016.

6.3.4. Link between risk management and internal control

The risk management and internal control systems are complementary, and together help control the Group's activities:

- the risk management system is designed to identify and analyse the main risks. Risks are dealt with and addressed in action plans that can be adapted to the organisation, may include project management, and may also involve implementing controls. The controls to be implemented are part of the internal control system and may be reviewed based on the risk maps;
- the internal control system uses the risk management system to identify the main risks to be controlled;
- the audit plan uses the risk map to test the assessment of the level of control of the risks identified.

The link between and the combined balance of the two systems depend on the control environment, which is their common base, particularly the risk and control culture of each company and the ethical values of the Group.

6.3.5. General principles of internal control

6.3.5.1. Definition of internal control

The internal control procedures applicable within the Kering group rely on a set of means, policies, conduct, procedures and appropriate actions to ensure that the necessary measures are taken in order to control:

- activities, operational effectiveness and the efficient use of resources;
- strategic, operational, reporting, reputational or compliance risks that could have a significant impact on the Company's assets or the achievement of its objectives.

Internal control is defined as a process conducted by Executive Management, under the supervision of the Board of Directors, and implemented by senior executives and all employees. Regardless of its quality and its degree of application, it cannot provide an absolute guarantee of the achievement of goals falling within the following categories:

- compliance with laws and regulations in force;
- application of guidelines and directions set by Executive Management;
- smooth operation of internal processes, particularly those contributing to the safeguarding of assets;
- reliability of financial and accounting information.

6.3.5.2. Limits of internal control

The probability of meeting these objectives is subject to the limits inherent in any internal control system, such as:

- human errors or malfunctions occurring when decisions are made or applied;
- deliberate collusion amongst several individuals, enabling them to elude the control system;
- situations in which implementing or maintaining a control would be more expensive than the risk that it is supposed to remedy.

Furthermore, it is understood that in pursuing the objectives indicated above, companies are faced with events and uncertainties beyond their control (unexpected changes in the markets, competitive environment or geopolitical situation, or error in forecasting or assessing the effects of such changes on the organisation, etc.).

6.3.6. Components of internal control

The quality of the internal control system is based on the following components:

- the control environment based on rules of conduct and integrity supported by Management and communicated to all employees;
- an organisation that clearly defines responsibilities and has adequate resources and skills;
- a system to identify, analyse and manage the main risks;
- ongoing oversight of the internal control system and regular review of the functioning of the system.

6.3.6.1. Internal control environment

The Group's internal control system is based on a decentralised organisation that clearly defines responsibilities through the Group Charter. It includes principles and values governing the conduct and ethics of all its employees, presented in the Code of ethics. It also includes an Internal Control Charter. Moreover, it relies on human resources management that ensures the competency, ethical conduct and involvement of its employees.

The Group Charter

The Kering group adopted a Group Charter several years ago which was updated in 2012 and provides the framework for the decentralisation of the organisation and the responsibility of senior executives. The Charter defines the guiding principles governing the relations between Kering and its activities. It also defines, within each functional area, (i) the matters that fall within the delegated responsibility of the activities, (ii) those that must be communicated to Kering within appropriate timeframes, and (iii) those requiring the prior authorisation of Kering.

Group principles and values

The ethical principles of the Kering group are set out in the Code of ethics, first circulated in 2005 and then recirculated in 2009 and 2013 to all Kering group employees.

The third edition of the Code of ethics included a Suppliers' Charter and the adoption of the precautionary principle, especially in environmental protection. It also presents new developments in the Group's ethics organisation and the steps to take in cases of suspected non-compliance with key Kering commitments.

The Code sets out the Group's commitments and rules of conduct towards its main stakeholders:

- employees;
- customers and consumers;
- business partners and competitors;
- the environment;
- civil society;
- shareholders and financial markets.

This intensification of promotion and respect for ethics within the Group has also seen the implementation of an online training programme in ethics and code compliance for all Kering employees worldwide. It is based on case studies that show ethics in the light of daily professional life, and will be updated annually.

In addition to the first circulation of its Code of ethics in 2005, Kering has also set up a Group Ethics Committee. This Committee is now supported by two regional Ethics Committees: the Asia-Pacific (APAC) Ethics Committee and the Americas Ethics Committee. A global hotline is also available to all staff in all 12 of the Code's languages.

The Ethics Committees are composed of representatives of the Group's brands and Kering staff (Corporate, Kering APAC and Kering Americas). This entire structure is managed by Kering's Chief Sustainability Officer and Head of International Affairs.

The Ethics Committees have three main functions:

- supervising the circulation and application of the Code of ethics and the principles that it defends;
- responding to any issues raised by a Group employee, be it a simple request for clarification or a question relating to the interpretation of the Code and its application, or a claim submitted to the Committee due to alleged non-compliance with one of the Group's ethical principles;
- generating initiatives for developing the Group's sustainable development policy and activities.

The changes made to the Code and the organisation of ethics within the Group are examined in detail in Chapter 3 "Sustainability" of this report.

The activities may in addition set up their own specific additional procedures and guidelines, such as supplier gift charters.

Moreover, the Insider Good Practices Committee, made up of the Group Managing Director and the Head of the Legal Department, implements preventive measures to protect against insider trading activities (e.g., a calendar of black-out periods, a list of permanent and occasional insiders, newsletters, etc.).

The Internal Control Charter

The Kering group adopted an Internal Control Charter in 2010 that was circulated throughout the Group. In order to adapt the Charter to changes in the Group since its initial publication, a new edition was published in 2015. The Charter defines internal control and sets out its objectives as presented in the AMF's Reference Framework. It also specifies the limits of internal control, which cannot under any circumstances provide an absolute guarantee that the Company's objectives will be achieved. The Charter specifies that the holding company serves to unite the various entities. It also sets out the responsibilities of each of the activities and brands in implementing an internal control system that is adapted to their operations.

The Charter defines the role of each person involved in the internal control system and the bodies responsible for oversight and assessment.

Furthermore, the Charter specifies the existing tools for assessing internal control and risks which are self-assessment of internal control and mapping of major risks, as well as setting out the basic principles for creating new procedures.

Human resources policy

Quality of human resources and cohesion of management are key success factors of the Group. Kering makes sure that the various activities apply human resources policies that are adapted to their context and challenges, while meeting the highest local standards. The principle of autonomy and empowerment of the activities is also applied, but the Group guarantees the consistency of the policies implemented and their alignment with Kering's values and actions defined centrally.

With regard to social policy, the activities apply high standards of dialogue and participation of employees in the Company, while the Group engages in dialogue at the level of the Group's employee representative bodies, the Group Works Council and the European Works Council. In 2010, the European Works Council and Kering's Group management adopted a "Framework of Commitment on the quality of life at work and the prevention of work-related stress". Kering has also set up an employee opinion survey conducted every two years, which also concerns the activities. The survey was conducted again in 2015. The Group develops cross-functional training programmes and carries out talent reviews every year of the activities' managerial resources. Kering thus ensures that there is a good match both now and in future between the managerial resources and the challenges facing the activities. Furthermore, the Group maintains an active market monitoring policy for all key positions for which the internal succession plan does not appear sufficiently strong.

6.3.6.2. Organisation and resources

The organisation of internal control depends on actively-involved persons at every level of the chain of responsibility, from Executive Management to all employees, as well as the bodies responsible for oversight and assessment: the Board of Directors, the Audit Committees, the Internal Audit and Risk Management Departments and the Statutory Auditors.

Executive Committee

The Kering group Executive Committee, which is an Executive Management body, comprises the Chairman and Chief Executive Officer, the Group Managing Director, the Chief Executive Officer of Kering's "Luxury – Watches & Jewelry" division, the Chief Executive Officers of Gucci, the Chief Executive Officers of Saint Laurent, Bottega Veneta, PUMA SE and Kering Eyewear, the Chief Client and Marketing Officer of Kering, and the Kering functional Directors (Human Resources, Finance, Sustainability and International Institutional Affairs, Communications).

The Executive Committee meets regularly, in accordance with the policies of the Strategy & Development Committee, in order to:

- draw up and coordinate the Group's operating strategy;
- define the priorities through objectives assigned to the activities and the main functional projects;
- develop synergies between the activities;
- propose acquisitions and disposals to the Board of Directors;
- ensure proper implementation of the policies and projects defined within the framework of Kering Sustainability.

Kering group strategies and goals are discussed each year via the medium-term plans and the budgets of the business units of each of the activities.

Executive Management teams

The Executive Management teams define, coordinate and oversee the Group's internal control system. They are also in charge of initiating the necessary corrective measures. The Executive Management teams' involvement is of key importance to the internal control system, given the Kering group's organisation.

Oversight of the system results in an annual report on internal control prepared by the Chief Executive Officer of PUMA.

Management and employees

Management is the key operational player of internal control; it relies on internal control to perform its duties and reach its objectives. In this respect, management implements the internal control operations related to its area of responsibility and ensures that the internal control system is adapted to its activities.

Employees must have the knowledge and information necessary to set up, operate and oversee the internal control system, with regard to the assigned objectives. In their day-to-day activities, they must follow the principles and rules of control and may suggest ways to improve and detect malfunctions.

The bodies responsible for oversight and assessment are:

The Board of Directors

The Board of Directors contributes to the overall control environment through the skills of its members. The Board is regularly informed about the methodologies used for internal control and the management of major risks, which it presents in its Board report.

Audit Committee

Under the responsibility of the Board of Directors, to which it regularly reports on these matters, the Kering Audit Committee comprises four members, three of whom are independent. It is in charge of monitoring:

- the procedures for preparing financial information;
- the effectiveness of internal control and risk management systems;
- the statutory audits of annual financial statements and, if need be, consolidated financial statements performed by the Statutory Auditors;
- the independence of the Statutory Auditors.

The Kering Audit Committee also carries out the following actions:

- verifies that the Group has Internal Audit Departments that are structured and adapted to the tasks of identifying, detecting and preventing risks, anomalies or irregularities in the management of the Group's affairs;
- assesses the relevance and quality of the methods and procedures used;
- reviews the Internal Audit reports and the recommendations issued;
- approves the annual Internal Audit plan;
- reviews the work conducted by the Risk Committee and has access to the minutes of its meetings.

Kering's Audit Committee meets at least four times a year. Similarly, there is an Audit Committee within PUMA, whose methods of operating and actions are identical to those of Kering's Audit Committee; it meets prior to the meeting of Kering's Audit Committee.

Internal Audit and Risk Management Departments

PUMA, as a company listed in Germany, is required to have an Internal Audit Department. This department works with the Kering group's Internal Audit Department to ensure that the audit teams are provided with full coverage of the Group.

Through their work, the Internal Audit and Risk Management Departments help assess the internal control system and make recommendations for its improvement. The Internal Audit and Risk Management Departments are also in charge of coordinating risk management, in particular through risk mapping and monitoring the action plans. The Heads of the Internal Audit Departments report the main results of their assessments to Executive Management and the Audit Committee.

At the level of Kering, the Group Internal Audit Department reports to the Chairman. It coordinates, harmonises and optimises the working methods and tools, as well as providing services (regulatory intelligence, expertise, resources, etc.) and conducting audit assignments within the scope of the annual audit plan.

The Group Internal Audit Department centrally administers and analyses internal control pursuant to the Financial Security Act, supplemented by Act No. 2008-649 of July 3, 2008 and Ordinance No. 2008-1278 of December 8, 2008, as well as the new AMF Reference Framework described in more detail in the section below entitled "Oversight of the system".

The Group Internal Audit Department also performs active intelligence monitoring with regard to best internal control practices.

The Internal Audit Departments check the control procedures implemented by other Departments and conduct operational and financial audits within their remit. During 2016, the Internal Audit teams taken together conducted around sixty audit assignments, including special assignments.

The Internal Audit Departments draw up the audit plans, relying, in particular, on the Group's process guidelines and based on the major risks identified for the brands. They take account of special requests from senior management and other operational departments. These projects are discussed with the main persons in charge. The Audit Committees review and approve the audit plans thus drawn up.

The main issues identified by the Internal Audit Departments are reported to the Audit Committees. In this way, the Audit Committees are informed of the issues identified and the action plans set up by the entities concerned.

Apart from these assignments, all of the Internal Audit resources in the Kering group are dedicated to promoting internal control on all business processes and activities, be they operational or financial, related to stores, warehouses or headquarters, distribution or manufacturing activities.

At the end of 2016, the Internal Audit Department of the Kering group consisted of 20 employees, versus 19 in 2015 and 20 in 2014. Their rules of conduct are described in their Audit Charter which stipulates that:

- at the end of each audit, the findings and recommendations are presented to the managers of the area or areas concerned;
- any agreements or disagreements made known by the audited parties concerning the proposed recommendations are included in the final report that specifies any action plan, as well as responsibilities and the deadlines for implementation;

- the operational staff members concerned are responsible for implementing recommendations;
- the Internal Audit Department is in charge of verifying their implementation.

The Internal Audit activities performed are consistent with the work of the Audit Committees and the results of the work performed by the Statutory Auditors.

The Internal Audit Departments update their Audit Committee on progress made on the audit plan and the follow-up of their action plans at least twice a year.

In 2013, Kering's Internal Audit Department published charters that establish the methodology shared by both activities: the audit manual and the two audit approach documents. The development of the two audit approaches reflects the differences between the activities.

The Statutory Auditors

The Statutory Auditors review the internal control systems in order to certify the financial statements, by identifying the strengths and weaknesses, by assessing the risk of material misstatement, and where applicable, by making recommendations. Under no circumstances do the Statutory Auditors take the place of the Company in implementing the internal control system.

The role of the Statutory Auditors is to annually certify the completeness, accuracy and fair presentation of the parent company and consolidated financial statements and issue a review report on the Group's interim consolidated financial statements.

The audit engagements are allocated between the joint Statutory Auditors: Deloitte and KPMG.

The main issues covered by the Statutory Auditors are as follows:

- identification of the risk areas and performance of tests by sampling in order to validate the completeness, accuracy and fair presentation of the financial statements with regard to their company or consolidated materiality level;
- validation of the main accounting treatments and options throughout the year, in coordination with the management of the activities and Kering;
- application of the accounting standards defined by Kering for the activities;
- preparation of an audit report for each brand, in order to certify Kering's consolidated financial statements, including any comments on internal control;
- presentation of a general overview of the Kering group presented to Kering's Management and to the Audit Committee;
- preparation of the Statutory Auditors' reports for Kering's shareholders. These reports appear in the Reference Document on pages 137, 220, 344, 363 and 365.

6.3.6.3. Risk management

The risk management system is described in the section "Risk management" (see pages 252 to 260).

6.3.6.4. Oversight of the system

The ongoing oversight of the internal control system and regular review of its functioning are carried out by three means: the work performed by Internal Audit, the remarks made by the Statutory Auditors and the annual self-assessments.

With regard to the annual self-assessments carried out within each of the activities for each process identified, the managers in charge are asked to assess the level of internal control through key controls for their operations, in order to identify any weaknesses and implement corrective measures.

Self-assessment is not simply a reporting tool intended for the Internal Audit departments or the Audit Committees; it is also a system that allows the Executive Management teams of each of the activities to obtain reasonable assurance regarding the strength of the internal control system. Self-assessment makes it possible to strengthen the level of internal control through operational action plans.

The internal control analysis methodology is based on the following principles:

- a self-assessment, using questionnaires, conducted with the key operational staff members in each of the activities following the breakdown of operations into key processes. An overhaul of the self-assessment questionnaires was begun in 2011 and continued in 2015 in order to make them more effective and better adapted to business operations. In 2015, all of the questionnaires were reviewed in the light of participants' responses during the previous annual assessment and the comments of those making the assessments. Key controls as well as fraud risk controls were also identified and added to these questionnaires in order to strengthen the effectiveness of the action plans. The self-assessment campaign was extended in 2016 to cover 100% of Kering's and the activities' identified operations;
- these questionnaires provide operational staff with an additional indicator for assessing the quality of the internal control procedures of which they are in charge. They make it possible to harmonise the level of internal control applied throughout the Group and for all activities to benefit from best practices, in particular newly-acquired entities. They allow action plans to be launched based on the results of these self-assessments;
- the questionnaire regarding the finance, accounting and management process is circulated each year. It takes into account the AMF's Reference Framework and, in particular, its application guide. This questionnaire includes 60 or so questions on the Group's mandatory key controls. It is circulated among the largest subsidiaries

in the Luxury and Sport & Lifestyle activities. There was no change in the scope of processes covered in 2016, though more subsidiaries were included in the self-assessment campaigns for each of these processes, reflecting changes in the organisation of the Group's businesses and the acquisition of new companies.

In 2013, the Group's Internal Audit Department began to extend its self-assessment procedures to directly-owned stores throughout the Luxury activities. These quarterly self-assessments give the sales network managers an idea of the effectiveness of their internal control and a teaching aid to help store managers meet their internal control obligations.

In 2016, the Group Internal Audit Department continued to roll out this dedicated tool throughout the Luxury activities' stores.

This approach was presented and approved by the Kering Audit Committee.

6.3.7. Description of internal control procedures relating to the preparation of financial and accounting information

Organisation of the accounting and management function

Financial and accounting information is prepared by the Finance Department. At the level of Kering, this department supervises the Financial Control Department, the Financing and Treasury Department, the Insurance Department, the Tax Department and the Financial Communications Department.

The production and analysis of financial information is based on a set of financial management procedures including:

- medium-term plans, which measure the impact of strategic decisions on the Group's key financial and management balances. They are also used for the annual assessment by the Group of the value in use of assets for the various cash-generating units;
- budgets, which are drawn up in two phases on the basis of discussions between the operating departments and the members of the Group's Executive Management. The first phase takes place in the fourth quarter of the fiscal year when a preliminary budget sets out the main financial balances and operating action plans. The second stage which finalises the budget takes place in the first quarter of the following year and takes into account any significant events that may have occurred in the meantime;
- monthly reporting that monitors the performance of the Luxury and Sport & Lifestyle activities throughout the fiscal year via specific indicators whose consistency and reliability are reviewed by the Financial Control Department. This department also oversees the consistency of the accounting treatment applied by the activities with Group rules and carries out, in collaboration with their financial controllers, an analytical review by comparison with the budget and the previous year;
- monthly meetings of the Executive Management of Kering and the senior executives of the Group's activities to assess business trends on the basis of financial and operational data provided by the meetings' participants;
- the Group's regular monitoring of the activities' off-balance sheet commitments. This control is carried out, in particular, as part of the statutory consolidation process insofar as the activities are required to provide an exhaustive list of their commercial or financial commitments and to monitor them from year to year.

Consolidation procedures

The statutory consolidation of the financial statements is carried out at the end of June and December using the Group consolidation tool. It enables financial information to be transferred from the activities in real time after full validation of the consolidation reporting packages by the activities' Statutory Auditors and by the Chief Executive Officers and Chief Financial Officers of the brands who commit themselves via a signed representation letter, thus strengthening the quality of the financial information transferred.

Consolidation levels within the activities guarantee a first level of control and consistency.

Kering's Financial Control Department coordinates the process and is in charge of producing the Group's consolidated financial statements. For this purpose, the department sends instructions to the activities specifying the reports to be sent, the assumptions to be applied as well as the specific points to be taken into account.

Financial Communications

The purpose of the Financial Communications Department is to provide information on an ongoing or periodic basis which conveys a consistent and clear message as well as to respect the principle of equality between shareholders in relation to disclosures.

Financial communication is meant for a diversified public composed mainly of institutional investors, individuals and employees. Executive Management, the Finance Department and the Financial Communications Department are the contacts for analysts and institutional investors. The Human Resources Department manages the information provided to employees alongside the Financial Communications Department.

Financial information is provided through Annual General Meetings, periodic publications, press releases, etc., and all means of communication, including press, Internet, direct telephone contact and individual meetings.

Financing and Treasury Department

The Financing and Treasury Department manages liquidity, counterparty, foreign exchange and interest rate financial risks. It also coordinates the Group's cash management. It manages the Group's banking policy, establishes guidelines regarding the allocation of activity by bank and coordinates Group calls for tender. It ensures consistency between published financial information and policies governing interest rate, foreign exchange and liquidity risk management. Almost all of the financing is set up by Kering or Kering Finance. Exceptions are analysed on a case-by-case basis according to specific opportunities or constraints and require Kering's agreement.

Internal control is strengthened by the centralisation of certain functions within Kering:

The Legal Department

Apart from its specific function at Company level, the Legal Department assists the entire Group with important legal matters and coordinates analyses or studies common to the activities or of significant interest for the Group. It also formulates Group policy and oversees its application. It provides the activities with a methodology for identifying standard risks enabling them to anticipate such risks and inform the Legal Department.

The Tax Department

The Tax Department coordinates the Group's tax policy, and advises and assists the activities on all issues related to tax law as well as on the implementation of tax consolidation in France.

The Insurance Department

The Insurance Department sets up and manages the Group's insurance policy. It is responsible for identifying, quantifying and handling risks (prevention, self-insurance or transfer to insurers or reinsurers).

The Communications Department

The Communications Department is involved in the Group's development by enhancing its image and reputation both internally and externally.

The Information Systems Department

The Information Systems Department is responsible for providing optimal operational performance, controlling IT risk and improving the Group's information systems.

This report on internal control, resulting from the contribution of the various internal control players mentioned in the first section of this document, was presented in draft form to Kering's Audit Committee for its opinion and was approved by Kering's Board of Directors on February 18, 2016.

The Chairman of the Board of Directors

7. statutory auditors' report

prepared in accordance with article l.225-235 of the french commercial code (code de commerce) on the report of the chairman of the board of directors year ended december, 31 2016

This is a free translation into English of the Statutory Auditors' report issued in French prepared in accordance with Article L. 225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Directors of Kering S.A. on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information issued in French and is provided solely for the convenience of English speaking users. This report should be read in conjunction and construed in accordance with French law and the relevant professional standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Kering S.A. and in accordance with Article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-37 of the French Commercial Code for the year ended December 31, 2016.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report on the internal control and risk management procedures implemented by the Company and containing the other disclosures required by Article L. 225-37 of the French Commercial Code, particularly in terms of corporate governance.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of accounting and financial information, and
- to attest that this report contains the other disclosures required by Article L. 225-37 of the French Commercial Code, it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of accounting and financial information. These procedures mainly consisted in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of accounting and financial information on which the information presented in the Chairman's report is based and the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining whether any significant weaknesses in the internal control procedures relating to the preparation and processing of accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our procedures, we have nothing to report on the information on the Company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with Article L. 225-37 of the French Commercial Code.

Other disclosures

We hereby attest that the Report of the Chairman of the Board of Directors includes the other disclosures required by Article L. 225-37 of the French Commercial Code.

Paris La Défense and Neuilly-sur-Seine, March 28, 2017
The Statutory Auditors

KPMG Audit
Division of KPMG SA
Isabelle Allen Grégoire Menou

Deloitte & Associés
Frédéric Moulin Stéphane Rimbeuf

chapter 5
financial information

1. Activity report 222

1.1. Foreword – Definitions 222
1.2. 2016 highlights 223
1.3. 2016 business review 224
1.4. Analysis of operating performances by brand 229
1.5. Comments on the Group's financial position 241
1.6. Parent company net income and dividend payment 248
1.7. Transactions with related parties 249
1.8. Subsequent events 249
1.9. Outlook 249

2. Investment policy 250

2.1. Financial investments 250
2.2. Operating investments 250

3. Risk management 252

3.1. Financial risks 252
3.2. Strategic and operational risks 254
3.3. Compliance risks 259
3.4. Risk management 259

4. Consolidated financial statements 261

4.1. Consolidated income statement 261
4.2. Consolidated statement of comprehensive income 262
4.3. Consolidated statement of financial position 263
4.4. Consolidated statement of cash flows 264
4.5. Consolidated statement of changes in equity 265

Notes to the consolidated financial statements 266

5. Statutory Auditors' report on the consolidated financial statements 344

6. Parent company financial statements 346

6.1. Balance sheet – assets 346
6.2. Balance sheet – shareholders' equity and liabilities 347
6.3. Income statement 348
6.4. Statement of cash flows 348
6.5. Statement of changes in shareholders' equity 349
6.6. Notes to the parent company financial statements 349
6.7. Five-year financial summary 362

7. Statutory Auditors' report on the financial statements 363

8. Statutory Auditors' special report on regulated agreements and commitments with third parties 365

1. activity report

1.1. foreword – definitions

Definition of "reported" and "comparable" revenue

The Group's "reported" revenue corresponds to published revenue. The Group also uses "comparable" revenue to measure organic growth. "Comparable" revenue refers to 2015 revenue adjusted as follows by:

- neutralising the portion of revenue corresponding to entities divested in 2015;
- including the portion of revenue corresponding to entities acquired in 2016;
- remeasuring 2015 revenue at 2016 exchange rates.

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

Definition of recurring operating income

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

"Other non-recurring operating income and expenses" consists of unusual items, notably as concerns the nature or frequency, that could distort the assessment of Group entities' economic performance. Other non-recurring operating income and expenses include impairment of 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 (see Note 8 – Recurring operating income, and Note 9 – Other non-recurring operating income and expenses, to the consolidated financial statements).

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 2015 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.

Definition of EBITDA

The Group uses EBITDA to monitor its operating performance. This financial indicator corresponds to recurring operating income plus net charges to depreciation, amortisation and impairment of 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.

Definition of free cash flow from operations and available cash flow

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

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

Definition of net debt

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

Net debt includes fair value hedging instruments recorded in the statement of financial position relating to bank borrowings and bonds whose interest rate risk is fully or partly hedged as part of a fair value relationship (see Note 32 – Net debt, to the consolidated financial statements).

1.2. 2016 highlights

Creative and managerial change in the Luxury – Couture & Leather Goods division

On March 23, 2016, Brioni announced the appointment of Justin O'Shea as Creative Director, responsible for the brand's collections as well as its image. He held this position from April 1 until October 4, 2016. The strategy of re-energising the Brioni House that began in early 2016 was pursued during the course of the year through long-term action plans aimed at strengthening Brioni's positioning in the men's ready-to-wear market.

On April 1, 2016, Yves Saint Laurent announced the departure of Hedi Slimane as its Creative and Image Director at the end of a four year mission which has led to the complete repositioning of the brand. On April 4, 2016, Yves Saint Laurent announced the appointment of Anthony Vaccarello as Creative Director of Yves Saint Laurent. Before joining Yves Saint Laurent, Anthony Vaccarello was Creative Director of his eponymous brand, which he founded in 2009 following two years at Fendi.

2016 also saw the arrival of new CEOs within the Luxury – Couture & Leather Goods division: Claus-Dietrich Lahrs at Bottega Veneta (also appointed a member of the Group Executive Committee), Emmanuel Gintzburger at Alexander McQueen, Nikolas Talonpoika at Christopher Kane, and Cédric Charbit at Balenciaga.

Sport & Lifestyle activities – Sale of Electric

On March 16, 2016, Volcom announced that it had sold the Electric brand via a management buyout to a group led by Eric Crane, Electric's Chief Executive Officer. The transaction, which included all the assets of the Electric brand, did not have a material impact in 2016 as the cost of the sale had already been factored in at the end of 2015.

Appointments and corporate governance at Kering

In 2016, Kering announced the appointment of the following new members of the Group Executive Committee: Béatrice Lazat, Human Resources Director, Valérie Duport, Senior Vice President of Communications and Image and Jean-Philippe Bailly, Chief Operating Officer. Carlo Alberto Beretta, who was previously CEO of Bottega Veneta, was appointed to the newly created role of Chief Client & Marketing Officer at Kering and remains a member of the Group Executive Committee.

Since January 1, 2016, Kering has combined its Supply Chain, Logistics and Industrial Operations, under the worldwide leadership of Jean-Philippe Bailly.

Bond issue

On May 10, 2016, Kering carried out a €500 million issue of ten-year bonds with a fixed-rate coupon of 1.25%.

1.3. 2016 business review

Kering's main financial indicators are as follows:

(in € millions)	2016	2015	Change
Revenue	12,384.9	11,584.2	+6.9%
Recurring operating income	1,886.2	1,646.7	+14.5%
as a % of revenue	*15.2%*	*14.2%*	*+1.0 pt*
EBITDA	2,318.2	2,056.3	+12.7%
as a % of revenue	*18.7%*	*17.8%*	*+0.9 pt*
Net income attributable to owners of the parent	813.5	696.0	+16.9%
o/w continuing operations excluding non-recurring items	*1,281.9*	*1,017.3*	*+26.0%*
Gross operating investments	(611.0)	(672.1)	-9.1%
Free cash flow from operations	1,189.4	660.2	+80.2%
Total equity	11,963.9	11,623.1	+2.9%
o/w attributable to owners of the parent	*11,269.7*	*10,948.3*	*+2.9%*
Net debt	4,370.7	4,679.4	-6.6%

Revenue

Consolidated revenue from continuing operations amounted to €12,385 million in 2016, up 6.9% on 2015 as reported and 8.1% based on a comparable Group structure and exchange rates.

(in € millions)	2016	2015	Reported change	Comparable change[1]
Luxury	8,469.4	7,865.3	+7.7%	+7.8%
Sport & Lifestyle	3,883.7	3,682.5	+5.5%	+9.0%
Corporate and other	31.8	36.4	-	-
Total revenue	**12,384.9**	**11,584.2**	**+6.9%**	**+8.1%**

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

As in 2015, the market environment in 2016 was marked by significant geopolitical and economic instability, but exchange rate volatility was less pronounced. Against this backdrop, Luxury activities reported robust sales growth of 7.7% as reported and 7.8% at comparable exchange rates.

In Western Europe, sales growth remained brisk despite slowing tourist numbers and a shift in sales to Asia, primarily to Mainland China. Revenue in North America rose year on year. Sales in Japan remained stable as the rise in the yen affected sales to tourists and, to a certain extent, local customers. In emerging markets, sales were up in the Asia Pacific region, with growth picking up pace in the second half of the year.

Revenue for Sport & Lifestyle activities was up 5.5% as reported. On a comparable basis, revenue growth came to 9%, driven by brisk sales resulting from the action plans implemented at PUMA which are delivering the expected results.

The overall year-on-year increase in reported consolidated revenue includes a €25 million positive impact from changes in Group structure due to the divestments of Tretorn in June 2015 and Electric in March 2016.

Despite a stable US dollar and a stronger Japanese yen, exchange rate fluctuations and the decrease in value of the Group's invoicing currencies against the euro had a €107 million adverse effect on revenue (including €66 million due to the depreciation of the pound sterling).

Revenue by geographic area

(in € millions)	2016	2015	Reported change	Comparable change[1]
Western Europe	3,885.9	3,562.4	+9.1%	+11.4%
North America	2,740.5	2,652.0	+3.3%	+3.7%
Japan	1,226.3	1,101.1	+11.4%	-0.1%
Sub-total – mature markets	**7,852.7**	**7,315.5**	**+7.3%**	**+6.7%**
Eastern Europe, Middle East and Africa	814.3	773.7	+5.2%	+8.6%
South and Central America	514.3	538.8	-4.5%	+12.3%
Asia Pacific (excluding Japan)	3,203.6	2,956.2	+8.4%	+10.9%
Sub-total – emerging markets	**4,532.2**	**4,268.7**	**+6.2%**	**+10.7%**
Total revenue	**12,384.9**	**11,584.2**	**+6.9%**	**+8.1%**

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

The differences in revenue growth levels between geographic regions were much less marked in 2016 than in 2015.

Comparable revenue growth was just as strong in mature markets (led by Western Europe) as in emerging markets. The Asia Pacific region (excluding Japan) accounted for 26% of total consolidated revenue in 2016 and posted comparable-basis growth of almost 11%, led by the upswing seen in Mainland China.

Revenue generated outside the eurozone accounted for 78% of the consolidated total in 2016.

Quarterly revenue data

(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**

(in € millions)	First quarter	Second quarter	Third quarter	Fourth quarter	Total 2015
Gucci	869.0	1,005.2	924.1	1,099.7	3,898.0
Bottega Veneta	290.0	339.2	324.0	332.6	1,285.8
Yves Saint Laurent	211.4	231.7	243.4	287.1	973.6
Other Luxury brands	383.6	431.9	397.0	495.4	1,707.9
Luxury	**1,754.0**	**2,008.0**	**1,888.5**	**2,214.8**	**7,865.3**
PUMA	825.0	776.2	918.2	884.0	3,403.4
Other Sport & Lifestyle brands	65.0	64.8	81.4	67.9	279.1
Sport & Lifestyle	**890.0**	**841.0**	**999.6**	**951.9**	**3,682.5**
Corporate and other	**7.2**	**12.3**	**7.1**	**9.8**	**36.4**
KERING TOTAL	**2,651.2**	**2,861.3**	**2,895.2**	**3,176.5**	**11,584.2**

(Comparable change)[1]	First quarter	Second quarter	Third quarter	Fourth quarter	Full-year 2016
Gucci	+3.1%	+7.4%	+17.0%	+21.4%	+12.7%
Bottega Veneta	-8.3%	-9.8%	-10.9%	-8.6%	-9.4%
Yves Saint Laurent	+26.5%	+22.1%	+33.9%	+20.5%	+25.5%
Other Luxury brands	-3.3%	+2.9%	+2.5%	-3.0%	-0.3%
Luxury	**+2.6%**	**+5.2%**	**+11.3%**	**+11.3%**	**+7.8%**
PUMA	+8.1%	+13.2%	+10.8%	+9.8%	+10.4%
Other Sport & Lifestyle brands	-7.1%	-10.7%	-7.7%	-8.3%	-8.4%
Sport & Lifestyle	**+7.0%**	**+11.4%**	**+9.3%**	**+8.6%**	**+9.0%**
Corporate and other	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
KERING TOTAL	**+4.0%**	**+6.9%**	**+10.5%**	**+10.4%**	**+8.1%**

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

Recurring operating income

Kering's recurring operating income amounted to €1,886 million in 2016, up 14.5% on 2015 as reported.

Consolidated recurring operating margin came to 15.2%, fuelled by Luxury activities whose recurring operating margin widened by 1.2 points to 22.9%.

Recurring operating margin for the Group's Sport & Lifestyle activities rose to 3.2%, up 60 basis points reflecting PUMA's higher profitability.

(in € millions)	2016	2015	Change
Luxury	1,936.0	1,708.0	+13.3%
Sport & Lifestyle	123.2	94.8	+30.0%
Corporate and other	(173.0)	(156.1)	-10.8%
Recurring operating income	**1,886.2**	**1,646.7**	**+14.5%**

The overall year-on-year increase in recurring operating income can be analysed as follows:

- consolidated gross margin for 2016 amounted to €7,790 million, up €715 million or 10.1% on the previous year as reported, driven by growth in revenue and changes in the effective portion of currency hedges;
- operating expenses rose 8.8% or €476 million year-on-year on a reported basis, to €5,903 million. This increase is primarily due to an increase in store network operating costs linked to the expansion of the Yves Saint Laurent, Other Luxury brands and PUMA networks, as well as capital expenditure in Gucci stores to re-energise the brand. Spending on marketing and communication also increased overall with the aim of supporting the growth or recovery of the Group's brands. During the year, the Group exercised strong financial discipline to rein in its cost base for other types of expenses.

EBITDA

At €2,318 million, consolidated EBITDA was 12.7% higher than in 2015, and the EBITDA margin widened by 0.9 of a percentage point to 18.7% from 17.8%.

(in € millions)	2016	2015	Change
Luxury	2,255.4	2,025.4	+11.4%
Sport & Lifestyle	190.0	161.0	+18.0%
Corporate and other	(127.2)	(130.1)	+2.2%
EBITDA	**2,318.2**	**2,056.3**	**+12.7%**

(in € millions)	2016	2015	Change
Recurring operating income	**1,886.2**	**1,646.7**	**+14.5%**
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets	432.0	409.6	+5.5%
EBITDA	**2,318.2**	**2,056.3**	**+12.7%**

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.

Other non-recurring operating income and expenses represented a net expense of €506 million in 2016 and primarily comprised (i) manufacturing and commercial reorganisation costs, particularly for Luxury activities, and (ii) asset impairment losses, including a €297 million write-down of Brioni's and Ulysse Nardin's brands and goodwill. They also included operating losses recorded by Kering Eyewear, which was still in the ramp-up phase in 2016.

In 2015, the Group recorded a net €394 million expense under "Other non-recurring operating income and expenses", principally including restructuring costs and asset impairment losses (including write-downs of the goodwill related to PUMA and one of the Other Luxury brands as well as asset write-downs recorded by Gucci as a result of the brand's transition). They also included disposal gains relating to the sale of the Tretorn brand and the sale of a property complex.

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

Net finance costs

The Group's net finance costs can be analysed as follows:

(in € millions)	2016	2015	Change
Cost of net debt	(128.3)	(128.8)	-0.4%
Other financial income and expenses	(73.5)	(120.3)	-38.9%
Finance costs, net	**(201.8)**	**(249.1)**	**-19.0%**

In 2016, the Group's cost of net debt was just over €128 million.

This slight reduction compared with 2015 primarily stemmed from a decrease in the Group's average outstanding net debt as a result of favourable cash flow generation which more than offset the adverse effects of the changes in Group structure that took place in 2015 and 2016.

The overall year-on-year improvement in cost of net debt was mitigated by an adverse interest rate effect linked to a fall in average outstanding commercial paper. However, the increasing use of bonds has helped to extend the maturity of the Group's debt in the current low interest rate environment.

"Other financial income and expenses" represented a net expense of €74 million, down significantly on the €120 million net expense recorded for 2015. This considerable improvement was primarily due to the fact that in 2015 this item included the adverse impact of the ineffective portion of the Luxury activities' cash flow hedges whereas no such losses were recorded in 2016.

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

Corporate income tax

The Group's income tax charge breaks down as follows:

(in € millions)	2016	2015	Change
Tax on recurring income	(345.3)	(336.5)	+2.6%
Tax on non-recurring items	49.2	14.8	+232.4%
Total tax charge	**(296.1)**	**(321.7)**	**-8.0%**
Effective tax rate	**25.1%**	**32.0%**	**-6.9 pts**
Recurring tax rate	**20.5%**	**24.0%**	**-3.5 pts**

Kering's effective tax rate decreased to 25.1% in 2016 from 32.0% in 2015 due to material permanent differences relating especially to non-recurring expenses, as well as the combined effect of exchange rate fluctuations and currency hedges.

Adjusted for the effect of non-recurring items and the related taxes, the recurring tax rate contracted by 3.5 percentage points to 20.5%.

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

Share in earnings (losses) of equity-accounted companies

At a negative €2 million in 2016, this item was on a par with the previous year, and included the contribution of Wilderness, Tomas Maier, Altuzarra and two alligator farms in the United States.

(See Note 20 – Investments in equity-accounted companies, to the consolidated financial statements).

Net income from continuing operations

Consolidated net income from continuing operations came to €880 million in 2016 versus €680 million for the previous year.

Attributable net income from continuing operations amounted to €825 million compared with €655 million in 2015.

Net income (loss) from discontinued operations

In 2016, the Group reported a €12 million net loss from discontinued operations, which related to vendor warranties granted in connection with prior-period disposals (mainly the sales of Redcats and Sergio Rossi).

(See Note 12 – Non-current assets held for sale and discontinued operations, to the consolidated financial statements).

Net income attributable to non-controlling interests

Net income attributable to non-controlling interests totalled €55 million in 2016 compared with €25 million in 2015. This €30 million increase primarily reflects the rise in PUMA's net income compared with the previous year.

(See Note 15 – Non-controlling interests, to the consolidated financial statements).

Net income attributable to owners of the parent

Net income attributable to owners of the parent amounted to €814 million in 2016 versus €696 million in 2015.

Adjusted for non-recurring items net of tax, attributable net income from continuing operations advanced 26.1% to €1,282 million from €1,017 million in 2015.

Earnings per share

The weighted average number of Kering shares used to calculate earnings per share was approximately 126 million in 2016, virtually unchanged from the number used for 2015.

Earnings per share stood at €6.46 versus €5.52 for the previous year.

Earnings per share from continuing operations totalled €6.55 in 2016, compared with €5.20 for 2015.

Excluding non-recurring items, earnings per share from continuing operations amounted to €10.17, up 26.0% on the 2015 figure.

(See Note 13 – Earnings per share, to the consolidated financial statements).

1.4. analysis of operating performances by brand

Luxury activities

(in € millions)	2016	2015	Change
Revenue	**8,469.4**	**7,865.3**	**+7.7%**
Recurring operating income	**1,936.0**	**1,708.0**	**+13.3%**
as a % of revenue	***22.9%***	***21.7%***	***+1.2 pt***
EBITDA	2,255.4	2,025.4	+11.4%
as a % of revenue	*26.6%*	*25.8%*	*+0.8 pt*
Gross operating investments	380.6	390.9	-2.6%
Average FTE headcount	21,559	21,576	-0.1%

Following on from 2015 – a year marked by considerable geopolitical and economic instability as well as high volatility in both currency and stock markets, which weighed on consumer spending for Luxury Goods – 2016 did not see any significant upturn in the relevant market in which the Kering group's Luxury brands operate. According to the Bain Altagamma research survey, this market narrowed by 1% on a reported basis and was stable at constant exchange rates.

The world's major currencies were much less volatile in 2016 than in 2015, leading to a virtual alignment of reported growth and growth at constant exchange rates for the year as a whole. The yen strengthened during 2016 – mainly in the first half – and the US dollar rose sharply towards the end of the year. Conversely, sterling slumped in late June following the Brexit referendum result and the Chinese yuan continued to steadily trend downwards throughout the course of 2016.

In addition, in line with the trends observed in the last quarter of 2015, there were less pronounced differences in growth levels between geographic regions compared with the highly mixed picture seen in the first nine months of 2015.

In Western Europe, sales continued to rise in 2016, but at a much slower pace than in 2015, reflecting the fact that although domestic demand picked up in the region, lower tourist numbers during the period had an adverse effect on in-store footfall. This gave rise to a particularly unfavourable basis of comparison with 2015 as tourist purchases in Western Europe increased sharply in that year, especially in the first half. A combination of factors was responsible for the year-on-year decrease in tourism, with the main reason being the fear of terrorism, although there were signs of tourist levels picking up in the fourth quarter of 2016. According to data published by Global Blue, sales to tourists in Europe fell 7% during 2016, with a 17% drop in France.

Based on Bain Altagamma's data, the Japanese market contracted in 2016 at constant exchange rates. This was due to the impact of the stronger yen, which pushed down sales to tourists (mainly from China) and led Japanese customers to redirect a portion of their purchases to other Asian countries or Europe.

In North America, the lacklustre market conditions experienced in the last quarter of 2015 continued throughout 2016, reflecting both lower tourist numbers as a result of the stronger dollar and American consumers' wait-and-see attitude (particularly because 2016 was a US presidential election year).

In the Asia Pacific region (excluding Japan) the market recovered overall in 2016 despite another revenue decline in the first quarter. This improvement was spurred by sales trends in Mainland China, with China's main cities reporting the most significant progress, thanks partly to the measures adopted by the Chinese government to stimulate domestic consumer spending (although this had the knock-on effect of slowing down sales to Chinese tourists in Europe and Japan). Conversely, the market environment remained very morose throughout 2016 in Hong Kong and, to a lesser extent, Macao, although the figures for the fourth quarter showed signs of a levelling off. For the other countries in the Asia Pacific region (notably South Korea), overall business was once again buoyed by high tourist numbers and strong levels of local consumer spending.

Against this complex and volatile operating backdrop, the Group's Luxury activities nevertheless delivered very robust sales growth, and as a whole once again outperformed the market, just as they did in 2015.

Overall revenue generated by Luxury activities totalled €8,469 million in 2016, up 7.7% as reported and 7.8% on a comparable Group structure and exchange rate basis. There were no changes in Group structure that affected Luxury activities in 2016.

Comparable-basis growth picked up pace in the second half of the year, coming in at 11.3% (versus 4.0% in the first half), with the increases evenly balanced between the first and second quarters.

Gucci contributed some 52% of Luxury activities' total revenue in 2016, returning to the same proportion as in 2014. Bottega Veneta and Yves Saint Laurent together accounted for over 28% of the total, practically unchanged from 2015, and are now almost equal with one another in terms of their revenue weighting.

Retail sales in directly operated stores and online rose by a very robust 10.3% on a comparable basis, driven by a faster pace of growth in the second half and particularly in the fourth quarter. The fourth-quarter rise came to 17.6% and was led by excellent in-store sales momentum for Gucci. Directly operated stores accounted for 72.3% of total revenue reported by Luxury activities in 2016, versus 70.6% in 2015. This stability reflects the strategy implemented by all of the Luxury brands to control their distribution more effectively and reinforce their exclusivity, as well as measures taken 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 certain brands and product categories and in certain regions.

Wholesale sales were 2.4% higher than in 2015 based on comparable data, despite being weighed down by a 4.1% comparable-basis decrease in the fourth quarter. This fourth-quarter contraction was not, however, due to a decline in orders but rather adjustments to delivery schedules which resulted in some sales being postponed to 2017. Performance for this distribution channel was mixed across the Group's different geographic regions, with very buoyant sales momentum in Western Europe but revenue for North America hampered by lower sales levels in US department stores.

Other revenues (including royalties) were more or less stable compared with 2015, reflecting much weaker showings by Gucci's two main license holders (for the Eyewear and Perfume & Cosmetics product categories).

By product category, overall revenue generated by the Group's Luxury activities is becoming increasingly balanced, reflecting the complementarity of the brands in the portfolio. Leather Goods, Ready-to-Wear and Shoes contributed 52%, 16% and 14% to 2016 revenue respectively and reported very solid revenue increases for the year. Watches & Jewelry accounted for around 9% of overall revenue but continued to be held back by the sluggish timepieces market. Other product categories generally posted sustained growth, particularly thanks to the performance of categories in which Gucci has renewed its offering (scarves, ties and children's wear).

After a 3.7% comparable-basis sales decline in emerging markets in 2015, revenue growth in 2016 was more balanced between mature and emerging markets, which saw a recovery in business levels. The overall year-on-year increases came to 6.5% for mature markets (which accounted for 62.8% of total Luxury activities sales) and 10.1% for emerging markets.

Western Europe (which made up 32.9% of Luxury activities revenue) posted a strong 10.7% rise on a comparable basis, driven by steadily increasing sales to local customers and the renewed appeal of the Gucci brand which was only marginally affected by the lower number of tourists during the year.

In Japan, after three years of increases and a robust first-half, sales generated by Luxury activities were stable in 2016 overall as performance in the second half of the year was hit by the decrease in sales to Chinese tourists and the fact that Japanese consumers moved some of their purchases to other Asian countries.

In North America (19.3% of total revenue), sales were up 3.5% year-on-year on a comparable basis. The unfavourable consumer spending environment (caused by the factors described above) primarily affected the wholesale distribution channel as the main wholesalers were particularly prudent in terms of purchase volumes and continued to implement an aggressive policy of promotional offers. Directly operated stores turned in a more dynamic showing, fuelled by sales growth for Gucci and Yves Saint Laurent.

In emerging markets, comparable-basis sales were up 10.9% in the Asia Pacific region (excluding Japan), with the second half of the year seeing a marked acceleration. Except for Hong Kong and Taiwan, all of the key markets in this region reported very solid sales increases. In Mainland China, revenue jumped 15.4% year-on-year, spurred by the success of Gucci's collections amongst its Chinese customers. Sales momentum was also very robust in South Korea, which is the region's third-largest market in terms of size.

In the Luxury activities' other emerging markets sales growth was extremely buoyant, especially in Latin America (partly to the detriment of the United States) and in the Middle East.

Recurring operating income for the Group's Luxury activities amounted to €1,936 million in 2016, up 13.3% as reported, and recurring operating margin widened by 120 basis points as reported to 22.9%. The year-on-year increase in profitability reflects the impact of exchange rate fluctuations and currency hedges, which pushed up recurring operating margin slightly in 2016 whereas they had a significant dilutive effect in 2015. Taking advantage of this favourable situation, a number of the Luxury brands took the deliberate decision to increase some of their operating expenses with a view to driving their growth momentum, while strictly containing other components of their cost bases. For the two brands that posted the highest growth rates – i.e. Gucci and Yves Saint Laurent – this resulted in a significant improvement in their reported recurring operating margin figures.

The increase in recurring operating income was more pronounced in the second half of the year (up approximately 21.5% compared with 4.2% in the first half) and the positive operational leverage effect – mainly stemming from Gucci's

sales growth – led to a 190 basis-point rise in recurring operating margin (versus 30 basis points in the first half).

EBITDA climbed 11.4% year-on-year to €2,255 million and EBITDA margin widened significantly to 26.6%.

Luxury activities' gross operating investments totalled €381 million in 2016, €10 million (or 2.6%) lower than in 2015, reflecting the Group's focus on achieving organic growth on a same-store basis and on consolidating the existing store network. This strategy of tightly controlling capital expenditure was one of the financial objectives set for Luxury activities for 2016. As a proportion of revenue, gross operating investments represented 4.5% in 2016 versus 5.0% in 2015.

As of December 31, 2016, Luxury activities had a network of 1,305 directly operated stores, including 799 (61%) in mature markets and 506 in emerging markets. Net store additions during the year totalled 41, compared with 78 in 2015. The stores added in 2016 were mainly due to network expansions, primarily for Yves Saint Laurent (a net increase of 17 stores) and, to a lesser extent, for Balenciaga and Stella McCartney.

Gucci

(in € millions)	2016	2015	Change
Revenue	**4,378.3**	**3,898.0**	**+12.3%**
Recurring operating income	**1,256.3**	**1,032.3**	**+21.7%**
as a % of revenue	***28.7%***	***26.5%***	***+2.2 pts***
EBITDA	1,424.5	1,206.1	+18.1%
as a % of revenue	*32.5%*	*30.9%*	*+1.6 pts*
Gross operating investments	184.7	192.8	-4.2%
Average FTE headcount	10,253	10,570	-3.0%

In 2016, numerous indicators – both qualitative and quantitative – confirmed that Gucci's new impetus is picking up pace and that the strategic initiatives decided and launched in 2015 are paying off. A particular turning point for the brand was the first collection entirely designed by Alessandro Michele (the 2016 Cruise collection presented in June 2015).

Going forward, Gucci's growth trajectory is set to continue, propelled by the rollout of numerous action plans by the brand's teams under the leadership of Marco Bizzarri, its President and CEO.

The main highlights of 2016 were as follows:

- the fashion shows and collections presented by the brand during the year were once again extremely well received. Alessandro Michele's talent and creativity are no longer just recognised by fashion experts but are also appreciated by a much wider audience;
- after the changes introduced in 2015 in order to craft a new aesthetic for the brand and clarify its positioning, in 2016 the product offering continued to evolve, with the main product categories revisited and rethought accordingly. The brand's merchandising teams worked hard to maximise the growth potential of each product category by constantly adapting the product offer. The overall process to rework the brand's offering in line with its new aesthetic will be completed in 2017;
- the ramp-up programme for the new store concept was continued, with some 50 stores developed around or converted to the concept during the year;
- the brand'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 resources allocated to these initiatives were stepped up in 2016 and were extended to incorporate a greater number of stores;
- the brand's new online platform, Gucci.com – which was launched in the United States in 2015 – was deployed in other key markets in 2016, including Western Europe. Thanks to the platform's enriched content and more user-friendly design, it is helping to speed up the brand's online growth.

In addition to the impact on revenue of Alessandro Michele's now widely recognised talent, the above successes resulted in higher footfall in the brand's stores and a greater number of online visitors, as well as an increase in store productivity.

Gucci posted €4,378 million in revenue in 2016, up 12.3% on 2015 as reported and 12.7% at comparable exchange rates. After a 5.4% comparable-basis increase in the first six months of the year, revenue rose at an even faster pace in the second half, with growth reaching 19.4% on the back of brisker sales momentum in Gucci's store network.

Retail sales generated in directly operated stores accounted for 83.3% of the brand's total revenue in 2016 versus 81.8% in 2015 (as reported). At constant exchange rates, sales from this distribution channel increased 14.8% year-on-year, fuelled by higher footfall and improved productivity in the brand's stores. Growth accelerated in the second half, reaching 28.2% in the final quarter. This

very robust sales performance was particularly healthy in view of the fact that it was less dependent on promotional campaigns than in 2015. The brand's drastic revision of its sales promotion policy notably affected fourth-quarter figures, further underscoring the success of its non-sale items, which were mainly from new collections. The proportion of revenue generated by new collections was over 85% in the last quarter of 2016 versus some 50% in the first quarter.

In the brand's mature markets, the year-on-year increase in revenue generated in directly operated stores was most pronounced in Western Europe, which accounted for 25.2% of the brand's total retail sales and posted comparable-basis growth of 28.7%. Gucci's brand repositioning and clear focus on creativity – particularly for women's ready-to-wear collections – have proved very successful with its European clientele and have led to a broader and younger customer base. This has boosted spending by domestic customers and fuelled renewed appeal for the brand with tourists, making it one of the most purchased brands for visitors to Europe.

In Japan (which contributed 11.5% of Gucci's retail revenue), sales in directly operated stores rose 0.5% on a comparable basis. As was the case for the industry as a whole, the brand felt the adverse effects of the country's lower tourist numbers and the fact that Japanese customers made some of their purchases in other regions. In addition, it would appear that Gucci's traditional customers in Japan are taking longer than European customers to come to terms with the brand's new artistic direction. Several communication and merchandising campaigns launched during 2016 in order to speed up the transition process helped to reverse the trend towards the year-end, and in the fourth quarter sales in Japanese stores climbed 5.2%.

In North America (which represents 20.7% of the brand's retail revenue), comparable-basis sales advanced 8.7%, with period-on-period increases throughout the year. Gucci's turnaround in this region began in the latter part of the second quarter, and sales surged nearly 20% in the second half of the year after negative growth reported for the first six months.

In emerging markets (42.7% of sales in directly operated stores), after an overall decline in 2015, revenue generated by this distribution channel returned to growth at constant exchange rates in 2016, with the year-on-year increase coming in at 15.0%, slightly higher than the growth rate for the brand's mature markets. Growth in the Asia Pacific region (excluding Japan) came to 15.6%, spurred by an excellent performance in Mainland China where revenue jumped 17.5% as the brand capitalised on its renewed appeal and felt the full effect of the luxury industry's recovery. Sales volumes in the region's other countries rose sharply, except in Taiwan, Hong Kong and Macao (although trends in Hong Kong and Macao were more favourable in the fourth quarter).

Gucci's revenue in other emerging markets was higher overall than in 2015, with growth rates of close to or above 10%.

All of the brand's main product categories contributed to the sales increase in directly operated stores in 2016.

Ready-to-Wear was the first product category to see the replacement of older styles by Alessandro Michele's new collections and this category posted another sharp sales rise in 2016. The main growth driver was women's lines but trends for men's ready-to-wear were also positive and sales of these lines are expected to be further boosted by the measures taken to broaden the product offering.

For Leather Goods, the work on redesigning the product offer and replacing the old collections was completed for the handbag offering in 2016. New lines were successfully introduced and their sales are rising significantly. The designs of small leather goods and luggage collections were reworked later on in the brand's transformation process and sales figures for these items were still hampered by the underperformance of old collections.

The Shoes category saw excellent sales momentum in 2016, owing much to the new lines presented each season since the 2016 Cruise collection.

Overall, sales of Leather Goods, Shoes and Ready-to-Wear accounted for 54.9%, 16.8% and 12.5% respectively of the brand's total revenue for the year (from both the retail and wholesale channels).

Sales generated in the wholesale network climbed 5.7% on a comparable basis. This year-on-year growth is based on an almost constant number of distributors after the drastic streamlining phase that had a very adverse effect on sales figures for 2015. Overall growth for this distribution channel was weighed down in 2016 by the Watches category, which was in a repositioning phase and delivered a weak performance during the year. Excluding Watches, revenue generated with the wholesale network saw double-digit growth, despite postponements of deliveries for the Cruise collection in the last quarter of the year. These trends reflect how well Gucci's transformation process has been received by distributors and the brand's ensuing market share gains.

Conversely, royalties were 17.4% lower than in 2015 as the revenue generated from the Gucci brand was down

sharply for its two main license-holders. In the Perfume and Cosmetics category, Coty's purchase of Procter & Gamble Prestige in October 2016 – more than one year after the deal was originally announced – led to the postponement of product launches and product-based events. And in the Eyewear category, 2016 was a transition year before the transfer of Safilo's license to Kering Eyewear on January 1, 2017.

Gucci's recurring operating income increased by 21.7% on a reported basis in 2016, coming in at €1,256 million, and its recurring operating margin widened by 220 basis points to 28.7%. After the very dilutive effect of currency hedges in 2015, the impact of exchange rate fluctuations and currency hedges was low during 2016, but a proportion of this positive swing was offset by a relative increase in certain operating expenses. However, this increase was mostly for expenses required to re-energise the brand, and other expense items continued to be tightly controlled. The excellent sales momentum in the fourth quarter made a significant contribution to the improvement in the brand's profitability in 2016 as it created a favourable operational leverage effect.

EBITDA amounted to €1,425 million in 2016 and the EBITDA margin remained very high, at 32.5% of revenue.

As of December 31, 2016, Gucci operated 520 stores directly, including 216 in emerging markets. A net 5 stores were closed during the year, giving the brand an overall network more adapted to its operations in terms of store numbers. As it does not consider that aggressively expanding the store network is the right strategy in today's operating environment in the luxury industry, the brand's current focus is on increasing its organic growth.

Gucci's gross operating investments totalled €185 million in 2016, down 4.2% on 2015. This year-on-year decrease reflects the brand's prudent approach to new store openings, as mentioned above, and its strategy of allocating resources in priority to financing inventories in order to support the upturn in the brand's sales. The figure for 2016 includes the refurbishment programme aimed at introducing the new store concept at the brand's most strategic stores. Gucci had set itself the goal of bringing the total number of stores with the new concept to 80 by the end of 2016. This objective was reached as 86 stores sporting the brand's new aesthetic were either newly-opened or refurbished during 2015 and 2016. The objective of keeping investments below the threshold of 5% of revenue was also met, as net operating investments represented 4.2% of sales.

Bottega Veneta

(in € millions)	2016	2015	Change
Revenue	**1,173.4**	**1,285.8**	**-8.7%**
Recurring operating income	**297.4**	**374.5**	**-20.6%**
as a % of revenue	***25.3%***	***29.1%***	***-3.8 pts***
EBITDA	341.7	413.8	-17.4%
as a % of revenue	*29.1%*	*32.2%*	*-3.1 pts*
Gross operating investments	42.8	49.5	-13.5%
Average FTE headcount	3,417	3,401	+0.5%

Bottega Veneta's positioning and its exposure to Asian clienteles mean that it is particularly sensitive to changes in the economic environment and currency fluctuations, which widen price differences between regions and create volatility in tourist numbers. As a result, the brand's business slowed in 2015, with a revenue contraction in the fourth quarter of the year which continued throughout the course of 2016.

Going forward, as well as facing the challenges of its operating environment, Bottega Veneta needs to adapt its organisational structure and strategy in order to create the right conditions for a new phase of sustainable growth. In 2016, the brand's teams therefore put in place action plans aimed at re-energising the leather goods offering, continuing to develop other product categories, guaranteeing the brand's exclusivity by optimising distribution, and increasing the brand's penetration with local customers in mature markets through more effective communications. The initial positive effects of these measures have not yet been sufficient to offset the overall downward trend in sales. In 2017, Bottega Veneta intends to continue to invest in re-energising the brand's performance, notably by stepping up the measures already in place.

Bottega Veneta posted revenue of €1,173 million in 2016, down 8.7% as reported and 9.4% based on comparable data.

With a view to preserving its high-end positioning and exclusivity, Bottega Veneta's preferred distribution channel is its directly operated stores, which accounted for 81.8% of the brand's total sales in 2016. Revenue generated in directly operated stores retreated 8.7% in 2016 based on comparable data but the decrease was less pronounced in the second half of the year thanks to better trends in many geographic regions and a more favourable basis of comparison in the final quarter.

In Western Europe, direct retail sales fell 16.7% as in-store revenue was heavily affected by lower tourist numbers, despite an improvement in the final quarter. The French market alone accounted for over half of the sales decline, whereas the UK recorded double-digit revenue growth.

In North America, the wait-and-see attitude of US consumers, the impact of the strong dollar on tourists' purchasing power and the aggressive promotional strategies adopted by department stores all weighed on the revenue derived from directly operated stores, which came in 17.4% lower than in 2015 on a comparable basis.

In Japan, the downward trends seen in the first quarter of 2016 continued into the rest of the year due to a decrease in purchases by Chinese tourists. Consequently, sales in Japan were down 15.0% for the full twelve months.

In emerging markets (which accounted for 44.1% of the brand's total revenue generated in directly operated stores), Bottega Veneta's direct sales were up 3.1% year-on-year on a comparable basis. The upswing in business was mainly attributable to Chinese customers making their purchases in the domestic market and certain regional Asia Pacific markets rather than in mature markets. This led to solid growth in South Korea and Mainland China, but market conditions remained challenging in Hong Kong, where the brand's performances were particularly affected by the change in customer profile in view of Bottega Veneta's high-end price positioning.

Sales generated in the wholesale network contracted 12.9% in 2016. Bottega Veneta continued to reorganise this distribution channel during the year with the aims of avoiding the risk of saturation in points of sale and only working with the highest-quality partners. These measures led the brand to deliberately limit delivery volumes throughout the year, and particularly in the second half.

Leather Goods once again constituted the brand's core business, making up 86.1% of total sales in 2016. Bottega Veneta is currently paying particular attention to increasing customer engagement for its handbag offering, by creating seasonal variations of its iconic pieces as well as introducing new product references, notably by incorporating new techniques and materials. However, the revenue growth generated thanks to these new styles was not yet sufficient to offset the significant decline in sales of a number of the brand's traditional lines.

Following on from 2015 when the brand reinforced its creative teams in charge of diversification, in 2016 Bottega Veneta pursued its strategy of developing its Shoes category by adapting the number of product references proposed, ensuring that its offering is of the highest quality and increasing the space dedicated to this product category in its stores. The Shoes category now accounts for 7.1% of Bottega Veneta's total sales and registered very robust sales growth during the year.

Bottega Veneta's recurring operating income for 2016 totalled €297 million, down €77 million on 2015. Recurring operating margin came in at 25.3%, representing a 380 basis-point decrease in reported sales. Profitability was boosted during the year by more favourable effects of exchange rate fluctuations and currency hedges than in 2015 but suffered the significant adverse effect of an increase in the ratio of operating expenses to revenue. The rise in this ratio was due to the fact that the cost base was not reduced during the year in proportion to the contraction in gross margin caused by the lower sales figures. However, the brand's situation in terms of operating expenses should be analysed in view of all of the initiatives put in place to enable Bottega Veneta to enter a new phase in its development and ensure that it is in a position to get back on the growth track after the transition phase it is currently undergoing.

EBITDA totalled €342 million and the EBITDA margin narrowed by 310 basis points to 29.1% – a level that is nonetheless very high for the industry.

In order to enable it to focus its action plans on achieving organic growth, as from 2015 the brand decided to stabilise and restructure its directly owned store network. As of December 31, 2016, Bottega Veneta had 255 directly operated stores, including 111 in emerging markets. There were 4 net store additions during the year, versus 15 in 2015.

Gross operating investments decreased by €7 million (or 13.5%) year-on-year to €43 million in 2016, reflecting the brand's prudent approach to new projects.

Yves Saint Laurent

(in € millions)	2016	2015	Change
Revenue	**1,220.2**	**973.6**	**+25.3%**
Recurring operating income	**268.5**	**168.5**	**+59.3%**
as a % of revenue	***22.0%***	***17.3%***	***+4.7 pts***
EBITDA	312.2	207.9	+50.2%
as a % of revenue	*25.6%*	*21.4%*	*+4.2 pts*
Gross operating investments	57.8	63.1	-8.4%
Average FTE headcount	2,204	1,943	+13.4%

On April 4, 2016, Yves Saint Laurent and Kering announced the appointment of Anthony Vaccarello as Creative Director of Yves Saint Laurent, replacing Hedi Slimane.

Over recent years, Hedi Slimane was without question the creative force behind Yves Saint Laurent's exceptional growth, but the brand also owes its success to the quality of its teams working alongside the Creative Director and the President and CEO, Francesca Bellettini. The Maison Yves Saint Laurent therefore has solid foundations to drive the brand's continued growth going forward.

Against this backdrop, 2016 was another year of excellent growth momentum, with Yves Saint Laurent becoming the Group's second-largest Luxury brand in terms of revenue. Yves Saint Laurent's 2016 revenue figure topped the one billion mark, coming in at €1,220 million and representing a year-on-year increase of 25.3% as reported and 25.5% at comparable exchange rates. Despite a high basis of comparison, the brand's growth for 2016 was very close to the 25.8% rate recorded for 2015. In addition, growth was relatively even between the two halves of the year in 2016, amounting to 24.2% and 26.6% respectively.

The investments undertaken for the directly operated store network over the past four years have enabled Yves Saint Laurent to increase the portion of sales generated through this exclusive distribution channel, which accounted for 68% of the brand's total sales in 2016, compared with 64% in 2015. Revenue from retail sales in directly operated stores soared 32.4% on a comparable basis during 2016, led by a very strong increase in same-store sales. This performance reflects both the brand's effective strategy of allocating and restocking items within the store network as well as the excellence of its teams' in-store management.

Wholesale sales advanced 12.0% based on comparable data for the full twelve months of 2016, with the majority of the brand's operating countries contributing to this robust increase. However, sales for this distribution channel declined in the fourth quarter, due to changes in the delivery schedule for the first collection entirely designed by Antony Vaccarello (Summer 2017), which was delivered in January 2017 as decided at the time of the Pilati-Slimane transition. The wholesale channel is still obviously strategically important for Yves Saint Laurent as it represents a perfect fit with its retail business.

The measures put in place since 2014 to align the performances of licensed product categories began to pay off in 2016, with revenue from royalties climbing 20% year-on-year.

All of Yves Saint Laurent's main product categories registered very strong sales growth again in 2016.

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. Sales posted by this category jumped 37.3% at constant exchange rates.

Revenue from Ready-to-Wear sales advanced 23.5% at constant exchange rates and this category once again occupied an essential place in the brand's product offering, with a balanced weighting of sales between women's and men's collections.

The brand's third leading product category – Shoes, whose performance is closely correlated with growth in the wholesale distribution channel – also reported a robust sales rise.

Yves Saint Laurent notched up revenue increases across all of its geographic regions in 2016.

In emerging markets – which contributed 30.1% to the brand's total revenue – sales growth came to 32.5%. In the Asia Pacific region (excluding Japan) – which accounted for three quarters of the brand's sales in emerging markets – growth was extremely strong in Yves Saint Laurent's main markets, especially in Mainland China where the brand is particularly well known and sought after. Sales also rose strongly in the Middle East and growth was very brisk in Latin America.

Sales in Yves Saint Laurent's traditional markets rose 22.8% on a comparable basis, propelled by higher numbers of local customers and increased customer loyalty, as well as by the brand's strong appeal amongst tourists (despite generally lower numbers of tourists during the year). Growth rates were very even from one region to another, ranging from 21.6% for North America to 23.6% for Western Europe.

Yves Saint Laurent ended 2016 with recurring operating income of €269 million, versus €169 million in 2015, representing a year-on-year increase of 59.3%. Recurring operating margin passed the 20% mark for the first time, increasing by 470 basis points as reported to 22% and reflecting how the brand has now attained a size that enhances the positive impact of its operating leverage.

EBITDA rose by €104 million to €312 million in 2016 and the EBITDA margin approached the brand's record level of 26%.

As of December 31, 2016, the Yves Saint Laurent brand directly operated 159 stores, including 70 in emerging markets. There were 17 net store openings during the year, including flagship stores in strategic countries or cities where the brand was not yet present and a high number of concessions in department stores.

Overall, the brand's gross operating investments were contained in 2016, amounting to €58 million which represents a €5 million decrease compared with 2015. This prudent investment strategy, combined with the increase in EBITDA, contributed to a significant improvement in the brand's free cash flow generation.

Other Luxury brands

(in € millions)	2016	2015	Change
Revenue	**1,697.5**	**1,707.9**	**-0.6%**
Recurring operating income	**113.8**	**132.7**	**-14.2%**
as a % of revenue	***6.7%***	***7.8%***	***-1.1 pt***
EBITDA	177.0	197.6	-10.4%
as a % of revenue	*10.4%*	*11.6%*	*-1.2 pt*
Gross operating investments	95.3	85.5	+11.5%
Average FTE headcount	5,685	5,662	+0.4%

Total revenue generated by Other Luxury brands in 2016 amounted to €1,698 million, down by a slight 0.6% on 2015 as reported. At comparable exchange rates, revenue was more or less stable year-on-year, edging down just 0.3%.

There were no changes in Group structure that affected Other Luxury brands during 2016.

Other Luxury brands contributed some 20% of Luxury activities' total revenue in 2016.

The Couture & Leather Goods brands posted satisfactory revenue growth despite a negative contribution from Brioni, which is currently in the process of restructuring its manufacturing base and distribution networks. Sales of Watches & Jewelry brands continued to be weighed down by the weak timepieces market.

In 2016, the wholesale network was once again the main distribution channel for Other Luxury brands, accounting for 54.4% 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 1.2% year-on-year on a comparable basis, primarily driven by good performances from Stella McCartney and Balenciaga as well as by robust growth for the Jewelry brands. However, wholesale sales were generally adversely affected by the prudent strategies adopted by US wholesalers in view of the wait-and-see attitude of US consumers and lower numbers of tourists.

Retail sales in directly operated stores retreated 1.4% based on comparable data. This year-on-year decline was mainly due to lower revenue recorded in the United States and in the eurozone – particularly in France which is the third-largest market for Other Luxury brands – as well as a high base of comparison with 2015. The UK brands held up the best, registering very solid sales growth in directly operated stores. Trends were also positive for Balenciaga in the second half of the year.

Ready-to-Wear remained the best-selling product category, making up 29.6% of total Other Luxury brands revenue. Sales of women's collections in this category continued to rise, but men's collections saw more mixed performances across the various brands. Watches & Jewelry represented the second-largest revenue generator, contributing 28.3% to the total, but as was the case in 2015, this category saw contrasting trends during the year between its different segments (year-on-year growth for jewelry, volatility for high jewelry, which is inherent in this segment, and a contraction for watches). Shoes posted the highest revenue growth amongst Other Luxury brands for 2016.

Other Luxury brands saw mixed performances across geographic regions during 2016, but the trends were inverted compared with 2015, with emerging markets registering 2.2% comparable-basis growth (following a decline in 2015) whereas overall revenue in mature markets inched down 1.2%.

Revenue growth in emerging markets was fuelled by sales recoveries in Mainland China and South Korea. Meanwhile, although sales contracted in Hong Kong the decrease was very contained.

In mature markets (which accounted for 72.1% of total revenue generated by Other Luxury brands), sales rose briskly in Japan thanks to a good level of brand penetration in the domestic market. However, after an excellent year

in 2015, Western Europe reported a modest revenue rise during 2016 reflecting lower sales in France, although this effect was partly offset by some customers making their purchases in the UK. Lastly, performance in North America was adversely affected by lacklustre wholesale sales in the US.

Recurring operating income for Other Luxury brands was down 14.2% year-on-year at €114 million in 2016 and recurring operating margin narrowed by 110 basis points to 6.7%, although the decline was more pronounced in the first six months of the year than in the second half. The majority of the Group's Other Luxury brands are at a stage in their development when they still need sustained reinforcement of their teams and structures. For those with more moderate sales growth, this resulted in lower recurring operating margins. At the same time, the Watches brands continued to be weighed down by the drops in gross margin they suffered in 2015 due to the sharp rise in the Swiss franc and persistently unsettled market conditions.

EBITDA came in at €177 million, down 10.4% on 2015, and EBITDA margin remained above 10%.

The network of directly operated stores owned by Other Luxury brands totalled 371 units as of December 31, 2016, including 262 in mature markets and 109 in emerging markets. Altogether, there were 25 net store additions during the year.

The Group's Other Luxury brands adopted a strict and highly selective capital expenditure strategy in 2016 and sought to reduce their gross operating investments. Only Brioni had a higher capital outlay for the year, due to the relocation of two of its flagship stores (in Paris and New York). Overall gross operating investments for Other Luxury brands amounted to €95 million, representing a €10 million increase compared with 2015.

Other Luxury brands performed as follows in 2016, beginning with Couture & Leather Goods brands:

In line with 2015, Alexander McQueen posted very strong sales growth in directly operated stores. The brand's wholesale sales also delivered a good showing, especially in the second half of the year, led by the success of Fall-Winter collections and new store openings. These performances drove a year-on-year increase in recurring operating margin.

The McQ brand – which is positioned in the accessible luxury segment – reported a solid sales increase and its recurring operating margin was once again very satisfactory.

2016 was another year of growth for Balenciaga, whose collections designed by Demna Gvasalia – the brand's Artistic Director since October 2015 – have been very warmly received by both the press and customers. This reworked offering helped to boost the brand's sales trajectory in the second half of 2016. Also during the year, Balenciaga worked on optimising and expanding its distribution network, both for directly operated stores (which accounted for around 60% of the brand's total revenue) and for wholesale.

Brioni recorded a sales decline, mainly with wholesalers, reflecting the brand's measures to streamline its distribution channels and reorganise its production processes. This had an impact on recurring operating margin. Brioni nevertheless kept up a high level of gross operating investments in 2016 in order to support its transformation process, notably opening two flagship stores in the second half of the year in the strategic locations of Paris and New York.

For Christopher Kane – a brand with highly creative content – 2016 was a year in which synergies with the Group continued to be developed, the brand's organisational and distribution structures were consolidated, and an online store was launched.

Stella McCartney experienced another year of very robust growth in 2016. This sales momentum, experienced across all of the brand's distribution channels, helped to offset the adverse impact of the expenditure incurred for new store openings and strengthening the brand's structure, and fuelled an increase in both recurring operating income and recurring operating margin.

For the Watches & Jewelry brands, performance was mixed:

Over the past several years, Boucheron has built up a very coherent offering of jewelry and high-jewelry collections, including its flagship lines the *Serpent Bohème* and *Quatre*, and in 2016 the brand reported solid organic growth across the vast majority of its collections. However, sales were adversely affected by low tourist numbers in France – which is Boucheron's main market – and by the volatility inherent in the high-jewelry segment.

Revenue generated by the Pomellato and Dodo brands rose briskly in 2016, particularly in the brands' traditional markets in Western Europe. The popularity of these brands amongst both domestic customers and tourists stems largely from their capacity to renew and refresh their product ranges. Thanks to these good performances, the two brands registered higher recurring operating margins year on year.

Qeelin turned in a very good performance in 2016, posting high sales growth propelled by the brand's expansion in Mainland China and increasing visibility in Greater China.

Girard-Perregaux and Ulysse Nardin once again demonstrated that they are benchmark players in the watch industry, as illustrated by awards received by the two brands for certain models. However, the watch market in general did not see any significant improvement in 2016, and both brands therefore continued their measures to streamline organisational structures and business processes. In view of the brands' sales contractions and despite a lower cost base, recurring operating income for the Group's watches segment was down sharply on 2015.

Sport & Lifestyle activities

(in € millions)	2016	2015	Change
Revenue	**3,883.7**	**3,682.5**	**+5.5%**
Recurring operating income	**123.2**	**94.8**	**+30.0%**
as a % of revenue	***3.2%***	***2.6%***	***+0.6 pt***
EBITDA	190.0	161.0	+18.0%
as a % of revenue	*4.9%*	*4.4%*	*+0.5 pt*
Gross operating investments	92.0	91.0	+1.1%
Average FTE headcount	11,873	11,772	+0.9%

Kering's Sport & Lifestyle activities reported revenue of €3,884 million in 2016, up 5.5% as reported and 9.0% based on a comparable Group structure and exchange rates. The reported growth figure was lower than that at constant exchange rates because currency effects were negative during 2016 whereas they were positive in 2015. This was due to weaker currency values in a number of emerging markets that are of strategic importance to PUMA. The effect of changes in Group structure during the year related to (i) the sale of the Tretorn brand to ABG on June 30, 2015, and (ii) the management buyout of Electric on March 16, 2016, which resulted in this brand's revenue no longer being recognised in the consolidated financial statements as from January 1, 2016.

Overall revenue growth for Sport & Lifestyle activities was sustained throughout the year, with the increase in the second half (8.9% on a comparable basis) very much in line with the 9.1% rise recorded for the first six months.

Following on from the upturn that began in 2014, wholesale sales (which represented 77.8% of total revenue generated by Sport & Lifestyle activities) increased by 8.1% on a comparable basis, with PUMA delivering 10% growth (versus 6.4% in 2015). The further improvement in this distribution channel's performance for PUMA reflects the measures taken since Björn Gulden's arrival as the brand's CEO to more effectively meet the needs and expectations of both distributors and end-customers through an innovative product offering and clearer positioning.

Retail sales in directly operated stores advanced 12.9% based on comparable data, driven by a very solid same-store sales performance and a 57.2% jump in online sales, which enabled PUMA and Volcom to strengthen their positioning in online distribution.

By product category, Footwear sales (which represented 42.2% of total Sport & Lifestyle revenue) rose by a sharp 12.7% on a comparable basis, marking the tenth consecutive quarter of growth for this category.

In a year that saw numerous major sporting events, the Apparel category turned in a very good showing, with comparable-basis sales up 7.1%.

Sales of Accessories rose 5.5% year-on-year as this category was no longer weighed down by Electric's weak performance.

In emerging markets – which made up 34.8% of total revenue – Sport & Lifestyle activities posted brisk sales growth of 12.6% based on comparable data. All of the Sport & Lifestyle activities' emerging markets reported very robust rises, with Greater China and Eastern Europe experiencing the fastest acceleration in growth.

Revenue generated by Sport & Lifestyle activities in their more mature markets climbed 7.2% on a comparable basis, powered by an excellent performance in Western Europe (up 13.4%) – particularly in the eurozone where Germany and France (the two main markets in this region) continued, and even accelerated, their pace of recovery. After several quarters of sustained growth, revenue in North America rose by a more modest (but still solid) 3.9%, as 2016 sales were held back by the downturn in the region's Action Sport market, which particularly affected Volcom. Sales in Japan were flat in 2016 compared with 2015.

Recurring operating income for Sport & Lifestyle activities amounted to €123 million in 2016, up by €28 million, or 30%, on 2015. Recurring operating margin widened by 60 basis points to 3.2%, reflecting the combined impact of an 80 basis-point increase for PUMA and a negative margin reported by Volcom due to its lower revenue figure.

EBITDA totalled €190 million, representing a year-on-year increase of 18.0%.

Gross operating investments amounted to €92 million in 2016, up 1.1% compared with 2015. This slight year-on-year increase was due to expenditure incurred for the Sport & Lifestyle brands in the areas of distribution, information systems and supply chain, especially for PUMA whose renewed growth needs to be sustained. However, measures were taken to ensure that operating investments were fully in line with the brands' financial and strategic objectives, and they only represented 2.4% of revenue for the year.

PUMA

(in € millions)	2016	2015	Change
Revenue	**3,642.2**	**3,403.4**	**+7.0%**
Recurring operating income	**126.6**	**92.4**	**+37.0%**
as a % of revenue	***3.5%***	***2.7%***	***+0.8 pt***
EBITDA	187.2	150.7	+24.2%
as a % of revenue	*5.1%*	*4.4%*	*+0.7 pt*
Gross operating investments	84.3	84.5	-0.2%
Average FTE headcount	11,128	10,988	+1.3%

In 2016, PUMA pursued its strategy of streamlining its offering and making it more innovative and consequently regaining market share with major distributors. The brand is now in a position to fully capitalise on the partnerships and alliances entered into or renewed in the last two years. For example, the sponsorship deal with Arsenal and the launch of collections designed with Rihanna have helped the brand build its reputation, break into new markets and broaden its distribution network. Added to this, 2016 was a year packed with major sporting events, giving a real boost to sales of sport items.

PUMA's revenue totalled €3,642 million in 2016, up 7.0% year-on-year as reported. At constant exchange rates and excluding the impact of changes in Group structure (i.e. the sale of Tretorn in the first half of 2015), growth was a very solid 10.4% and was evenly balanced across both halves of the year (10.6% and 10.3% respectively). Reported revenue growth came in lower than the comparable basis figure due to weaker currency values (versus the euro) in a number of emerging markets to which PUMA is exposed.

Wholesale sales – which accounted for 77.8% of the brand's total revenue – climbed by 10.0% on a comparable basis. This distribution channel reported sales rises in all of the brand's main regions, except for Japan where the sales figure was on a par with 2015. In North America, growth was once again robust, coming in at 10.0%, led notably by the success of the collections designed with Rihanna and women's lines in general. For PUMA's strategic markets, the highest growth figures were recorded in France, Germany and Mainland China, providing a tangible sign of the brand's renewed momentum.

Revenue posted by PUMA's directly operated stores swung up 12.5%, fuelled by higher same-store sales. Online sales performed particularly well in 2016 and the Internet is becoming an increasingly important distribution channel for PUMA.

Sales of Footwear, which at 44.7% once again made up the highest proportion of PUMA's revenue, rose 13.0% on a comparable basis. The pace of growth accelerated in the second half of the year and especially in the last quarter, which was the tenth consecutive quarter of growth for this key product category.

Apparel sales (36.6% of PUMA's total revenue) climbed 9.6% on a comparable basis, with particularly high growth in the first half, driven by sales of replica football shirts in connection with the UEFA Euro and Copa America championships.

Sales growth for the Accessories category remained robust, at 6.5% on a comparable basis, despite a flat year for the golf segment (COBRA brand).

Emerging markets made up 36.3% of PUMA's 2016 revenue and sales in these markets rose 13.7% on a comparable basis, with particularly positive trends in Mainland China, Argentina, Mexico and South Africa. India – which is one of the brand's main emerging markets – also delivered another strong sales performance.

In the brand's more mature markets, revenue was up 8.7% year-on-year. Western Europe was the best performer in these markets, with revenue progressing 13.9% thanks to excellent sales momentum in the eurozone, and in North America comparable-basis sales growth was once again brisk, reaching 6.2%. These good performances were attributable to the brand's successful new product launches and its enhanced appeal and exposure among distributors. In Japan, sales came in slightly higher than in 2015.

PUMA's contribution to the Group's recurring operating income totalled €127 million in 2016, up €34 million (or 37.0%) on the 2015 figure. year-on-year growth in absolute value terms was boosted by a better absorption of operating expenses during a period of revenue growth for the brand, reflecting a tightly controlled cost base that saw contained increases in all areas apart from communications and marketing given that PUMA is still in the process of investing in its brand.

PUMA's recurring operating margin widened by 80 basis points to 3.5%. This year-on-year improvement marks a turning point in the brand's financial trajectory and was achieved despite it continuing to experience generally negative currency effects in 2016. On the other hand, the brand's gross margin for the year was negatively affected by the impact of the stronger US dollar, combined with the fact that PUMA does not use hedges for a number of emerging market currencies. However, gross margin remained stable year-on-year as reported, thanks to price increases and better procurement conditions. At constant exchange rates, the brand posted a sharp increase in gross margin.

EBITDA surged 24.2% to €187 million and EBITDA margin topped the 5% mark, coming in at 5.1%.

As of December 31, 2016, PUMA's directly operated retail network included 664 stores, representing 13 net openings compared with December 31, 2015. Around two-thirds of existing stores and the majority of the new stores opened during the year are in emerging markets where this distribution channel is growing and is delivering good margins.

Gross operating investments amounted to €84 million, more or less unchanged from 2015. This year-on-year stability reflects the brand's more selective approach to projects and, to a lesser extent, a favourable currency effect relating to investments undertaken in emerging markets.

Other Sport & Lifestyle brands

(in € millions)	2016	2015	Change
Revenue	**241.5**	**279.1**	**-13.5%**
Recurring operating income	**(3.4)**	**2.4**	**-241.7%**
as a % of revenue	***-1.4%***	***0.9%***	***-2.3 pts***
EBITDA	2.8	10.3	-72.8%
as a % of revenue	*1.2%*	*3.7%*	*-2.5 pts*
Gross operating investments	7.7	6.5	+18.5%
Average FTE headcount	745	784	-5.0%

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

Volcom recorded €242 million in revenue in 2016, down 8.4% year-on-year at constant exchange rates.

The Surfwear and Action Sports market did not see any major improvement during the year and the brands operating in the sector as well as their distribution networks saw further revenue declines, which put even more pressure on gross margins and profitability. The bankruptcies of Quiksilver US in September 2015 and Pacific Sunwear in April 2016 (a strategic distributor for Volcom) clearly demonstrate the difficulties this market is currently undergoing.

Against this backdrop, Volcom continued to implement the strategy it launched in 2013 aimed at containing the deterioration of its margins, improving distribution, and more effectively harmonising its offering.

Despite these measures, the brand recorded a sharp 13.9% decrease in wholesale sales, notably in the United States where wholesalers are continuing to streamline their store networks. Conversely, revenue from direct retail sales (directly operated stores and online, which accounted for 20.3% of Volcom's total for the year) swung up 19.8%, with the online distribution channel recording particularly rapid growth (up 43.1%).

Volcom's Apparel category once again contributed some 84% of the brand's revenue for the year and it experienced the most contained sales contraction out of the brand's product categories (down 7.1%).

Volcom's revenue generation is still highly concentrated on mature markets, and especially North America, which in 2016 was once again the brand's leading market, accounting for 64.9% of its total sales despite the revenue decline reported in the region. Apart from Western Europe, where sales continued to rise, all of the brand's other markets posted revenue decreases.

Volcom ended 2016 with a recurring operating loss of €3 million, mainly due to the further decrease in revenue compared to 2015. During the year, Volcom continued to implement measures to reduce its cost base and stem the deterioration in its recurring operating loss figure. However these measures involved write-downs and reorganisation costs that weighed on recurring operating results.

Volcom's directly operated store network comprised 70 stores as of December 31, 2016, including eight in emerging markets. This represents 20 more points of sale than as of December 31, 2015, but over three-quarters of this increase was due to taking over existing shop-in-shops within department stores in Europe.

Volcom's gross operating investments amounted to €8 million in 2016, up €2 million on 2015 as a result of the expenditure incurred for expanding the store network and online distribution channel.

Corporate and other

The "Corporate and other" segment comprises (i) Kering's corporate departments and headquarters teams, (ii) Shared Services, which provide services to the brands, (iii) the Kering Sustainability Department, which is responsible for the sustainability initiative launched by Kering in 2011, 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.

Kering Eyewear – the entity that is being used to bring the Group's Eyewear business (sunglasses and frames) in-house – will be consolidated within the "Corporate and other" segment as from 2017, the first year of operations for the Gucci license. For the 2014-2016 ramp-up period of this business, the operating losses associated with Kering Eyewear have been recognised as non-recurring operating expenses.

Net costs recorded by the "Corporate and other" segment in 2016 totalled €173 million, up by a contained 10.8% compared with 2015. This increase was due to the transfer to this segment of new assignments and cross-business projects carried out on behalf of the Group's brands, mainly in relation to the maintenance and upgrading of information systems for Luxury activities, the management of which has been handled centrally by Kering since 2013.

Gross operating investments recorded by the "Corporate and other" segment came to €138 million, €52 million lower than in 2015. This reduction was attributable to the lower amount of expenditure dedicated to the creation of the head offices of Kering in Paris and Gucci in Milan (both of which were inaugurated during the year), and was achieved despite a higher outlay on the Group's transformation projects and IT systems. In addition, as was the case in 2015, gross operating investments for the "Corporate and other" segment included €30 million in compensation paid to Safilo for the early termination of the Gucci license (the last €30 million payment is due in 2018).

1.5. comments on the group's financial position

(in € millions)	Dec. 31, 2016	Dec. 31, 2015	Change
Goodwill, brands and other intangible assets, net	14,806.2	15,044.3	-238.1
Other non-current assets, net	818.5	569.1	+249.4
Current assets, net	1,078.4	1,071.0	+7.4
Provisions	(368.5)	(381.9)	+13.4
Capital employed	**16,334.6**	**16,302.5**	**+32.1**
Total equity	**11,963.9**	**11,623.1**	**+340.8**
Net debt	**4,370.7**	**4,679.4**	**-308.7**

Capital employed

As of December 31, 2016, capital employed was €32 million higher than at the previous year-end.

Goodwill, brands and other intangible assets, net

As of December 31, 2016, "Goodwill, brands and other intangible assets, net" represented 61% of total assets (versus 63% as of December 31, 2015) and mainly comprised:

- goodwill amounting to €3,534 million, of which €2,551 million related to Luxury activities, €978 million to Sport & Lifestyle activities, and €5 million to the "Corporate and other" segment. Goodwill decreased in 2016 due to the recognition of a €236 million goodwill impairment loss recognised against the goodwill related to the Brioni and Ulysse Nardin brands (see Note 16 – Goodwill, to the consolidated financial statements);
- brands valued at €10,807 million, of which €6,887 million for Luxury activities and €3,920 million for Sport & Lifestyle activities. This item was slightly lower than at December 31, 2015 due to a €61 million impairment loss recognised against the Ulysse Nardin brand (see Note 17 – Brands and other intangible assets, to the consolidated financial statements).

Net of deferred tax liabilities relating to brands (which are recorded under "other non-current assets, net", as shown below), this item came to €12,067 million as of December 31, 2016.

Other non-current assets, net

(in € millions)	Dec. 31, 2016	Dec. 31, 2015	Change
Property, plant and equipment, net	2,206.5	2,073.0	+133.5
Net deferred tax liabilities	(1,927.5)	(2,008.3)	+80.8
Investments in equity-accounted companies	48.3	20.9	+27.4
Non-current financial assets, net	460.8	443.6	+17.2
Other	30.4	39.9	-9.5
Other non-current assets, net	**818.5**	**569.1**	**+249.4**

"Property, plant and equipment, net" was higher as of December 31, 2016 than at December 31, 2015 due to the impact of recurring transactions during the year (see Note 18 – Property, plant and equipment, to the consolidated financial statements).

"Deferred tax liabilities" chiefly relates to brands recognised on business combinations, notably Gucci and PUMA (see Note 11.2.2 – Changes in deferred tax assets and liabilities, to the consolidated financial statements).

As of December 31, 2016, "Investments in equity-accounted companies" comprised shares in Wilderness, Tomas Maier and Altuzarra as well as shares in two new companies: WG Alligator Farm and Wall's Gator Farm (see Note 20 – Investments in equity-accounted companies, to the consolidated financial statements).

Property, plant and equipment corresponding to the Group's operating infrastructure break down as follows in units:

		Owned outright	Finance leases	Operating leases	Dec. 31, 2016	Dec. 31, 2015
Stores	Luxury	4	4	1,297	1,305	1,264
	Sport & Lifestyle	4	0	730	734	702
Logistics units	Luxury	6	1	73	80	81
	Sport & Lifestyle	5	0	36	41	39
Production units & other	Luxury	37	1	59	97	71
	Sport & Lifestyle	2	0	2	4	4

Current assets, net

As of December 31, 2016, net current assets totalled €1,078 million, versus €1,071 million as of December 31, 2015. This item breaks down as follows:

(in € millions)	Dec. 31, 2016	Dec. 31, 2015	Change
Inventories	2,432.2	2,191.2	+241.0
Trade receivables	1,196.4	1,137.1	+59.3
Trade payables	(1,098.5)	(939.7)	-158.8
Current tax receivables/payables	(292.9)	(210.8)	-82.1
Other current assets and liabilities	(1,158.8)	(1,106.8)	-52.0
Current assets, net	**1,078.4**	**1,071.0**	**+7.4**

As of December 31, 2016, Kering's net current assets were virtually unchanged from the previous year end, up €7 million (0.7%).

After stripping out the impact of fluctuations in exchange rates and changes in Group structure, changes in working capital requirement led to a net cash outflow of €84 million:

- changes in inventories resulted in a net cash outflow of €229 million in 2016. The increase in inventories during the year reflects higher volumes of purchases made by PUMA and Gucci in order to support their sales growth (see Note 22 – Inventories, to the consolidated financial statements);
- the increase in trade receivables during 2016 led to a €62 million net cash outflow, reflecting growth in wholesale sales, notably at PUMA and Gucci (see Note 23 – Trade receivables, to the consolidated financial statements);
- the rise in trade payables and other operating receivables and payables represented a €207 million cash inflow and was due to the higher revenue recorded by PUMA and Gucci as well as the ramp-up of the Kering Eyewear business with the launch of the first Gucci collections at the end of the second half.

(See Note 24 – Other current assets and liabilities, to the consolidated financial statements).

Provisions

As of December 31, 2016, "Provisions for pensions and other post-employment benefits" was up by a slight €9 million compared with December 31, 2015. The portion of short-term provisions that will give rise to cash outflows in the coming 12 months amounted to €8 million (see Note 26 – Employee benefits, to the consolidated financial statements).

"Other provisions" decreased in 2016, mainly reflecting the sale of Electric whose net assets had been fully provisioned at December 31, 2015 (see Note 27 – Provisions, to the consolidated financial statements).

(in € millions)	Dec. 31, 2016	Dec. 31, 2015	Change
Provisions for pensions and other post-employment benefits	150.8	142.3	+8.5
Other provisions for contingencies and losses	217.7	239.6	-21.9
Provisions	**368.5**	**381.9**	**-13.4**

Equity

(in € millions)	Dec. 31, 2016	Dec. 31, 2015	Change
Equity attributable to owners of the parent	11,269.7	10,948.3	+321.4
Equity attributable to non-controlling interests	694.2	674.8	+19.4
Total equity	**11,963.9**	**11,623.1**	**+340.8**

As of December 31, 2016, Kering's total equity was higher than at the previous year-end, with equity attributable to owners of the parent up €321 million, mainly due to the combined impact of:

- €814 million in net income attributable to owners of the parent for 2016;
- €505 million in dividends and interim dividends paid by Kering;
- a €27 million positive effect from fair value remeasurements of cash flow hedges;
- a €24 million positive effect from currency translation adjustments;
- a €39 million adverse effect of other changes (notably buyouts of non-controlling interests).

During 2016, Kering carried out the following treasury share transactions:

- the acquisition and disposal of 1,556,728 shares under the liquidity agreement;
- the acquisition of 1,304 shares followed by the allotment of 28,902 shares (including 27,598 shares held in treasury as of December 31, 2015) to employees under the 2012 free share plan.

As of December 31, 2016, Kering's share capital was made up of 126,279,322 shares with a par value of €4 each. At that date, Kering did not hold any shares either in connection with the liquidity agreement or in treasury.

As of December 31, 2016, "Equity attributable to non-controlling interests" mainly related to PUMA, for a total of €533 million (versus €512 million one year earlier), and the Luxury activities' brands, for €162 million (€157 million as of December 31, 2015).

Net debt

The Group's net debt totalled €4,371 million as of December 31, 2016, representing a decrease of €309 million or 6.6% compared with the previous year-end. As of December 31, 2016, Kering's net debt broke down as follows:

(in € millions)	Dec. 31, 2016	Dec. 31, 2015	Change
Bonds	4,180.9	3,674.5	+506.4
Bank borrowings	335.1	313.4	+21.7
Commercial paper	350.1	1,299.7	-949.6
Other borrowings	554.2	538.2	+16.0
Gross borrowings	**5,420.3**	**5,825.8**	**-405.5**
Fair value hedges (interest rate)			
Cash and cash equivalents	(1,049.6)	(1,146.4)	+96.8
Net debt	**4,370.7**	**4,679.4**	**-308.7**

No bond redemptions were carried out in 2016. The most significant repayments of borrowings mainly concerned commercial paper.

New borrowings issued in 2016 included the first ten-year bonds issued by Kering SA, which represented a total of €500 million and have a fixed-rate annual coupon of 1.25%. The settlement/delivery date for these bonds was May 10, 2016.

As of December 31, 2016, the Group's gross borrowings included €95 million concerning put options granted to minority shareholders (compared with €76 million as of December 31, 2015).

In accordance with the Group's interest rate management policy, fixed-rate borrowings accounted for 77.1% of the Group's total gross borrowings as of December 31, 2016 (including hedges), compared with 75.8% one year earlier.

As of December 31, 2016, the Group's gross borrowings were mainly denominated in euros. The proportion denominated in Japanese yen represented 8.0% of total gross borrowings (6.5% as of December 31, 2015) and the proportion denominated in other currencies stood at 8.5% (8.8% as of December 31, 2015).

Kering minimises its exposure to concentration risk by diversifying its sources of financing. Therefore, non-bank debt accounted for 83.6% of gross borrowings as of December 31, 2016, versus 85.4% as of December 31, 2015. Kering's credit facilities are taken out with a diversified pool of top-tier French and non-French banks. As of December 31, 2016, 71.3% of the confirmed credit facilities granted to Kering were provided by a total of ten banks. The Group's three leading banking partners represented 33.7% of the total and no single bank accounted for more than 15% of the aggregate amount of confirmed credit facilities available to the Group.

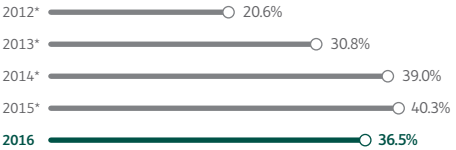
Kering only carries out borrowing and investment transactions with leading financial institutions and it spreads these transactions amongst the various institutions concerned.

Solvency

As of December 31, 2016, Kering had a very robust financial structure:

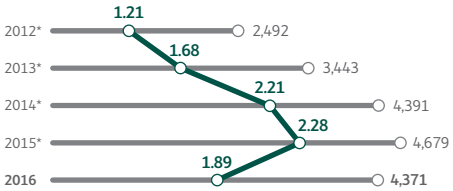
- Its gearing ratio (net debt to equity) was 36.5% (versus 40.3% as of December 31, 2015);
- Its solvency ratio (net debt to EBITDA) was 1.89 (versus 2.28 as of December 31, 2015).

GEARING



* *Reported data, not restated.*

SOLVENCY



* *Reported data, not restated.*

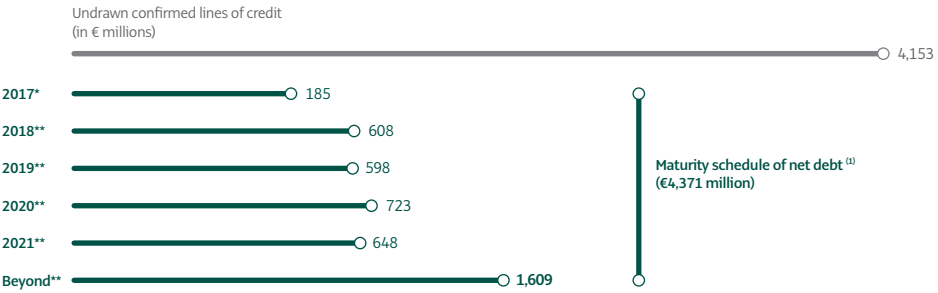
Kering's bank borrowing facilities are subject to just one financial covenant which provides that the solvency ratio (net debt to EBITDA, calculated annually on a pro forma basis at the year-end) must not exceed 3.75.

Kering's long-term rating by Standard & Poor's has remained unchanged since March 2012 at BBB with a "stable" outlook.

Liquidity

As of December 31, 2016, Kering had cash and cash equivalents totalling €1,050 million (€1,146 million as of December 31, 2015), as well as confirmed undrawn medium-term credit facilities amounting to €4,153 million (€4,132 million as of December 31, 2015).

MATURITY SCHEDULE OF NET DEBT



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

(1) Net debt is defined on page 222.

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

Short-term borrowings and borrowings maturing in five years or beyond accounted for 22.8% and 41.7% respectively of total gross borrowings as of December 31, 2016, compared with 30.6% and 42.3% respectively as of December 31, 2015.

Cash and cash equivalents exclusively comprise cash instruments and money-market funds that are not subject to any risk of changes in value. As of December 31, 2016, the Group had access to €4,189 million in confirmed credit facilities (of which €36 million had been drawn down), versus €4,153 million as of December 31, 2015.

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

The bonds issued between 2009 and 2016 within the scope of the EMTN programme are all subject to change-of-control clauses entitling bondholders to request early redemption at par if Kering's rating is downgraded to non-investment grade following a change of control.

In addition, the bonds issued in 2009 include a step-up coupon clause that applies in the event that Kering's rating is downgraded to non-investment grade.

All of these borrowings are covered by the rating assigned to the Kering group by Standard & Poor's (BBB with a stable outlook) and are not subject to any financial covenants.

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

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

Changes in net debt

Changes in net debt during 2016 and 2015 can be analysed as follows:

(in € millions)	2016	2015
Net debt as of January 1	**4,679.4**	**4,390.7**
Free cash flow from operations	(1,189.4)	(660.2)
Net interest paid and dividends received	172.6	166.4
Dividends paid	541.4	561.5
Acquisition (disposal) of Kering shares	(0.5)	7.3
Other acquisitions and disposals	169.7	67.3
Other movements	(2.5)	146.4
Net debt as of December 31	**4,370.7**	**4,679.4**

Free cash flow from operations

The generation of free cash flow from operations is a key financial objective for all of the Group's brands. In 2016, the Group's free cash flow from operations totalled €1,189 million.

(in € millions)	2016	2015	Change
Cash flow from operating activities before tax, dividends and interest	**2,171.8**	**1,845.3**	**+17.7%**
Change in working capital requirement (excluding tax)	(84.4)	(219.3)	-61.5%
Corporate income tax paid	(295.5)	(330.4)	-10.6%
Net cash from operating activities	**1,791.9**	**1,295.6**	**+38.3%**
Purchases of property, plant and equipment and intangible assets	(611.0)	(672.1)	-9.1%
Proceeds from disposals of property, plant and equipment and intangible assets	8.5	36.7	-76.8%
Free cash flow from operations	**1,189.4**	**660.2**	**+80.2%**
Interest and dividends received	14.0	12.4	+12.9%
Interest paid and equivalent	(186.6)	(178.8)	+4.4%
Available cash flow	**1,016.8**	**493.8**	**+105.9%**

In 2016, cash flow from operating activities before tax, dividends and interest was up 17.7% on 2015.

Changes in working capital requirement during 2016 gave rise to a net cash outflow of €84 million versus €219 million in 2015.

This €135 million year-on-year improvement reflects the following main factors:

- a €220 million positive impact from an increase in trade payables as a result of higher business volumes, compared with a decrease in trade payables in 2015 which was mainly due to payment time lags at PUMA;

- a €159 million adverse impact resulting from a higher increase in inventories for Luxury activities than in 2015;
- a €74 million favourable impact from changes in other items of working capital requirement.

The net cash outflow relating to net operating investments totalled €602 million in 2016, compared with €635 million in 2015.

Gross operating investments totalled €611 million in 2016, down 9% on the €672 million recorded for 2015 and breaking down as follows:

(in € millions)	2016	2015	Change
Luxury	380.6	390.9	-2.6%
Sport & Lifestyle	92.0	91.0	+1.1%
Corporate and other	138.4	190.2	-27.2%
Gross operating investments	**611.0**	**672.1**	**-9.1%**

The 2.6% year-on-year decrease in gross operating investments for Luxury activities was due to this business's focus on achieving organic growth on a same-store basis and on consolidating the existing store network, in view of the more unsettled operating environment in the luxury industry.

In 2016, 45% of the Group's gross operating investments concerned the store network (versus 46% in 2015).

Gross operating investments also decreased for the "Corporate and other" segment in 2016. In 2015, they primarily corresponded to investments in real-estate projects in Milan, Paris and Tokyo, which were completed in 2016.

Available cash flow

In 2016, net cash outflows relating to finance costs included €14 million in interest and dividends received versus €12 million in 2015.

Available cash flow for the year amounted to €1,017 million compared with €494 million in 2015.

Dividends paid

Dividends paid in 2016 were slightly lower than in 2015. The 2016 figure included €36 million paid to minority shareholders of consolidated subsidiaries (€57 million in 2015), of which almost €20 million related to PUMA. The cash dividend paid by Kering to its own shareholders in 2016 amounted to €505 million (including the interim cash dividend paid on January 18, 2016), more or less unchanged from 2015.

Acquisitions and disposals

The amount recorded under "Acquisition (disposal) of Kering shares" was less than €1 million for 2016. In 2015 this item amounted to a positive €7 million and primarily corresponded to the purchase of 133,021 shares for the Group's stock option and free share plans.

During 2016, Kering did not purchase any PUMA shares and kept its interest in the company at 85.81%, unchanged from year-end 2015.

The impact of "Other acquisitions and disposals" during 2016 included (i) €82 million in financial investments made by the Group, primarily concerning real-estate companies acquired in 2016 and 2015 and the financing of other equity interests, and (ii) €18 million in financial cash flows related to discontinued operations.

In 2015, the impact of "Other acquisitions and disposals" mainly included (i) €84 million in financial investments made by the Group, primarily concerning real-estate entities and (ii) €4 million in net financial cash flows related to discontinued operations.

Other movements

This item primarily includes the impact of (i) fluctuations in exchange rates, and (ii) fair value remeasurements of financial instruments in accordance with IAS 32 and IAS 39.

1.6. parent company net income and dividend payment

The parent company ended 2016 with net income of €683 million, compared with €527 million in 2015. The 2016 total includes €863 million in dividends received from subsidiaries (versus €657 million in 2015).

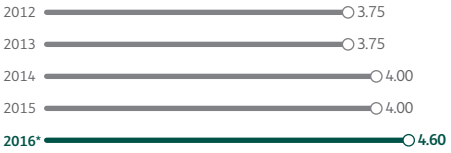
At its February 9, 2017 meeting, the Board decided that, at the Annual General Meeting to be held to approve the financial statements for the year ended December 31, 2016, it will ask shareholders to approve a €4.60 per share cash dividend for 2016.

An interim dividend amounting to €1.50 per share was paid on January 18, 2017 pursuant to a decision by the Board of Directors on December 15, 2016.

If the final dividend is approved, the total cash dividend payout in 2017 will amount to €581 million.

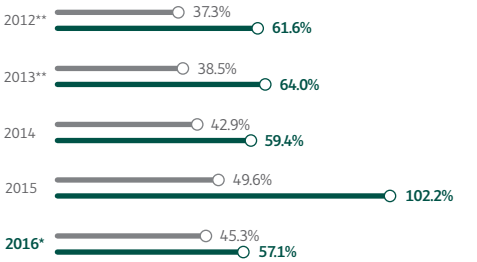
Kering's goal is to maintain well-balanced payout ratios bearing in mind, on the one hand, changes in net income from continuing operations (excluding non-recurring items) attributable to owners of the parent and, on the other hand, the amount of available cash flow. The Group has decided to raise its 2016 dividend to €4.60, as a sign of its confidence in its future development.

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.*

1.7. transactions with related parties

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

1.8. subsequent events

No significant events occurred between December 31, 2016 and February 9, 2017 – the date on which the Board of Directors authorised the consolidated financial statements for issue.

1.9. outlook

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

As in 2016, the Group's Luxury activities in 2017 will focus on achieving same-store revenue growth, while the expansion of the store network will be targeted and selective, as well as on extending work currently underway to durably strengthen operating margins. In the Group's Sport & Lifestyle activities, PUMA expects to deliver another year of market improvement in revenue and recurring operating margin.

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

Against this backdrop, in 2017 and as it did in 2016, Kering plans to pursue its strategy of rigorously managing and allocating its resources in order to further enhance its operating performance, cash flow generation and return on capital employed.

2. investment policy

Kering's investment policy is designed to support and enhance the Group's growth potential on its markets and is focused on financial investments (acquisitions and disposals of assets) and investments related to operations (organic growth).

Financial investments reflect the Group's strategy of reinforcing profitable high-growth activities in the Luxury market by acquiring attractive brands with strong growth potential and market positions that perfectly complement its existing assets.

Operating investments are designed to accelerate organic growth for the Group's brands. This is achieved by, for example, developing and renovating the store network and by investing in logistics centres or IT systems.

2.1. financial investments

The Group has a balanced portfolio of complementary brands and did not undertake any major investments in 2016 or 2015. Financial investments represented net cash outflows of €10.2 million euros for the year (€25.6 million for 2015).

The cash impact of the sale of businesses restated in accordance with IFRS 5 (mainly Sergio Rossi and the Redcats group) is shown on the line "Net cash from (used in) discontinued operations" and represented a cash outflow of €17.7 million in 2016 (compared to a cash inflow of €3.5 million in 2015).

(See Note 12 – Discontinued operations, to the consolidated financial statements.)

2.2. operating investments

The Group conducts a targeted investment policy designed to reinforce both its image and the unique positioning of its brands, as well as to increase its return on capital employed.

The Group's investment policy is focused on the development of its store network, the conversion and renovation of its existing points of sale, the establishment and maintenance of manufacturing units in the Luxury sector, and the development of IT systems.

Gross operating investments amounted to €611 million in 2016, down 9.1% on 2015. For the Luxury activities, the 2.6% contraction in investments reflects the focus on achieving organic growth on a same-store basis and on consolidating the existing store network. The Sport & Lifestyle activities' gross operating investments amounted to €92 million in 2016, up slightly by 1.1% compared with 2015.

In 2016, 45% of the Group's gross operating investments concerned the store network (versus 46% in 2015).

Gross operating investments recorded by the "Corporate and other" segment came to €138 million, €52 million lower than in 2015. This decrease was attributable to the lower amount of expenditure dedicated to the creation of the head offices of Kering in Paris and Gucci in Milan (both of which were inaugurated during the year), and was achieved despite a higher outlay on the Group's transformation projects and IT systems.

Luxury activities

The Luxury activities' gross operating investments amounted to €381 million in 2016, €10 million (or 2.6%) lower than in 2015. This strategy of tightly controlling capital expenditure was one of the financial objectives set for Luxury activities for 2016. As a proportion of revenue, gross operating investments represented 4.5% in 2016 versus 5.0% in 2015.

As of December 31, 2016, Luxury activities had a network of 1,305 directly operated stores, including 799 (61%) in mature markets and 506 in emerging markets. Net store additions during the year totalled 41, compared with 78 in 2015. The stores added in 2016 were mainly due to network expansions, primarily for Yves Saint Laurent (a net increase of 17 stores) and, to a lesser extent, for Balenciaga and Stella McCartney.

Gucci

As of December 31, 2016, Gucci operated 520 stores directly, including 216 in emerging markets. A net 5 stores were closed during the year, giving the brand an overall network more adapted to its operations in terms of store numbers. As it does not consider that aggressively expanding the store network is the right strategy in today's operating environment in the luxury industry, the brand's current focus is on increasing its organic growth.

Gucci's gross operating investments amounted to €185 million in 2016, down 4.2% on 2015. This year-on-year decrease reflects the brand's prudent approach to new store openings, as mentioned above, and its strategy of allocating resources in priority to financing inventories in order to support the upturn in the brand's sales. The figure for 2016 includes the refurbishment programme aimed at introducing the new store concept at the brand's most strategic stores. Gucci had set itself the goal of bringing the total number of stores with the new concept to 80 by the end of 2016. This objective was reached as 86 stores sporting the brand's new aesthetic were either newly-opened or refurbished during 2015 and 2016. The objective of keeping investments below the threshold of 5% of revenue was also met, as gross operating investments represented 4.2% of sales.

Bottega Veneta

In order to enable it to focus its action plans on achieving organic growth, as from 2015 the brand decided to stabilise and restructure its directly-owned store network. As of December 31, 2016, Bottega Veneta had 255 directly operated stores, including 111 in emerging markets. There were 4 net store additions during the year, versus 15 in 2015.

Gross operating investments decreased by €7 million (or 13.5%) year on year to some €43 million in 2016, reflecting the brand's prudent approach to new projects.

Yves Saint Laurent

As of December 31, 2016, the Yves Saint Laurent brand directly operated 159 stores, including 70 in emerging markets. There were 17 net store openings during the year, including flagship stores in strategic countries or cities where the brand was not yet present and a high number of concessions in department stores.

Overall, the brand's gross operating investments were contained in 2016, amounting to €58 million which represents a €5 million decrease compared with 2015. This prudent investment strategy, combined with the increase in EBITDA, contributed to a significant improvement in the brand's free cash flow generation.

Other Luxury brands

The network of directly operated stores owned by Other Luxury brands totalled 371 stores as of December 31, 2016. There were 25 net store additions during the year. The network comprises 262 stores in mature markets and 109 stores in emerging markets.

The Group's Other Luxury brands adopted a strict and highly selective capital expenditure strategy in 2016 and sought to reduce their gross operating investments. Only Brioni had a higher capital outlay for the year, due to the relocation of two of its flagship stores in Paris and New York. Overall gross operating investments for Other Luxury brands amounted to €95 million, representing a €10 million increase compared with 2015.

Sport & Lifestyle activities

Gross operating investments amounted to €92 million in 2016, up 1.1% compared with 2015. This slight year-on-year increase was due to expenditure incurred for the Sport & Lifestyle brands in the areas of distribution, information systems and supply chain, especially for PUMA whose renewed growth needs to be sustained.

As of December 31, 2016, the Sport & Lifestyle activities' network of directly operated stores had 734 points of sale. There were 33 net store additions during the year, of which 23 in emerging markets.

PUMA

Gross operating investments amounted to €84 million, more or less unchanged from 2015. This year-on-year stability reflects the brand's more selective approach to projects and, to a lesser extent, a favourable currency effect relating to investments undertaken in emerging markets.

As of December 31, 2016, PUMA's directly operated retail network included 664 stores, representing 13 net openings compared with December 31, 2015. Around two-thirds of existing stores and the majority of the new stores opened during the year are in emerging markets where this distribution channel is growing and is delivering good margins.

Other Sport & Lifestyle brands

Volcom's gross operating investments amounted to €8 million in 2016, up €2 million on 2015 as a result of the expenditure incurred for expanding the store network and online distribution channel.

Volcom's directly operated store network comprised 70 stores as of December 31, 2016, including 8 in emerging markets. This represents 20 more points of sale than as of December 31, 2015, but over three-quarters of this increase was due to taking over existing shop-in-shops within department stores in Europe.

3. risk management

Risk management forms part of the ongoing identification and evaluation process of Group risks (see section "Internal control and risk management procedures" in the Chairman's report, page 211 of the Reference Document).

3.1. financial risks

The Kering group has established a centralised structure for the management of liquidity, exchange rate and interest rate risks. The Group's Financing and Treasury Department, which reports to the Finance Department, is responsible for this organisation and has the necessary expertise, resources (particularly technical) and information systems to carry out the necessary tasks. It executes transactions in various financial markets with optimum efficiency and security via Kering Finance SNC, which is dedicated to cash management and financing. The Financing and Treasury Department also coordinates cash management for the subsidiaries and sets out the Group's banking policy.

The financial risks identified by the Group are summarised below:

Counterparty risk

Kering minimises its exposure to counterparty risk by dealing only with investment grade companies and by spreading its exposure among its various counterparties, up to their respective exposure and maturity limits. Counterparties to derivative transactions are included in the Group's counterparty risk management procedures. Each of these transactions requires approval and is governed by limits and maturities that are reviewed on a regular basis. Counterparties are assessed using an internal classification system based on the rating they have received from rating agencies. Counterparties must be rated at least "BBB" by Standard & Poor's and the equivalent by Moody's.

Equity risk

In the normal course of business, the Group enters into transactions involving shares in consolidated companies or shares issued by Kering. The Group trades in its own securities either directly or through derivatives as part of its share buy-back programme and in accordance with applicable regulations. Kering has also signed an agreement with a financial broker in order to improve the liquidity of the Group's shares and ensure share price stability. This agreement complies with the Professional Code of Conduct drawn up by the French association of financial and investment firms (*Association française des marchés financiers* – AMAFI) and approved by the French financial markets authority (*Autorité des marchés financiers* – AMF).

Shares held in connection with non-consolidated investments represent a low exposure risk for the Group and are not hedged.

When Kering sets up financial investments in the form of open-ended investment funds or equivalent funds, it systematically uses liquid monetary instruments with maturities of less than three months in order to mitigate risk. Consequently, the price risk borne by Kering is deemed not to be material.

Additional information on equity risk is provided in Note 30.3 to the consolidated financial statements.

Foreign exchange risk

The Group uses derivative hedging instruments to reduce its exposure to currency risk based on the specific requirements of each of the Luxury and Sport & Lifestyle activities.

These instruments are used either to hedge foreign currency trade receivables and payables, or to hedge highly probable forecast exposures and/or firm commitments. Each entity hedges the risk generated by using a currency other than its functional currency in its commercial dealings.

Companies in the Sport & Lifestyle activities primarily hedge the foreign exchange risk generated by highly probable purchase and sales of foreign currency. Periods depend on the activity specific to each company. Hedging flows may be generated by inter-company flows through purchasing offices.

Foreign exchange risk hedging by the Luxury activity's entities mainly covers sales made to their retail subsidiaries, and to a lesser extent purchase flows. These are essentially inter-company flows.

Future foreign exchange exposures are determined using a regularly updated budget procedure.

Hedging periods are adapted to each brand's business cycle and only marginally exceed one year at each reporting date.

Foreign exchange policies and procedures are set out by each company's Executive Committee and are validated by Kering.

Each brand hedges its own foreign exchange risks in accordance with policies and procedures reflecting its specific requirements.

These procedures incorporate Group policies as defined by Kering:

- Kering Finance SNC is the sole counterparty in currency transactions, except where specific regulatory or operating constraints rule this out;
- the amounts and maturities of all currency hedging transactions are backed by an economic underlying to prevent any speculative dealing;
- all highly probable exposures are at least 80%-hedged where they concern forecast amounts, or fully hedged in the case of firm commitments;
- Kering has strictly limited the type of financial instruments that may be used for hedging purposes;
- each brand implements its own internal control system and conducts audits on a regular basis.

Kering ensures that each brand's currency risk management policy is consistent with its underlying foreign exchange exposure, notably through a monthly currency reporting procedure. Kering also conducts periodic audits at Group level.

The Group also hedges foreign exchange risk on financial assets and liabilities issued in foreign currencies by using currency swaps for refinancing purposes or by investing cash in euros or local currency.

Note 30.2 to the consolidated financial statements sets out the nature of the hedging instruments held by the Group and its exposure to foreign exchange risk (see page 319, "Exposure to foreign exchange risk").

Kering Finance SNC processes, controls and provides administrative support for foreign exchange transactions on behalf of Group companies. Front-office, middle-office, back-office and accounting tasks are separated for security reasons, as well as to ensure that derivatives contracted internally are unwound on the market. Kering Finance SNC uses market-standard techniques and information systems to price currency instruments.

Interest rate risk

Interest rate risk policy falls within Kering's remit, and is managed on a consolidated basis by Kering Finance SNC. Kering has set a 70%-fixed/30%-floating target rate mix for consolidated net debt.

Interest rate risk is measured based on current and projected consolidated net debt, the schedule of hedging positions and fixed-rate/floating-rate debt issuances. This enables interest-rate hedging in accordance with the Group's target fixed/floating rate mix. Appropriate hedging products are mainly set up through Kering Finance SNC, in close liaison with Kering's Executive Management. Kering mainly uses (i) interest rate swaps to convert all or a portion of its fixed-rate bonds to a floating rate and (ii) caps and collars in order to protect floating-rate financing against rises in interest rates.

Kering Finance SNC processes, controls and provides administrative support for interest rate transactions on behalf of Group companies. Front-office, middle-office, back-office and accounting tasks are separated for security reasons. Kering Finance SNC uses market-standard techniques and information systems to price interest rate instruments.

Note 30.1 to the consolidated financial statements sets out the nature of the hedging instruments held by the Group and its exposure to interest rate risk (see page 316, "Exposure to interest rate risk").

Liquidity risk

Liquidity risk management for the Group and each of its subsidiaries is closely monitored and periodically assessed by Kering, based on Group- and brand-level financial reporting procedures.

In order to manage liquidity risk that may arise when its financial liabilities fall due, the Group's financing policy is geared towards optimising its maturity schedule and avoiding the concentration of redemptions and repayments.

The Group's active risk management policy also seeks to diversify sources of funding and limit reliance on individual lenders.

The Group had undrawn confirmed lines of credit totalling €4,153.1 million as of December 31, 2016 compared to €4,131.8 million as of December 31, 2015.

Kering has a Euro Medium Term Notes (EMTN) programme in Luxembourg for its bond issuances, representing €6 billion. As of December 31, 2016, €4,184.6 million of this amount had been used, of which €284.6 million issued in US dollars. The EMTN programme was extended on November 17, 2016 for a further one-year period. Kering's short-term debt is rated "A2" by Standard & Poor's, while its long-term debt is rated "BBB" with a stable outlook.

The Group's bonds and bank lines of credit are governed by the standard commitment and default clauses customarily included in this type of agreement: *pari passu* ranking, a negative-pledge clause that limits the security that can be granted to other lenders, and a cross-default obligation. The bonds issued within the scope of the EMTN programme

are all subject to change-of-control clauses entitling bondholders to request early redemption at par if Kering's rating is downgraded to non-investment grade following a change of control.

In addition, the bonds issued in 2009 include a step-up coupon clause that applies in the event that Kering's rating is downgraded to non-investment grade (see Notes 29.4 and 29.5 to the consolidated financial statements).

Kering and Kering Finance SNC confirmed lines of credit include a default clause (early repayment) in the event of failure to comply with the following financial covenant: consolidated net debt/EBITDA less than or equal to 3.75 (see Note 29.5.3 to the consolidated financial statements). This ratio is calculated based on pro forma data. As of December 31, 2016, Kering and Kering Finance SNC had not drawn down any of the confirmed lines of credit subject to this covenant.

Euro bond issues are not subject to any financial ratio covenants.

The Group was in compliance with all these covenants as of December 31, 2016 and there is no foreseeable risk of breach.

Information relating to liquidity risk is presented in Note 29 to the consolidated financial statements, including the breakdown of Group debt by maturity and currency, and in Note 30.6 to the consolidated financial statements, which describes liquidity risk in accordance with IFRS 7.39.

3.2. strategic and operational risks

In accordance with the AMF's recommendations, this section deals only with risks identified by the Group as having a potentially significant impact.

Macro-economic instability

Growth of the Luxury and Sport & Lifestyle markets is closely linked to growth in the world economy. More particularly, these markets are driven by trends in "discretionary" consumption, which accounts for a varying percentage of total household spending depending on the maturity of an economy, and therefore differs between developed and emerging markets.

Discretionary consumption is sensitive to any weakness in global economic growth or a deterioration in the macroeconomic or geopolitical environment of a given country or region. This can impact consumer confidence, and lead consumers to limit or postpone any "non-essential" purchases.

These spending decisions can also be influenced by factors such as political instability, security threats, exchange rate volatility, and changes in customs or tax policies which can alter consumers' expectations and purchasing behaviour, for example by impacting their purchasing power and disrupting tourist flows. 2015 saw strong currency volatility, shaped by a weaker euro and yen and a stronger US dollar. The resulting price differentials prompted a rise in spending in eurozone countries and in Japan by Asian tourists, and particularly those from continental China.

These trends reversed in 2016 following the terrorist attacks that hit Europe and France in particular, a gradual rebalancing in prices between the world's regions, and the stimulus measures taken by the Chinese government to increase spending in the domestic market. Currency volatility also eased, although the slump in pound sterling shored up UK growth in the wake of the Brexit vote and the stronger yen limited the appeal of spending in Japan for Chinese tourists.

The balanced geographical coverage of Luxury and Sport & Lifestyle activities limits the Kering group's exposure to exchange rate volatility and to uncertainties or even a deterioration in the economic conditions or security profile of a given country. The distribution network also enjoys balanced geographical coverage: sales of Luxury products are made through a network of 1,305 directly operated stores including 799 stores in mature markets and 506 in emerging countries, while sales of Sport & Lifestyle products are made via a network of 734 directly-operated stores, of which 454 in emerging markets. Direct sales are supplemented by sales to third party distributors, and the Group's broad spectrum of products makes its less dependent on any single category.

Both the Group's market positioning and strategy (see page 8 *et seq.* for more details) help limit the impacts of macroeconomic cycles and uncertainty on its activities.

As explained in the overviews (pages 18 and 46) describing the Luxury and Sport & Lifestyle markets, besides cyclical factors, the Group is also exposed to structural medium-term growth patterns related to the increase in the world's population and changes in the population mix. Over the next few decades, the number of people belonging to the "global middle class" is set to almost double, with Asia accounting for the bulk of this growth (source: OECD Observatory). More particularly, according to the Economist Intelligence Unit (EIU), the upper middle class in China is expected to grow at an average of 9% per annum between 2015 and 2030, to stand at 480 million people in 2030 (35% of the Chinese population), compared to 132 million people in 2015 (10% of the Chinese population), representing 350 million potential new consumers.

Raw materials and strategic skills

To meet their customers' expectations, the Luxury activities require unhindered availability of raw materials that comply with its quality criteria, and sustained skill levels across its production teams. To this end, the Kering group has forged special partnerships with key suppliers, and pursues a policy of actively seeking new partners. It also develops vertical integration throughout the production chain by means of acquisitions or strategic business partnerships in the subcontracting market.

To maintain the know-how of its Luxury activities' businesses over the long term, Kering runs personnel training and skills preservation initiatives, and internalises a number of functions that were previously subcontracted.

Fluctuation in raw materials prices

Volatility in the prices of raw materials used by the Luxury activities correlates with high demand for leather, skins and precious stones. Rising prices of the raw materials used by the Sport & Lifestyle activities stem from variations in outsourcing costs and in the prices of rubber, cotton and polyester. Rises in production costs can be wholly or partially offset by corresponding rises in the sale prices of finished products.

Kering pays careful attention to the traceability of supplies, and insists that suppliers and subcontractors comply with legislation and the Group's Code of ethics. The Luxury activities are especially attentive to ensuring that supplies comply with international standards on mining conditions for gold, diamonds and precious stones. These factors tend to restrict the scope of alternative sourcing options for certain materials. The Group is nevertheless structured in order to regularly seek new suppliers capable of meeting its requirements on these issues.

Commercial appeal and brand value

Kering's activities are underpinned by powerful global brands in the Group's Luxury and Sport & Lifestyle businesses. One of the Group's main operational risks therefore concerns the loss of commercial appeal and brand value that could arise from poor consideration of consumer expectations, market changes, loss of key partnerships, problems with product quality, or failure to comply with the Group's sustainability principles.

Consequently, as well as investments in communication, advertising and R&D spending, operating investments concern store improvements, developments and refurbishments (see also the section on operating investments, page 250).

The accounting impacts of impairment losses are described in Note 19 to the consolidated financial statements for the year ended December 31, 2016, on page 299.

Consumer expectations

The brands' creative leadership and the success of its collections and resulting commercial appeal are managed by Creative Departments and their world-renowned designers, and perpetuated by remaining true to the identity and fundamental values of the brand. Kering's Sport & Lifestyle activities also play a major role as trend setters for consumers, by investing in R&D and offering new products and services.

The inability to anticipate changes in consumer expectations represents a major risk to Kering's business development. To counter this risk, Kering endeavours to streamline the supply cycle, cutting lead times between product design and launch phases.

Kering also encourages its Luxury and Sport & Lifestyle activities to stay ahead of consumer trends by keeping a constant watch over market trends (attending trade fairs, working with trend forecasting agencies, running consumer surveys, etc.).

The Luxury activities are therefore broadening their offerings, increasing the number of collections and developing new partnerships with renowned designers.

Key partnerships

Partnerships with celebrities, athletes, sports teams and other brands make a significant contribution to enhancing the Group's image. Putting in place these partnerships is likely to be costly, particularly in terms of marketing and communication, which may not provide the benefits that are expected (increased business, enhanced brand image, etc.).

The risk of losing strategic partnerships is mitigated by renewing major contracts in advance, extending the partnership portfolio, and paying careful attention to the quality of relationships with figureheads and brand representatives.

Product quality, health and safety risks

Ensuring the quality of goods and compliance with stringent safety standards are among the Group's main priorities.

In order to bring high-quality products to market that are compliant with these standards, the Group implements quality control processes covering all of the stages in the product lifecycle, from design through to marketing. Products are classified using quality and safety standards, while suppliers are referenced on the basis of technical audits and adherence to the Group Suppliers' Charter in the Code of ethics. Product quality and safety controls are carried out at all stages of the production process by quality engineers and accredited laboratories.

Procedures relating to product control are explained in greater depth in Chapter 3 "Sustainability" of the Reference Document, pages 127 to 129.

Kering's Luxury and Sport & Lifestyle activities have "product" crisis management units. In the event of a known risk, they follow procedures ensuring that immediate and transparent information is provided to the public, and that defective products are recalled.

The Group has also taken out civil liability insurance to cover bodily harm or property damage to third parties caused by products considered defective (see section 3.4 "Main existing insurance programmes" page 259).

Image and reputation, respect for ethical rules and integrity

The Group carefully safeguards its image and reputational assets.

Unfavourable or erroneous media coverage on the Group's products or practices, or negative discussions on social networks, could damage its image and reputation as well as give consumers a misleading perception of the Group's performance, potentially leading to a slowdown in sales.

Consequently, the Group seeks to ensure that no incident arises due to unethical behaviour on the part of entities or individuals under its control, or those with which it has business dealings.

Each of Kering's activities has a crisis management policy and unit that liaises with head office.

The Group also monitors adherence by personnel to the Kering group Charter, which defines the framework for the decentralisation of the organisation, and to the Code of ethics (the third edition of which is available in 12 languages and was circulated to all of the Group's employees in 2013). A Group Ethics Committee has been established and is supported by two regional counterparts, the Asia-Pacific Ethics Committee and the Americas Ethics Committee. All three Committees can be contacted via a hotline from 74 countries, operating in 12 languages.

The Group regularly examines ways to adapt these documents to its organisation, ensures that suppliers adhere to the Group Suppliers' Charter, which they are required to promote within their production units, and monitors compliance by means of social audits at production sites (see Chapter 3 "Sustainability" of the Reference Document, pages 120 to 126).

All of the Luxury activities implement appropriate methods and steps to ensure their activities comply with the Group's Corporate Social Responsibility (CSR) standards: SA8000 and RJC certification, social audits and supplier training programmes are examples of the actions and programmes that the brands have put in place in their day-to-day operations.

The Sport & Lifestyle activities also ensure that their suppliers respect the Group's CSR standards. PUMA for example monitors suppliers' observance of its Social Accountability and Fundamental Environmental (SAFE) standards, which prohibit child labour, unethical employment conditions, environmental damage and any business relationships with criminal organisations.

Identity theft and false information

As a listed company on a regulated market, Kering is particularly exposed to the risk of the circulation of false information, the spreading of unfounded rumours and the risk of identity theft. A significant increase in the risk of external fraud has been observed in a variety of forms, including fake president fraud, supplier fraud, cyber-attacks and ransomware.

To counter this growing risk, the Group has put in place a large number of control and protection measures, including awareness raising and training for at-risk personnel, setting out processes and procedures and developing targeted IT security systems.

In addition, Kering participates in peer working groups in order to reduce exposure to these risks.

Counterfeiting and parallel distribution networks

Kering owns a large array of brands, models, copyrights, patents, designs and know-how, largely through its Luxury and Sport & Lifestyle activities. This portfolio constitutes intellectual property and a strategic asset for the Group.

The distribution of brand products could be threatened if the Group's intellectual property rights were to come into conflict with the rights of certain competitors.

The Group's legal departments therefore manage the brand portfolio and other intellectual property rights, and implement active and diversified policies to counter breaches of these rights. Kering actively opposes parallel distribution networks and illicit networks that sell counterfeit or copied goods, in particular by working to increase the traceability of its goods.

Protection of the Group's intellectual property takes many forms, from upstream practices of the brand portfolios, to downstream practices, including anti-counterfeiting custom or police raids or legal action. The costs of monitoring markets and tackling counterfeiting, within the brands and at the Group's head office, are divided between legal and security functions, or among the stores. These costs are however relatively insignificant at Group level.

Kering also participates in bodies that represent the leading Luxury industry players. The Group prevents sales of its products by parallel distribution networks by working to increase the traceability of its goods, prohibiting direct sales to these networks and implementing specific measures to tighten control over its distribution channels.

Dependence on patents, licences and supply contracts

The Group is not significantly dependent on any patents, licences or third-party supply sources.

The Group owns or has licence rights to the trademarks, patents and intellectual property rights that it exploits, free of any restrictions as to right of priority or use (and of rights likely to restrict such exploitation) in all relevant markets. The same applies to the corporate names and domain names of the subsidiaries or entities, to the names of the Group's stores and points of sale and to the trademarks and signs of the goods and products manufactured and marketed by the various Group entities. This situation does not preclude any of the trademarks belonging to the Group being licensed to third parties for the sale of goods or services under its trademark enhancement policy, as has been the case in perfumes and cosmetics. In all cases, such licensing agreements have been entered into under fair commercial and financial terms and conditions, and have no impact on the ownership of the trademarks and signs belonging to the Group. Further information on contractual obligations and other commitments is provided in Notes 34.2.1 and 34.2.3 to the 2016 consolidated financial statements on pages 332 and 333.

Litigation

Group companies are involved or are likely to be involved in a number of lawsuits or disputes arising in the normal course of business, including litigation with tax, social security and customs authorities, as well as various governmental and competition authorities. Provisions have been set aside by the companies for the probable costs, as estimated by the entities and their experts. According to the Group entities' experts and advisors, no litigation currently in progress concerning Group companies presents a risk for the normal operations of the Group, or for its future development. Provisions have been set aside in the Group's 2016 consolidated financial statements to cover all of the abovementioned legal risks, including the impact of commitments given on the disposal of controlling interests. None of these risks have been qualified as arising outside the scope of normal business for Group companies.

The Group considers that the effective methods and procedures for identifying and managing its industrial and environmental risks within each of the entities concerned, which rely chiefly on the advice of duly authorised external organisations and advisors, meet, in relevance and proportion, customary technical and professional standards under the prevailing regulatory framework. An active prevention and safety policy is an integral part of these methods and procedures.

Furthermore, the Group has granted various sellers' representations and warranties in connection with disposals of controlling interests in subsidiaries made over the last ten years (see Note 34.1 to the 2016 consolidated financial statements, on page 330).

As regards the laws and regulations applicable to the Group's activities (excluding possible international sanctions that may be imposed against certain countries but have no impact on the Group's activities), Kering's businesses are subject to the same constraints and obligations as those directly applicable to its competitors on its different markets. None of its businesses are subject to specific rules or exemptions in any of the relevant territories.

The Company is not aware of any foreseeable regulatory or legislative changes in contradiction with the foregoing.

To the Company's knowledge, during the last 12 months or more, there have been no governmental, legal or arbitration proceedings (including any pending or threatened proceedings of which the issuer is aware) that have had in the recent past or are likely to have in the future, a significant impact on the financial position or earnings of the Company or the Group.

Legal risks

The Group has a vast array of brands and domain names, as well as know-how and production processes that are unique to Kering. In particular, Kering has established licensing agreements with its subsidiaries and partners who use its intellectual property rights, which make up a significant portion of the Group's assets.

Kering works to protect these rights and is active in the fight against counterfeiting, as counterfeiting can have an impact on revenue and damage the reputation of the Group and its products. Initiatives are carried out by the Legal Department of the Group and its brands with the help of external advisors and in conjunction with the relevant local authorities.

The Company, aware that some of its employees have access to confidential information, ensures that they receive information on best practices and the Internal Control Charter, which help minimise this risk, particularly with regard to the use of information systems and social media.

Lastly, the Group has formed legal organisations at the regional (Asia, the Americas and Europe), local (subsidiaries) and central levels in order to monitor its observance of various applicable laws and regulations.

Talent management

The Group recognises that the talent and creativity of its employees are one of the keys to its success. Its capacity to identify, attract and retain staff and nurture their skills is critical for the Group.

Kering's human resources policy therefore seeks to promote a stimulating and rewarding working environment, and to foster attachment to the Group and its values. This is done by means of training programmes and profit-sharing. Kering also aims to boost its staff's employability, to encourage internal mobility and to open up prospects for professional and personal development (see Chapter 3 "Sustainability" of the Reference Document, pages 68 to 71).

Special attention is given to the creative teams, in order to develop powerful, lasting brand identities.

There is a close relationship between a Luxury brand and its Creative Director, whose attitude has to reflect the values of the brand and respect the Group's own values. The departure of a Creative Director leads to a period of uncertainty that could have a significant impact on the brand (particularly in terms of image and reputation, asset writedowns, etc.). However, all Luxury Goods companies have had to face and manage this risk at some time. Kering's brand portfolio nevertheless helps limit the impact of this risk at Group level. Highly talented Creative Directors have recently been appointed by the Group, including Alessandro Michele at Gucci and Demna Gvasalia at Balenciaga. Others have left the Group, such as Hedi Slimane at Saint Laurent. However, in appointing Anthony Vaccarello, Kering will pursue the strategy adopted over the past four years, providing a solid platform from which to build a successful brand over the long term. And as specialist media have noted, Anthony Vaccarello's style is perfectly in tune with Yves Saint Laurent.

Information systems

Most of the Group's production and transaction processes rely on information systems. The maturity of the information systems in use across the Group, as regards suitability, security, rollout and functionality, is fairly heterogeneous. The Group runs an ongoing investment programme on the adaptation, improvement, security and durability of its information systems. Business continuity and recovery plans are regularly updated, and their efficacy closely monitored.

With the support of the Luxury and Sport & Lifestyle activities' security departments, the Group is introducing data protection and business continuity plans.

Credit risk

Because of the nature of its businesses, a large proportion of Kering sales is not exposed to customer payment risks. This is true of direct customer sales by the Luxury activities. For sales through wholesalers, there is no strong dependency whereby loss of particular customers might have a significant impact on the Group's business or earnings.

The Sport & Lifestyle activities are more exposed to payment default risks because a significant proportion of their products is distributed through wholesalers. They manage these risks by constantly monitoring outstanding receivables. As applicable, provisions are set aside against the value of their assets. Credit risk is also minimised by appropriate insurance coverage.

Seasonality of sales

Following the disposals of the retail businesses in 2012 and 2013, the Group has focused on the Luxury and Sport & Lifestyle sectors. The seasonality of the Group's activities has decreased since this repositioning and is no longer considered a significant risk.

However, for the Group's Luxury brands, the fourth quarter is the most important in terms of revenue due to year-end holiday purchases in western countries, although fourth-quarter revenue does not significantly exceed revenue generated during the first three quarters of the year. In addition, the activity of the Luxury and Sport & Lifestyle businesses generally revolves around the twice-yearly nature of their collections and changes in delivery dates to wholesalers can result in sales being deferred from one quarter to the next.

Exceptional factors likely to have major consequences on the political or macro-economic environment of one or more of the Group's main markets can also impact the Group's activities and quarterly results and consequently change the usual seasonality pattern in a given fiscal year.

Crisis management

Certain major events such as natural disasters, terrorist attacks and pandemics could materially impact the Group's operations.

The risks related to the materialisation of such events are mitigated by the geographic balance of the Group's distribution network, the worldwide locations of its brands and the various crisis management units and policies described earlier in this chapter.

Crisis management exercises are organised each year under the supervision of the Group's Security Department in order to raise awareness among those involved in and responsible for these processes.

Climate change

The physical effects of climate change are susceptible to impact the Group's activities. While its own activities (production and distribution) are relatively unexposed due to their low carbon footprint (Kering's activities are not subject to carbon emissions quota regulations), this is not the case for the supply chain. The growing frequency of extreme weather events (drought, flooding, etc.) could have a direct impact on the availability and quality of key raw materials such as cotton, cashmere and silk, which would translate into greater price volatility. A November 2015 report jointly authored with BSR, the global non-profit organization that works with a network of member companies and partners to build a sustainable

world, analyses exposure to climate risk. Entitled *Climate Change: Implications and Strategies for the Luxury Fashion Sector*, it analyses current and future climate risks for cotton, cashmere, vicuña wool, silk and cow-, calf-, sheep- and lambskin leather. In order to mitigate these risks, Kering is acting to make its supply chain more resilient, starting with the Environmental P&L (EP&L). The EP&L allows Kering to measure its environmental impacts, including its carbon footprint, throughout the value chain and to monetise them. Beyond the risk management dimension, the EP&L is also used as a management tool to orient the Group towards sustainable sourcing solutions and to assess the raw materials used in product design.

Property

Due to the extent of the Group's activity on the property market and the highly-competitive environment, the Group is exposed to the risk that it may not be able to negotiate and rent certain locations for its brands under the best possible conditions.

More generally, the risks inherent to its property business relate to (i) the term of contractual commitments, (ii) the involvement of third party intermediaries in both property transactions and development, and (iii) the lack of control over sales or economic factors.

However, the Group has set up various measures to limit these risks, including (i) systematic reviews of contracts, (ii) separate invoicing, (iii) steering Committees for major projects, and (iv) the creation of a special department for project management.

The Group's property activities are placed under the responsibility of dedicated, pooled teams that are not integrated into a specific subsidiary.

These teams are responsible for five different tasks: (i) providing assistance to brands in connection with site openings, closures and relocations, (ii) acquiring property, (iii) managing works in stores and offices, (iv) managing owned or leased sites for Kering Corporate, and (v) operating various outlets.

3.3. compliance risks

Kering's international presence exposes it to risks regarding non-compliance with legislation and national regulations, owing to the complexity and changing nature of regulations chiefly arising from corporate and tax law, customs duties and import restrictions applied by certain countries. To guard against risks of non-compliance due to a lack of awareness of legislative change, Kering provides the Luxury and Sport & Lifestyle activities with a regulatory intelligence service through head office and support centres in the regions in which the Group operates.

3.4. risk management

The Kering risk management policy is based on the ongoing identification and evaluation of risks, risk prevention, protection of people and property, and safety and business continuity plans.

The risk management policy also includes the transfer of risks to insurance companies.

Insurance against risks

The Group's policy of transferring significant risks to insurance companies is based on:

- achieving the best economic balance between risk coverage, premiums and self-insurance;

and,

- the insurance available, insurance market constraints and local regulations.

Coverage is based on the "all risks except those specifically excluded" approach, determined by assessing the financial consequences for the Company of a possible claim, especially in the areas of:

- civil liability: bodily harm or property damage to third parties caused by products, fittings and equipment;
- fire, explosions, water damage, etc.;
- operating losses following direct damage.

Insurance coverage is purchased based on an assessment by site and company of the level of coverage necessary to face reasonably estimated potential occurrences of diverse risks (liability, damage and third-party retailer counterparty). This assessment takes account of the analyses of the insurers underwriting the Group's risks.

The insurance schemes now in force in the Group, which centralises most purchases of insurance policies such as property and casualty risks for subsidiaries, were taken out with the assistance of internationally recognised insurance brokers specialised in covering major risks, with reputable insurers in the industrial risk insurance sector.

Main existing insurance programmes:

- property damage from fire, explosion, floods, machine breakage, natural disasters affecting its own property: property, furnishings, equipment, merchandise, IT installations, and property for which it is responsible, as well as any resulting operating losses, for any period deemed necessary for normal business activities to resume;
- damage and loss of equipment, merchandise and/or goods in transit;
- damage resulting from theft, fraud, embezzlement, or acts of malice to valuable assets, data and/or property;
- bodily harm or property damage following construction work carried out as project owner (new buildings, renovations, refurbishments, etc.);
- liability for bodily or property damage to third parties by motorised vehicles belonging to the different companies;
- liability under general and environmental civil liability for "operating risk", "post-delivery risk" and "risk after services rendered", due to damages caused to third parties in the course of the Group's business;
- non-payment of receivables by third-party retailers, particularly in the event of default or insolvency.

Other insurance contracts are taken out by Group companies to cover specific risks or to comply with local regulations.

Uninsured risks are exposures for which there is no insurance coverage offered on the insurance market, or for which the cost of available insurance is disproportionate compared to the potential benefits of the coverage.

The Kering group handles known and manageable risks given the current scientific and medical understanding in a manner consistent with other French and international industrial groups with similar types of exposures. This is one of the reasons why the Group is able to place its risks with insurers ready to deal with the unforeseeable and uncertain consequences of accidents.

Insurance coverage concerns all Group companies.

The levels of coverage in place for the main potential risks facing the Group as a whole as of January 1, 2016, were as follows:

- damages, fire, explosions or water damage and the ensuing operating losses: €300 million;
- civil liability: €145 million;
- damage to or loss of goods in transit: €25 million;
- fraud and acts of malice to goods and valuables: €20 million.

In order to diversify the sources of its policies and secure lasting coverage for highly volatile risks such as earthquakes in Japan, the Group has taken out insurance with investors against natural disasters, which is both indemnity-based and parametric.

Since the insurance market is currently more favourable for these risks, this mechanism was discontinued on November 30, 2016.

The total risk financing cost for Kering includes two main items (in addition to "physical" protection and prevention expenditure) and breaks down as follows:

- cost of deductibles and non-insured losses retained or self-insured by the subsidiaries in 2016: €0.988 million;
- claims covered by the Group itself through its reinsurance company in 2016: €4.129 million (total estimated at year-end 2016).

Taking out self-insurance through the Group's reinsurance subsidiary reduces insurance costs and enhances performance because (i) frequently occurring risks are pooled within the Group and insured for an amount that is fixed per claim and (ii) exceptionally frequent claims made in a given year are covered by reinsurance.

Since July 1, 2016, the Group's reinsurance company has covered damage and operating losses of up to €5 million per claim (for the period from July 1 to June 30):

- insurance premiums and management fees including engineering visits and brokers fees, etc. (final 2016 expenses): €17 million.

Specific additional policies may also be taken out by certain companies or businesses or by virtue of local specificities in certain countries (occupational accidents, contributions to natural disaster funds, etc.). These are managed at the level of each company and/or country.

4. consolidated financial statements as of december 31, 2016

4.1. consolidated income statement for the years ended december 31, 2016 and 2015

(in € millions)	Notes	2016	2015
CONTINUING OPERATIONS			
Revenue	**5**	**12,384.9**	**11,584.2**
Cost of sales		(4,595.3)	(4,510.0)
Gross margin		**7,789.6**	**7,074.2**
Payroll expenses	6-7	(1,983.7)	(1,820.6)
Other recurring operating income and expenses		(3,919.7)	(3,606.9)
Recurring operating income	**8**	**1,886.2**	**1,646.7**
Other non-recurring operating income and expenses	9	(506.0)	(393.5)
Operating income		**1,380.2**	**1,253.2**
Finance costs, net	10	(201.8)	(249.1)
Income before tax		**1,178.4**	**1,004.1**
Corporate income tax	11	(296.1)	(321.7)
Share in earnings (losses) of equity-accounted companies		(2.2)	(2.2)
Net income from continuing operations		**880.1**	**680.2**
o/w attributable to owners of the parent		825.1	655.0
o/w attributable to non-controlling interests	15	55.0	25.2
DISCONTINUED OPERATIONS			
Net income (loss) from discontinued operations	**12**	**(11.6)**	**41.0**
o/w attributable to owners of the parent		(11.6)	41.0
o/w attributable to non-controlling interests			
Net income of consolidated companies		**868.5**	**721.2**
o/w attributable to owners of the parent		813.5	696.0
o/w attributable to non-controlling interests	15	55.0	25.2
Net income attributable to owners of the parent		**813.5**	**696.0**
Earnings per share *(in €)*	13.1	6.46	5.52
Fully diluted earnings per share *(in €)*	13.1	6.46	5.52
Net income from continuing operations attributable to owners of the parent		**825.1**	**655.0**
Earnings per share *(in €)*	13.1	6.55	5.20
Fully diluted earnings per share *(in €)*	13.1	6.55	5.20
Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent		**1,281.9**	**1,017.3**
Earnings per share *(in €)*	13.2	10.17	8.07
Fully diluted earnings per share *(in €)*	13.2	10.17	8.07

4.2. consolidated statement of comprehensive income for the years ended december 31, 2016 and 2015

(in € millions)	Notes	2016	2015
Net income		**868.5**	**721.2**
Actuarial gains and losses[1]		(3.2)	(29.7)
Total items not reclassified to income		**(3.2)**	**(29.7)**
Foreign exchange gains and losses		29.3	125.6
Cash flow hedges[1]		31.5	74.9
Available-for-sale financial assets[1]		4.9	0.4
Total items to be reclassified to income		**65.7**	**200.9**
Other comprehensive income, net of tax	**14**	**62.5**	**171.2**
Total comprehensive income		**931.0**	**892.4**
o/w attributable to owners of the parent		866.8	860.0
o/w attributable to non-controlling interests		64.2	32.4

(1) Net of tax.

4.3. consolidated statement of financial position as of december 31, 2016 and 2015

Assets

(in € millions)	Notes	Dec. 31, 2016	Dec. 31, 2015
Goodwill	16	3,533.5	3,758.8
Brands and other intangible assets	17	11,272.7	11,285.5
Property, plant and equipment	18	2,206.5	2,073.0
Investments in equity-accounted companies	20	48.3	20.9
Non-current financial assets	21	480.4	458.4
Deferred tax assets	11.2	927.0	849.6
Other non-current assets		30.4	39.9
Non-current assets		**18,498.8**	**18,486.1**
Inventories	22	2,432.2	2,191.2
Trade receivables	23	1,196.4	1,137.1
Current tax receivables	11.2	105.6	123.8
Other current financial assets	24	131.0	81.2
Other current assets	24	725.4	685.0
Cash and cash equivalents	28	1,049.6	1,146.4
Current assets		**5,640.2**	**5,364.7**
TOTAL ASSETS		**24,139.0**	**23,850.8**

Equity and liabilities

(in € millions)	Notes	Dec. 31, 2016	Dec. 31, 2015
Share capital		505.2	505.2
Capital reserves		2,428.3	2,428.3
Treasury shares			(5.1)
Translation adjustments		87.8	63.6
Remeasurement of financial instruments		16.8	(9.9)
Other reserves		8,231.6	7,966.2
Equity attributable to owners of the parent	**25**	**11,269.7**	**10,948.3**
Non-controlling interests	15	694.2	674.8
Total equity	**25**	**11,963.9**	**11,623.1**
Non-current borrowings	29	4,185.8	4,039.9
Other non-current financial liabilities	30	19.6	14.8
Provisions for pensions and other post-employment benefits	26	142.6	133.4
Other non-current provisions	27	74.0	82.3
Deferred tax liabilities	11.2	2,854.5	2,857.9
Non-current liabilities		**7,276.5**	**7,128.3**
Current borrowings	29	1,234.5	1,785.9
Other current financial liabilities	24-30	285.9	238.9
Trade payables	24	1,098.5	939.7
Provisions for pensions and other post-employment benefits	26	8.2	8.9
Other current provisions	27	143.7	157.3
Current tax liabilities	11.2	398.5	334.6
Other current liabilities	24	1,729.3	1,634.1
Current liabilities		**4,898.6**	**5,099.4**
TOTAL EQUITY AND LIABILITIES		**24,139.0**	**23,850.8**

4.4. consolidated statement of cash flows for the years ended december 31, 2016 and 2015

(in € millions)	Notes	2016	2015
Net income from continuing operations		**880.1**	**680.2**
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets		432.0	409.6
Other non-cash income and expenses		295.0	209.6
Cash flow from operating activities	**33.2**	**1,607.1**	**1,299.4**
Interest paid/received		179.3	168.8
Dividends received		(0.7)	(1.4)
Net income tax payable	11.1	386.1	378.5
Cash flow from operating activities before tax, dividends and interest		**2,171.8**	**1,845.3**
Change in working capital requirement	24	(84.4)	(219.3)
Corporate income tax paid	11.2.1	(295.5)	(330.4)
Net cash from operating activities		**1,791.9**	**1,295.6**
Purchases of property, plant and equipment and intangible assets		(611.0)	(672.1)
Proceeds from disposals of property, plant and equipment and intangible assets		8.5	36.7
Acquisitions of subsidiaries, net of cash acquired		(4.2)	(20.2)
Proceeds from disposals of subsidiaries and associates, net of cash transferred		(6.0)	(5.4)
Purchases of other financial assets		(87.4)	(131.1)
Proceeds from disposals of other financial assets		16.4	21.0
Interest and dividends received		14.0	12.4
Net cash used in investing activities		**(669.7)**	**(758.7)**
Increase/decrease in share capital and other transactions with owners		(0.2)	2.1
Treasury share transactions		0.5	(7.3)
Dividends paid to owners of the parent company		(504.9)	(504.9)
Dividends paid to non-controlling interests		(36.5)	(56.6)
Bond issues	29-33.3	570.5	1,070.4
Debt redemptions/repayments	29-33.3	(51.9)	(756.7)
Increase/decrease in other borrowings	29-33.3	(1,054.7)	87.3
Interest paid and equivalent		(186.6)	(178.8)
Net cash used in financing activities		**(1,263.8)**	**(344.5)**
Net cash from (used in) discontinued operations	12	(17.7)	3.5
Impact of exchange rate variations		13.9	(98.4)
Net increase (decrease) in cash and cash equivalents		**(145.4)**	**97.5**
Cash and cash equivalents at beginning of year	**33.1**	**902.9**	**805.4**
Cash and cash equivalents at end of year	**33.1**	**757.5**	**902.9**

4.5. consolidated statement of changes in equity

(Before appropriation of net income)

(in € millions)	Number of shares outstanding[1]	Share capital	Capital reserves	Treasury shares	Cumulative translation adjustments	Remeasurement of financial instruments	Other reserves and net income attributable to owners of the parent	Equity		
								Owners of the parent	Non-controlling interest	Total equity
As of January 1, 2015	**126,244,953**	**505.1**	**2,427.4**	**(3.4)**	**(52.9)**	**(86.9)**	**7,844.8**	**10,634.1**	**628.2**	**11,262.3**
Total comprehensive income					**116.5**	**77.0**	**666.5**	**860.0**	**32.4**	**892.4**
Increase/ decrease in share capital	12,832	0.1	0.9					1.0		1.0
Treasury shares[3]	(6,061)			(1.7)			(3.6)	(5.3)		(5.3)
Valuation of share-based payment							0.6	0.6		0.6
Dividends paid and interim dividends							(504.9)	(504.9)	(56.6)	(561.5)
Changes in Group structure and other changes							(37.2)	(37.2)	70.8	33.6
As of December 31, 2015	**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[2]	**126,279,322**	**505.2**	**2,428.3**		**87.8**	**16.8**	**8,231.6**	**11,269.7**	**694.2**	**11,963.9**

(1) Shares with a par value of €4 each.
(2) Number of shares outstanding as of December 31, 2016: 126,279,322.
(3) Net of tax.

notes to the consolidated financial statements for the year ended december 31, 2016

Note 1	Introduction	267
Note 2	Accounting policies and methods	267
Note 3	Highlights	278
Note 4	Operating segments	279
Note 5	Revenue	283
Note 6	Payroll expenses and headcount	284
Note 7	Share-based payment	285
Note 8	Recurring operating income	287
Note 9	Other non-recurring operating income and expenses	287
Note 10	Finance costs (net)	288
Note 11	Income taxes	289
Note 12	Discontinued operations	291
Note 13	Earnings per share	293
Note 14	Other comprehensive income	294
Note 15	Non-controlling interests	295
Note 16	Goodwill	296
Note 17	Brands and other intangible assets	297
Note 18	Property, plant and equipment	298
Note 19	Impairment tests on non-financial assets	299
Note 20	Investments in equity – accounted companies	300
Note 21	Non-current financial assets	301
Note 22	Inventories	301
Note 23	Trade receivables	302
Note 24	Other current assets and liabilities	302
Note 25	Equity	303
Note 26	Employee benefits	303
Note 27	Provisions	308
Note 28	Cash and cash equivalents	309
Note 29	Borrowings	310
Note 30	Exposure to interest rate, foreign exchange and equity risk	316
Note 31	Accounting classification and market value of financial instruments	326
Note 32	Net debt	328
Note 33	Statement of cash flows	329
Note 34	Contingent liabilities, contractual commitments not recognised and other contingencies	330
Note 35	Transactions with related parties	334
Note 36	Subsequent events	334
Note 37	List of consolidated subsidiaries as of December 31, 2016	335
Note 38	Statutory Auditors' remuneration	343

note 1 – introduction

Kering, the Group's parent company, is a *société anonyme* (French joint stock company) with a Board of Directors, incorporated under French law, whose registered office is located at 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, 2016 reflect the accounting position of Kering and its subsidiaries, together with its interests in associates and joint ventures.

On February 9, 2017, the Board of Directors approved the consolidated financial statements for the year ended December 31, 2016 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, 2016 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, 2016

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

- the amendments to IAS 1, IAS 16, IAS 19 and IAS 38;
- the amendments contained in the Annual Improvements to IFRSs 2010-2012 cycle and 2012-2014 cycle, published in December 2014 and December 2015, respectively.

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, 2016

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 ultimately 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 ultimately supersede IAS 18 – Revenue as from January 1, 2018.

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:

- IFRS 16 – Leases, which establishes an accounting model for the recognition of leases and will ultimately supersede IAS 17 – Leases, which the IASB indicates will be mandatorily applicable as from January 1, 2019;
- the various amendments to IAS 7 and IAS 12, which the IASB indicates will be mandatorily applicable as from January 1, 2017.

2.2.4. Expected impacts of future standards, amendments and interpretations

The Group is currently assessing the impacts of IFRS 9 – Financial Instruments, which are not specifically known at this time. IFRS 9 is applicable as from January 1, 2018. At this stage, the impacts are not expected to be material for the Group.

The Group is currently assessing the impacts of IFRS 15 – Revenue from Contracts with Customers, which are not specifically known at this time. IFRS 15 is applicable as from January 1, 2018. Given the nature of its business activities, the impacts of this standard are not expected to be material for the Group. It will therefore apply the "cumulative catch-up" transition method.

The Group is currently assessing the impacts of IFRS 16 – Leases, which are not specifically known at this time. IFRS 16 is applicable as from January 1, 2019, pending adoption by the European Union. Given the importance of the Group's retail operations, particularly within its Luxury activities, it leases a large network of owned stores. The impacts are therefore expected to be highly material, as is the case for other Luxury sector players. These impacts can be estimated based on the obligations in the operating leases presented in Note 34.2.1. – Contractual obligations).

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 or SARs) 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 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 and equity 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 IFRS or where prevailing standards do not cover the issue at hand. This is notably the case for put options granted to non-controlling interests.

Put options granted to non-controlling interests

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

The 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 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 first case (access at present to the economic benefits), non-controlling interests are maintained in the statement of financial position and the liability is recognised against equity attributable to owners of the parent. In the second case, the corresponding non-controlling interests are derecognised. The difference between the debt representing the commitment to repurchase the non-controlling interests and the carrying amount of 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.

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 37 – 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, and generally implies holding 20% to 50% of the voting rights.

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

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

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

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

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

2.4.3. 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 the presentation currency.

2.5.2. Foreign currency transactions

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

Monetary items in foreign currencies are translated at the 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 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 representing a predominant category of the Group's intangible assets are recognised separately from goodwill when they meet the criteria set out in IAS 38. Recognition and durability criteria are then taken into account to assess the useful life of the brand. 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 or production cost, less any residual value which is reviewed annually if considered material, over a period corresponding to the useful life of each asset category, i.e., 10 to 40 years for buildings and improvements to land and buildings, and 3 to 10 years for equipment.

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

Lease contracts

Agreements whose fulfilment depends on the use of one or more specific assets and which transfer the right to use the asset are classified as lease contracts.

Lease contracts which transfer to the Group substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases.

Assets acquired under finance leases are recognised in property, plant and equipment against the corresponding debt recognised in borrowings for the same amount, at the lower of the fair value of the asset and the present value of minimum lease payments. The corresponding assets are depreciated over a useful life identical to that of property, plant and equipment acquired outright, or over the term of the lease, whichever is shorter.

Lease contracts that do not transfer substantially all the risks and rewards incidental to ownership are classified as operating leases. Payments made under operating leases are recognised in recurring operating expenses on a straight-line basis over the term of the lease.

Capital gains on the sale and leaseback of assets are recognised in full in income at the time of disposal when the lease qualifies as an operating lease and the transaction is performed at fair value.

The same accounting treatment is applied to agreements that, while not presenting the legal form of a lease contract,

confer on the Group the right to use a specific asset in exchange for a payment or series of payments.

2.9. Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated sale price in the normal course of operations, net of costs to be incurred to complete the sale.

The same method for determining costs is adopted for inventories of a similar nature and use within the Group. Inventories are valued using the retail first-in-first-out (FIFO) 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 trade date, which is the date the Group is committed to the purchase or sale of the asset. A financial asset is derecognised if the contractual rights to the cash flows from the financial asset expire or the asset is transferred.

1. Financial assets at fair value through the income statement

These are financial assets held by the Group for short-term profit, or assets voluntarily classified in this category.

These assets are measured at fair value, with changes in fair value recognised in income.

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 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 the section on derivative instruments.

Financial liabilities accounted for under the fair value option, other than derivative liabilities, are carried at fair value. Changes in fair value are taken to the income statement. Transaction costs incurred in setting up these financial liabilities are recognised immediately in expenses.

2.11.3. Hybrid instruments

Certain financial instruments have both a standard debt component and an equity component.

For the Group, this concerns in particular OCEANE bonds (bonds convertible or exchangeable into new or existing shares).

Under IAS 32, convertible bonds are considered hybrid instruments insofar as the conversion option provides for the repayment of the instrument against a fixed number of equity instruments. There are several components:

- a financial liability (corresponding to the contractual commitment to pay cash), representing the 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 an equity instrument;
- potentially one or more embedded derivatives.

The accounting policies applicable to each of these components, at the issue date and at the end of each subsequent reporting period, are as follows:

- debt component: the amount initially recognised as debt corresponds to the present value of the future cash flows arising from interest and principal payments at the market rate for a similar bond with no conversion option. If the convertible bond contains embedded derivatives closely related to the borrowing within the meaning of IAS 39, the value of these components is allocated to the debt in order to determine the value of the equity component. The debt component is subsequently recognised at amortised cost;
- embedded derivatives not closely related to the debt are recognised at fair value with changes in fair value recognised in income;
- equity component: the value of the conversion option is determined by deducting the value of any embedded derivatives from the amount of the issue less the carrying amount of the debt component. The conversion option continues to be recorded in equity at its initial value. Changes in value are not recognised;
- transaction costs are allocated pro rata to each component.

2.11.4. Derivative instruments

The Group uses various financial instruments to reduce its exposure to foreign exchange, interest rate and equity risk. These instruments are listed on organised markets or traded over the counter with leading counterparties.

All derivatives are recognised in the statement of financial position under other current or non-current assets and liabilities depending on their maturity and accounting classification, and are valued at fair value as of the trade date. Changes in the fair value of derivatives are always recorded in income except in the case of cash flow and net investment hedges.

Derivatives designated as hedging instruments are classified by category of hedge based on the nature of the risks being hedged:

- a cash flow hedge is used to hedge the risk of changes in cash flow from recognised assets or liabilities or a highly probable transaction that would impact consolidated net income;
- a fair value hedge is used to hedge the risk of changes in the fair value of recognised assets or liabilities or a firm commitment not yet recognised that would impact consolidated net income;
- a net investment hedge is used to hedge the foreign exchange risk arising on foreign activities.

Hedge accounting can only be applied if all the following conditions are met:

- there is a clearly identified, formalised and documented hedging relationship as of the date of inception;
- the effectiveness of the hedging relationship can be demonstrated on a prospective and retrospective basis. The results obtained must attain a confidence level of between 80% and 125%.

The accounting treatment of financial instruments qualified as hedging instruments, and their impact on the income statement and the statement of financial position, depends on the type of hedging relationship:

- cash flow and net investment hedges:
  - the effective portion of fair value gains and losses on the hedging instrument is recognised directly in other comprehensive income. These amounts are released to the income statement to match the recognition of the hedged items, mainly in gross profit for trading transaction hedges and in net finance costs for financial transaction hedges,
  - the ineffective portion of the hedge is recognised in the income statement;
- for fair value hedges, the hedged component of these items is measured 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 per the statement of cash flows and per 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 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 consolidated equity. On disposal, the consideration received for these shares, net of transaction costs and the related tax impacts, is recognised in equity.

2.13. Treasury share options

Treasury share options are treated according to their characteristics as derivative instruments, equity instruments or non-derivative financial liabilities.

Options classified as derivatives are recorded at fair value through the income statement. Options classified as equity instruments are recorded in equity for their initial amount. Changes in value are not recognised. The accounting treatment of financial liabilities is described in Note 2.11.2 – Financial liabilities.

2.14. Share-based payment

Free share plans, stock purchase plans and stock subscription plans are awarded by the Group and settled in shares. In accordance with IFRS 2 – Share-based Payment, the fair value of these plans, determined by reference to the fair value of services rendered by the beneficiaries, is assessed at the grant date. The mathematical models used in these calculations are described in Note 7 – Share-based payment.

During the rights vesting period, the fair value of options and free shares calculated as described above is amortised in proportion to the vesting of rights. This expense is recorded in payroll expenses with an offsetting increase in equity.

Share appreciation rights (SARs) granted by the Group also result in the recognition of payroll expenses spread over the rights vesting period and a matching liability which is measured at fair value through income at the end of each reporting period.

2.15. Income taxes

The income tax charge for the year comprises the current and deferred tax charge.

Deferred tax is calculated using the liability method on all temporary differences between the carrying amount recorded in the consolidated statement of financial position and the tax value of assets and liabilities, except for goodwill that is not deductible for tax purposes 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 litigation and disputes, and miscellaneous contingencies and losses are recognised as soon as a present obligation arises from past events, which is likely to result in an outflow of resources embodying economic benefits, the amount of which can be reliably estimated.

Provisions maturing in more than one year are valued at the discounted amount representing the best estimate of the expense necessary to extinguish the current obligation at the end of the reporting period. The discount rate used reflects current assessments of the time value of money and specific risks related to the liability.

A restructuring provision is recognised when there is a formal and detailed restructuring plan and the plan has begun to be implemented or its main features have been announced before the end of the reporting period. Restructuring costs for which a provision is made essentially represent employee costs (severance pay, early retirement plans, payment in lieu of notice, etc.), work stoppages and compensation for breaches of contract with third parties.

2.17. Post-employment benefits and other long-term employee benefits

Based on the laws and practices of each country, the Group recognises various types of employee benefits.

Under defined contribution plans, the Group is not obliged to make additional payments over and above contributions already made to a fund if the fund does not have sufficient assets to cover the benefits corresponding to services rendered by personnel during the current period and prior periods. Contributions paid into these plans are expensed as incurred.

Under defined benefit plans, obligations are valued using the projected unit credit method based on agreements in effect in each company. Under this method, each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation. The obligation is then discounted. The actuarial assumptions used to determine the obligations vary according to the economic conditions of the country where the plan is established. These plans are valued by independent actuaries on an annual basis for the most significant plans and at regular intervals for the other plans. The valuations take into account the level of future compensation, the probable active life of employees, life expectancy and staff turnover.

Actuarial gains and losses are primarily due to changes in assumptions and the difference between estimated results based on actuarial assumptions and actual results. All actuarial differences in respect of defined benefit plans are recognised in other comprehensive income.

The past service cost, designating the increase in an obligation following the introduction of a new plan or changes to an existing plan, is expensed immediately whether the benefit entitlement has already vested or is still vesting.

Expenses relating to this type of plan are recognised in recurring operating income (service cost) and net finance costs (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

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 intermediary in the sale of these services, as of the date the contractual agreement is signed by the customer.

2.20. Operating income

Operating income includes all revenue and expenses directly related to Group activities, whether these revenue and expenses are recurring or arise from non-recurring decisions or transactions.

Recurring operating income is an analytical balance intended to facilitate the understanding of the entity's operating performance.

Other non-recurring operating income and expenses 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 include:

- impairment of goodwill and other intangible assets;
- gains or losses on disposals of non-current assets;
- restructuring costs and costs relating to employee adaptation 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 one of its subsidiaries. Dilution is determined separately for each instrument based on the following conditions:

- when the proceeds corresponding to potential future share issues are received at the time dilutive securities are issued (e.g., convertible bonds), the numerator is equal to net income before dilution plus the interest expense that would be saved in the event of conversion, net of tax;
- when the proceeds are received at the time the rights are exercised (e.g., stock subscription options), the dilution attached to the options is determined using the treasury shares method (theoretical number of shares purchased at market price [average over the period] based on the proceeds received at the time the rights are exercised).

In the case of material non-recurring items, earnings per share excluding non-recurring items is calculated by adjusting net income attributable to owners of the parent for non-recurring items net of taxes and non-controlling interests. Non-recurring items taken into account for this calculation correspond to all the items included under "Other non-recurring operating income and expenses" in the income statement.

2.22. Operating segments

In accordance with IFRS 8 – Operating Segments, segment information is reported on the same basis as used internally by the Chairman and Chief Executive Officer and Deputy CEO – the Group's chief operating decision makers – in order to allocate resources to segments and assess their performance.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker, and for which discrete financial information is available.

Each operating segment is monitored separately for internal reporting purposes, according to performance indicators common to all of the Group's segments.

The segments presented are operating segments or groups of similar operating segments.

note 3 – highlights

Creative and managerial change in the Luxury – Couture & Leather Goods division

On March 23, 2016, Brioni announced the appointment of Justin O'Shea as Creative Director, responsible for the brand's collections as well as its image. He held this position from April 1 until October 4, 2016. The strategy of re-energising the Brioni House that began in early 2016 was pursued during the course of the year through long-term action plans aimed at strengthening Brioni's positioning in the men's ready-to-wear market.

On April 1, 2016, Yves Saint Laurent announced the departure of Hedi Slimane as its Creative & Image Director at the end of a four-year mission which has led to the complete repositioning of the brand. On April 4, 2016, Yves Saint Laurent announced the appointment of Anthony Vaccarello as Creative Director of Yves Saint Laurent. Before joining Yves Saint Laurent, Anthony Vaccarello was Creative Director of his eponymous brand, which he founded in 2009 following two years at Fendi.

2016 also saw the arrival of new CEOs within the Luxury – Couture & Leather Goods division: Claus-Dietrich Lahrs at Bottega Veneta (also appointed a member of the Group Executive Committee), Emmanuel Gintzburger at Alexander McQueen, Nikolas Talonpoika at Christopher Kane, and Cédric Charbit at Balenciaga.

Sport & Lifestyle activities – Sale of Electric

On March 16, 2016, Volcom announced that it had sold the Electric brand via a management buyout to a group led by Eric Crane, Electric's Chief Executive Officer. The transaction, which included all the assets of the Electric brand, did not have a material impact in 2016 as the cost of the sale had already been factored in at the end of 2015.

Appointments and corporate governance at Kering

In 2016, Kering announced the appointment of the following new members of the Group Executive Committee: Béatrice Lazat, Human Resources Director, Valérie Duport, Senior Vice President of Communications and Image and Jean-Philippe Bailly, Chief Operating Officer. Carlo Alberto Beretta, who was previously CEO of Bottega Veneta, was appointed to the newly created post of Chief Client & Marketing Officer at Kering and remains a member of the Group Executive Committee.

Since January 1, 2016, Kering has combined its Supply Chain, Logistics and Industrial Operations, under the worldwide leadership of Jean-Philippe Bailly.

Bond issue

On May 10, 2016, Kering carried out a €500 million issue of ten-year bonds with a fixed-rate coupon of 1.25%.

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 in the consolidated financial statements and set out in the notes thereto.

The performance of each operating segment is measured based on recurring operating income, which is the method used by the Group's chief operating decision maker.

Net recurring charges to depreciation, amortisation and provisions on non-current operating assets reflect net charges to depreciation, amortisation and provisions on intangible assets and property, plant and equipment recognised in recurring operating income.

Purchases of property, plant and equipment and intangible assets correspond to gross non-current asset purchases, including cash timing differences but excluding purchases of assets under finance leases.

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
December 31, 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	**8,494.8**	**829.0**
Segment liabilities	**2,062.0**	**209.9**
December 31, 2015		
Revenue[1]	3,898.0	1,285.8
Recurring operating income (loss)	**1,032.3**	**374.5**
Recurring charges to depreciation, amortisation and provisions on non-current operating assets	173.8	39.3
Other non-cash recurring operating income and expenses	76.0	18.1
Purchases of property, plant and equipment and intangible assets, gross	192.8	49.5
Segment assets	**8,474.1**	**796.6**
Segment liabilities	**1,930.3**	**209.6**

(1) Non-Group.

Yves Saint Laurent	Other Luxury brands	Luxury activities	PUMA	Other Sport & Lifestyle brands	Sport & Lifestyle activities	Corporate and other	Total
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	6.3	**66.9**	45.7	**432.0**
(5.0)	(9.2)	**(85.8)**	4.5	(2.0)	**2.5**	105.7	**22.4**
57.8	95.2	**380.5**	84.3	7.8	**92.1**	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**
973.6	1,707.9	**7,865.3**	3,403.4	279.1	**3,682.5**	36.4	**11,584.2**
168.5	**132.7**	**1,708.0**	**92.4**	**2.4**	**94.8**	**(156.1)**	**1,646.7**
39.4	64.9	**317.4**	58.3	7.9	**66.2**	26.0	**409.6**
17.7	14.5	**126.3**	0.2	(2.9)	**(2.7)**	134.6	**258.2**
63.1	85.5	**390.9**	84.5	6.5	**91.0**	190.2	**672.1**
1,419.9	**3,201.3**	**13,891.9**	**6,148.9**	**425.1**	**6,574.0**	**704.6**	**21,170.5**
308.5	**601.8**	**3,050.2**	**1,755.2**	**140.6**	**1,895.8**	**369.9**	**5,315.9**

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)	2016	2015
Western Europe	3,885.9	3,562.4
North America	2,740.5	2,652.0
Japan	1,226.3	1,101.1
Sub-total – mature markets	**7,852.7**	**7,315.5**
Eastern Europe, Middle East and Africa	814.3	773.7
South America	514.3	538.8
Asia Pacific (excluding Japan)	3,203.6	2,956.2
Sub-total – emerging markets	**4,532.2**	**4,268.7**
Revenue	**12,384.9**	**11,584.2**

4.3. Reconciliation of segment assets and liabilities

(in € millions)	2016	2015
Goodwill	3,533.5	3,758.8
Brands and other intangible assets	11,272.7	11,285.5
Property, plant and equipment	2,206.5	2,073.0
Other non-current assets	30.4	39.9
Non-current segment assets	**17,043.1**	**17,157.2**
Inventories	2,432.2	2,191.2
Trade receivables	1,196.4	1,137.1
Other current assets	725.4	685.0
Segment assets	**21,397.1**	**21,170.5**
Investments in equity-accounted companies	48.3	20.9
Non-current financial assets	480.4	458.4
Deferred tax assets	927.0	849.6
Current tax receivables	105.6	123.8
Other current financial assets	131.0	81.2
Cash and cash equivalents	1,049.6	1,146.4
TOTAL ASSETS	**24,139.0**	**23,850.8**

(in € millions)	2016	2015
Deferred tax liabilities on brands	2,739.1	2,742.1
Trade payables	1,098.5	939.7
Other current liabilities	1,729.3	1,634.1
Segment liabilities	**5,566.9**	**5,315.9**
Total equity	11,963.9	11,623.1
Non-current borrowings	4,185.8	4,039.9
Other non-current financial liabilities	19.6	14.8
Non-current provisions for pensions and other post-employment benefits	142.6	133.4
Other non-current provisions	74.0	82.3
Other deferred tax liabilities	115.4	115.8
Current borrowings	1,234.5	1,785.9
Other current financial liabilities	285.9	238.9
Current provisions for pensions and other post-employment benefits	8.2	8.9
Other current provisions	143.7	157.3
Current tax liabilities	398.5	334.6
TOTAL EQUITY AND LIABILITIES	**24,139.0**	**23,850.8**

note 5 – revenue

(in € millions)	2016	2015
Net sales of goods	12,170.5	11,368.1
Net sales of services	3.4	3.9
Revenue from concessions and licences	167.1	164.0
Other revenue	43.9	48.2
TOTAL	**12,384.9**	**11,584.2**

note 6 – payroll expenses and headcount

6.1. Payroll expenses by activity

Payroll expenses primarily include fixed and variable remuneration, social security charges, charges relating to employee profit sharing and other incentives, training costs, share-based payment expenses (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)	2016	2015
Luxury activities	(1,265.6)	(1,169.4)
Sport & Lifestyle activities	(532.5)	(526.1)
Corporate and other	(185.6)	(125.1)
TOTAL	**(1,983.7)**	**(1,820.6)**

6.2. Average headcount on a full-time equivalent basis by activity

	2016	2015
Luxury activities	21,559	21,576
Sport & Lifestyle activities	11,873	11,772
Corporate and other	2,445	1,349
TOTAL	**35,877**	**34,697**

6.3. Headcount on the payroll at year-end by activity

	2016	2015
Luxury activities	23,302	23,145
Sport & Lifestyle activities	14,065	14,155
Corporate and other	2,685	1,501
TOTAL	**40,052**	**38,801**

note 7 – share-based payment

In consideration for services rendered, the Group grants certain employees share-based payment plans settled in cash or in shares.

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 and performance conditions);
- 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.

7.1. Cash-settled share-based payment transactions: Kering Monetary Units (KMUs)

Since 2013, the Group has granted certain employees Kering Monetary Units (KMUs), which represent share-based payment plans systematically settled in cash.

The unit value of the KMUs awarded (and any changes in that value) is determined based on the intrinsic value of the Kering share price 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
Grant date	07/21/2013	04/22/2014	05/22/2015	05/20/2016
Vesting period	3 years	3 years	3 years	3 years
Exercise period(1)	2 years	2 years	2 years	2 years
Number of beneficiaries	264	301	316	323
Number initially granted	124,126	122,643	114,997	126,974
Number of KMUs existing as of Jan. 1, 2016	86,379	110,797	114,716	-
Number awarded in 2016	-	-	-	126,974
Number forfeited in 2016	26,112	10,921	12,860	1,182
Number exercised in 2016	51,443	-	-	-
Number of KMUs existing as of Dec. 31, 2016	8,824	99,876	101,856	125,792
Number exercisable as of Dec. 31, 2016	8,824	N/A	N/A	N/A
Fair value at measurement date *(in €)*	152.00	144.00	167.00	166.00
Weighted average price of KMUs paid *(in €)*	165.57	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 2016, the Group recognised a €23.8 million expense within recurring operating income in respect of vested KMUs (€15.2 million expense in 2015). The 2013 KMU plan gave rise to a cash outflow of €10.5 million in 2016.

7.2. Equity-settled share-based payment transactions: Kering free shares

Kering's last free share plan was granted to certain employees in 2012. This plan expired in 2016 with no resulting increase in capital (see Note 25 – Equity).

The value of each free share awarded, as determined by an independent expert applying a Black & Scholes-type model based on a Monte Carlo algorithm to two underlyings, factored in stock market performance conditions.

In 2016, the Group recognised a €0.2 million expense in respect of the free share plan within recurring operating income (€0.6 million expense in 2015).

Free share plan	2012/2 Plan
Grant date	04/27/2012
Vesting period	4 years
Expiry date	04/27/2016
Number of beneficiaries	88
Number initially granted	39,640
Number outstanding as of Jan. 1, 2016	29,140
Number forfeited in 2016	238
Number exercised in 2016	-
Number of shares issued	28,902
Number expired in 2016	-
Number outstanding as of Dec. 31, 2016	-
Number exercisable as of Dec. 31, 2016	-
Main actuarial assumptions	
– Volatility[1]	29.00%
– Risk-free interest rate[2]	0.97%
Fair value at measurement date *(in €)*	74.62

(1) The volatility indicated is the expected volatility of the plan in light of the maturity and strike price available at the grant date. The dividends used for valuation purposes are those expected by the market at the grant date.
(2) The risk-free interest rates correspond to the one-to-ten year interest rate curve for interbank swaps at the grant date.

7.3. Share-based payment transactions settled in PUMA SE equity instruments

In 2008, PUMA set up a stock subscription option plan for certain employees based on its own shares and on stock market performance conditions.

	2008/IV Plan	2008/V Plan
	Subscription options	Subscription options
Grant date	4/15/2011	4/30/2012
Vesting period	2 years	2 years
Expiry date	4/21/2016	4/21/2017
Number initially granted	151,290	145,375
Number outstanding as of Jan. 1, 2016	101,463	106,969
Number exercised in 2016	-	-
Number forfeited/(reinstated) in 2016	101,463	8,485
Number outstanding as of Dec. 31, 2016	-	98,484
Number exercisable as of Dec. 31, 2016	-	98,484
Main actuarial assumptions		
– Volatility	29.20%	26.80%
– Risk-free interest rate	2.40%	0.30%
Weighted average price of options exercised *(in €)*	N/A	N/A

No expense was recognized in respect of these stock subscription option plans in 2016 or 2015.

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)	2016	2015
Luxury activities	1,936.0	1,708.0
Sport & Lifestyle activities	123.2	94.8
Corporate and other	(173.0)	(156.1)
TOTAL	**1,886.2**	**1,646.7**

8.2. Reconciliation of recurring operating income with EBITDA

(in € millions)	2016	2015
Recurring operating income	1,886.2	1,646.7
Net recurring charges to depreciation, amortisation and provisions on non current operating assets	432.0	409.6
EBITDA	**2,318.2**	**2,056.3**

note 9 – other non-recurring operating income and expenses

(in € millions)	2016	2015
Non-recurring operating expenses	**(520.4)**	**(541.8)**
Asset impairment	(335.4)	(501.8)
Restructuring costs	(57.2)	(39.6)
Capital losses on disposals	(6.2)	-
Other	(121.6)	(0.4)
Non-recurring operating income	**14.4**	**148.3**
Capital gains on disposals	7.3	148.3
Other	7.1	-
TOTAL	**(506.0)**	**(393.5)**

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

In 2016, other non-recurring operating income and expenses included:

- impairment of intangible assets (goodwill and brands) within Other Luxury brands (Brioni and Ulysse Nardin) for €296.6 million. This did not impact the Group's cash (see Note 19 – Impairment tests on non-financial assets);
- impairment of property, plant and equipment within Luxury activities and Kering's industrial operations for €38.8 million;
- costs of restructuring industrial and sales operations, mainly within the Luxury – Couture & Leather Goods division for €57.2 million.

Other items mainly relate 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 slated for early 2017, and the outcome of disputes arising in prior years.

Pursuant to the agreement with Safilo announced on January 12, 2015 and the payment of €90 million in compensation - of which the first two instalments were paid in January 2015 and December 2016 – the Group recognised an intangible asset in an amount of €60 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 confirms that it will recover this intangible asset which will be amortised as of January 1, 2017.

In 2015, other non-recurring operating income and expenses included:

- asset impairment totalling €501.8 million, including €123.0 million charged against PUMA goodwill, €27.0 million charged against the goodwill of one of the Other Luxury brands, and €192.0 million charged against Gucci assets in connection with the brand's current period of transition;
- restructuring costs of €39.6 million, mainly concerning Luxury activities;
- net capital gains on disposals totalling €148.3 million, mainly including the sale of a property complex.

note 10 – finance costs (net)

This caption breaks down as follows:

(in € millions)	2016	2015
Cost of net debt	**(128.3)**	**(128.8)**
Income from cash and cash equivalents	8.9	8.9
Finance costs at amortised cost	(135.6)	(136.1)
Gains and losses on borrowings hedged by fair value hedges		
Gains and losses on fair value and cash flow hedging derivatives	(1.6)	(1.6)
Other financial income and expenses	**(73.5)**	**(120.3)**
Net gains and losses on available-for-sale financial assets	(0.7)	0.1
Foreign exchange gains and losses	(2.8)	(14.8)
Ineffective portion of cash flow hedges	(62.9)	(95.1)
Gains and losses on derivative instruments not qualifying for hedge accounting (foreign exchange and interest rate hedges)	0.4	(0.3)
Impact of discounting assets and liabilities	(4.8)	(10.2)
Other finance costs	(2.7)	-
TOTAL	**(201.8)**	**(249.1)**

note 11 – income taxes

11.1. Analysis of the income tax expense in respect of continuing operations

11.1.1. Income tax expense

(in € millions)	2016	2015
Income before tax	**1,178.4**	**1,004.1**
Taxes paid out of operating income	(386.1)	(378.5)
Other taxes payable not impacting operating cash flow	10.6	1.5
Income tax payable	(375.5)	(377.0)
Deferred tax income/(expense)	79.4	55.3
Total tax charge	**(296.1)**	**(321.7)**
Effective tax rate	**25.1%**	**32.0%**

Income tax expense on dividends was recognised in an amount of €15.1 million in both 2016 and 2015.

The maximum income tax expense on the balance of dividends to be paid in 2017 in respect of 2016 is estimated at €11.7 million.

11.1.2. Reconciliation of the tax rate

(as a % of pre-tax income)	2016	2015
Tax rate applicable in France	**34.4%**	**38.0%**
Impact of taxation of foreign subsidiaries	-21.5%	-18.4%
Theoretical tax rate	**14.3%**	**19.6%**
Effect of items taxed at reduced rates	0.1%	-
Effect of permanent differences	2.2%	2.6%
Effect of unrecognised temporary differences	-0.2%	1.3%
Effect of unrecognised tax losses carried forward	4.1%	4.1%
Effect of changes in tax rates	0.9%	0.2%
Other	5.1%	4.2%
Effective tax rate	**25.1%**	**32.0%**

In 2016, the income tax rate applicable in France was the standard rate of 33.33%, plus the social surtax of 3.3%, bringing the overall rate to 34.43%. The 10.7% one-off levy for French companies in effect since 2011 was abolished in 2016.

In 2016 and 2015, "Other" relates mainly to the tax on dividends and 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)	2016	2015
Income before tax	1,178.4	1,004.1
Non-recurring items	(506.0)	(393.5)
Recurring income before tax	**1,684.4**	**1,397.6**
Total tax charge	(296.1)	(321.7)
Tax on non-recurring items	49.2	14.8
Recurring tax charge	**(345.3)**	**(336.5)**
Recurring tax rate	**20.5%**	**24.0%**

11.2. Movement in statement of financial position headings

11.2.1. Changes in net current tax liabilities

(in € millions)	2015	Net income	Cash outflows relating to operating activities	Cash outflows relating to investing activities	Other[1]	Other items recognised in equity	2016
Current tax receivables	123.8						105.6
Current tax liabilities	(334.6)						(398.5)
Net current tax liabilities	**(210.8)**	**(386.1)**	**295.5**	**2.1**	**(2.5)**	**8.9**	**(292.9)**

(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)	2015	Net income	Other[1]	Other items recognised in equity	2016
Intangible assets	(2,739.1)	1.7	(5.2)		(2,742.6)
Property, plant and equipment	55.6	(0.1)	(2.6)		52.9
Other non-current assets	34.5	18.4	0.4	(0.8)	52.5
Other current assets	348.1	47.4	7.0		402.5
Total equity	(0.4)				(0.4)
Borrowings	(4.9)	5.9	(0.1)		0.9
Provisions for pensions and other post-employment benefits	69.8	(1.3)	(3.6)	2.1	67.0
Provisions	4.2	2.1	0.5		6.8
Other current liabilities	84.7	6.5	5.7	4.8	101.7
Recognised tax losses and tax credits	139.2	(1.2)	(6.8)		131.2
Net deferred tax assets (liabilities)	**(2,008.3)**	**79.4**	**(4.7)**	**6.1**	**(1,927.5)**
Deferred tax assets	849.6				927.0
Deferred tax liabilities	(2,857.9)				(2,854.5)
Deferred tax	**(2,008.3)**	**79.4**	**(4.7)**	**6.1**	**(1,927.5)**

(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, 2015	**2,471.2**
Losses generated during the year	110.3
Losses utilised and time barred during the year	(260.0)
Effect of changes in Group structure and exchange rates	(46.8)
As of December 31, 2015	**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**

Ordinary tax loss carry-forwards	**347.5**
Less than five years	180.7
More than five years	166.8
Indefinite tax loss carry-forwards	**1,893.4**
TOTAL	**2,240.9**

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 mainly comprise Redcats and Sergio Rossi. Kering completed the sale of the Redcats group in January 2015 by selling Movitex (operating the Daxon and Balsamik brands) to its management team. Discontinued operations as of December 31, 2015 included the proceeds from Groupe Fnac's redemption of its undated deeply subordinated notes (TSSDI). Sergio Rossi was also sold in 2015 (on December 9), to Investindustrial.

Net income (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)	2016	2015
Revenue	**-**	**77.9**
Cost of sales	-	(40.5)
Gross margin	**-**	**37.4**
Payroll expenses	-	(19.4)
Other recurring operating income and expenses	-	(34.0)
Recurring operating income (loss)	**-**	**(16.0)**
Other non-recurring operating income and expenses	-	(1.8)
Operating income (loss)	**-**	**(17.8)**
Finance costs, net	-	(0.7)
Income (loss) before tax	**-**	**(18.5)**
Corporate income tax	-	1.9
Net income (loss) on disposal of discontinued operations	(11.6)	57.6
Net income (loss)	**(11.6)**	**41.0**
o/w attributable to owners of the parent	(11.6)	41.0
o/w attributable to non-controlling interests	-	-

In 2016, the Group reported a net loss of €11.6 million in respect of discontinued operations, due mainly to the revised vendor warranties relating to disposals in prior periods.

In 2015, the Group reported net income of €41.0 million from discontinued operations, notably including the impacts of the sale of Sergio Rossi as well as the positive impact of the termination of commitments given under previous sale agreements.

12.2. Impact of discontinued operations in the statement of cash flows

(in € millions)	2016	2015
Net cash used in operating activities	(17.7)	(52.9)
Net cash from investing activities	-	21.0
Net cash from financing activities	-	35.4
Net cash from (used in) discontinued operations	**(17.7)**	**3.5**

note 13 – earnings per share

Basic earnings per share are calculated on the basis of the weighted average number of shares outstanding, after deduction of the weighted average number of shares held by consolidated companies.

Fully diluted earnings per share are based on the weighted average number of shares as defined above, plus the weighted average number of potentially dilutive ordinary shares. Potentially dilutive shares correspond to shares granted to employees as part of equity-settled share-based payment plans (see Note 7 – Share-based payment). Earnings are adjusted for the theoretical interest charge, net of tax, on convertible and exchangeable instruments.

13.1. Earnings per share

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)**

2015

(in € millions)	Consolidated Group	Continuing operations	Discontinued operations
Net income attributable to ordinary shareholders	**696.0**	**655.0**	**41.0**
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226	126,335,226
Weighted average number of treasury shares	(335,899)	(335,899)	(335,899)
Weighted average number of ordinary shares	**125,996,327**	**125,996,327**	**125,999,327**
Basic earnings per share *(in €)*	**5.52**	**5.20**	**0.33**
Net income attributable to ordinary shareholders	**696.0**	**655.0**	**41.0**
Convertible and exchangeable instruments			
Diluted net income attributable to owners of the parent	**696.0**	**655.0**	**41.0**
Weighted average number of ordinary shares	125,996,327	125,996,327	125,999,327
Potentially dilutive ordinary shares	-	-	-
Weighted average number of diluted ordinary shares	**125,996,327**	**125,996,327**	**125,999,327**
Fully diluted earnings per share *(in €)*	**5.52**	**5.20**	**0.33**

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)	2016	2015
Net income attributable to ordinary shareholders	**825.1**	**655.0**
Other non-recurring operating income and expenses	(506.0)	(393.5)
Income tax on other non-recurring operating income and expenses	49.2	14.8
Non-controlling interests in other non-recurring operating income and expenses		16.4
Net income excluding non-recurring items	**1,281.9**	**1,017.3**
Weighted average number of ordinary shares outstanding	126,332,226	126,332,226
Weighted average number of treasury shares	(332,032)	(335,899)
Weighted average number of ordinary shares	**126,000,194**	**125,996,327**
Basic earnings per share excluding non-recurring items *(in €)*	**10.17**	**8.07**
Net income excluding non-recurring items	**1,281.9**	**1,017.3**
Convertible and exchangeable instruments		
Diluted net income attributable to owners of the parent	**1,281.9**	**1,017.3**
Weighted average number of ordinary shares	126,000,194	125,996,327
Potentially dilutive ordinary shares		
Weighted average number of diluted ordinary shares	**126,000,194**	**125,996,327**
Fully diluted earnings per share *(in €)*	**10.17**	**8.07**

note 14 – other comprehensive income

The components of other comprehensive income include:

- gains and losses arising from translating the financial statements of foreign operations;
- the effective portion of gains and losses on cash flow hedging instruments;
- gains and losses on remeasuring available-for-sale financial assets and other financial instruments;
- components relating to the measurement of employee benefit obligations: unrecognised surplus of pension plan assets and actuarial gains and losses on defined benefit plans.

(in € millions)	Gross	Income tax	Net
Foreign exchange gains and losses	125.6		125.6
Cash flow hedges	71.2	3.7	74.9
– change in fair value	*(184.1)*		
– gains and losses reclassified to income	*255.3*		
Available-for-sale financial assets	0.6	(0.2)	0.4
– change in fair value	*0.6*		
– gains and losses reclassified to income			
Actuarial gains and losses	(31.2)	1.5	(29.7)
Other comprehensive income as of December 31, 2015	**166.2**	**5.0**	**171.2**

(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 as of December 31, 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)	2016	2015
Luxury activities	28.5	15.0
Sport & Lifestyle activities	34.9	15.8
Corporate and other	(8.4)	(5.6)
TOTAL	**55.0**	**25.2**

15.2. Non-controlling interests in equity

(in € millions)	2016	2015
Luxury activities	161.9	156.8
Sport & Lifestyle activities	532.8	511.9
Corporate and other	(0.5)	6.1
TOTAL	**694.2**	**674.8**

note 16 – goodwill

16.1. Changes in goodwill

(in € millions)	Gross	Impairment losses	Net
Goodwill as of January 1, 2015	**4,571.5**	**(531.6)**	**4,039.9**
Acquisitions	17.2		17.2
Allocation of goodwill to identifiable assets and liabilities	(187.0)		(187.0)
Impairment losses		(150.0)	(150.0)
Impact of put options granted to non-controlling shareholders	2.5		2.5
Translation adjustments	60.5	(24.3)	36.2
Goodwill as of December 31, 2015	**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**

The Group did not carry out any material acquisitions in 2015 or 2016. Note 19.3 – Impairment losses recognised during the period, provides details of goodwill impairment recognised in 2015 and 2016.

In 2015, the Group had finalised the Ulysse Nardin purchase price allocation in an amount of €187 million, which included allocation of a brand value.

16.2. Goodwill by activity

(in € millions)	2016	2015
Luxury activities	2,551.1	2,788.3
Sport & Lifestyle activities	977.7	970.5
Corporate and other	4.7	-
TOTAL	**3,533.5**	**3,758.8**

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 December 31, 2015	**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)

(in € millions)	Brands	Internally generated intangible assets	Other intangible assets	Total
Carrying amount as of December 31, 2014	**10,464.8**		**283.3**	**10,748.1**
Changes in Group structure	319.4		1.6	321.0
Acquisitions			210.9	210.9
Disposals			(1.8)	(1.8)
Amortisation			(65.6)	(65.6)
Impairment losses	(24.5)			(24.5)
Translation adjustments	90.8		8.8	99.6
Other movements			(2.2)	(2.2)
Carrying amount as of December 31, 2015	**10,850.5**		**435.0**	**11,285.5**
Gross value as of December 31, 2015	10,897.0		948.9	11,845.9
Accumulated amortisation and impairment as of December 31, 2015	(46.5)		(513.9)	(560.4)

Note 19.3 – Impairment losses recognised during the period, provides details of goodwill impairment recognised in 2015 and 2016.

17.2. Brands by activity

(in € millions)	2016	2015
Luxury activities	6,886.6	6,943.4
Sport & Lifestyle activities	3,920.5	3,907.1
TOTAL	**10,807.1**	**10,850.5**

note 18 – property, plant and equipment

(in € millions)	Land and buildings	Plant and equipment	Other PP&E	Total
Carrying amount as of December 31, 2015	**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

(in € millions)	Land and buildings	Plant and equipment	Other PP&E	Total
Carrying amount as of December 31, 2014	**718.1**	**1,025.3**	**143.8**	**1,887.2**
Changes in Group structure	4.2	7.7	-	11.9
Acquisitions	6.1	307.8	166.4	480.3
Disposals	(6.3)	(9.3)	(1.6)	(17.2)
Depreciation	(17.0)	(371.2)	(18.7)	(406.9)
Translation adjustments	35.7	58.9	2.9	97.5
Other movements	16.3	48.3	(44.4)	20.2
Carrying amount as of December 31, 2015	**757.1**	**1,067.5**	**248.4**	**2,073.0**
o/w gross value	1,001.3	2,662.1	373.8	4,037.2
o/w depreciation and impairment	(244.2)	(1,594.6)	(125.4)	(1,964.2)

Carrying amount as of December 31, 2015	**757.1**	**1,067.5**	**248.4**	**2,073.0**
o/w assets owned outright	704.6	1,067.5	248.2	2,020.3
o/w assets held under finance leases	52.5	-	0.2	52.7

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	
	2016	2015	2016	2015
Luxury activities	7.6%-11.6%	8.3%-10.5%	3.0%	3.0%
Sport & Lifestyle activities	10.1%-11.9%	9.8%-11.0%	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 10 years. These CGUs currently being repositioned are Boucheron, Volcom, Brioni, Sowind, Pomellato, Christopher Kane, Qeelin and Ulysse Nardin.

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 8.7%.

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 8.3% 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 10.4%.

For information purposes, PUMA's market capitalisation was €3.7 billion as of December 31, 2016. This valuation does not represent a relevant indication of impairment given the limited free float and resulting lack of liquidity of the PUMA share. As of December 31, 2016, Kering held an 85.81% controlling interest in PUMA.

In the case of the PUMA brand, which is the highest-valued 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 10.1% pre-tax discount rate.

Sensitivity to changes in key assumptions is shown below:

		Impairment loss due to:		
(in € millions)	Value of net assets concerned as of Dec. 31, 2016	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	11,314	(9)	(6)	-
Sport & Lifestyle activities	4,802	-	-	-
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 basis point in the post-tax discount rate and to a decrease of 0.1 basis point in the perpetual growth rate.

19.3. Impairment losses recognised during the period

The asset impairment tests carried out in 2016 led the Group to recognise an impairment loss against certain items of goodwill allocated to the Brioni and Ulysse Nardin CGUs (€235.9 million) and against the Ulysse Nardin brand (€60.7 million). These impairment losses recognised against the goodwill of Other Luxury brands result from the difference between the carrying amount of these CGUs and their recoverable amount. The difference between these amounts for Ulysse Nardin is mainly attributable to continued weakness in the Watches segment. The impairment recognised against Brioni reflects weaker revenue trends in the context of the brand's restructuring.

The 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).

Besides impairment losses recognised against the goodwill of these two CGUs and against one of the Other Luxury brands, the Group considers that, based on events that are foreseeable within reason, any changes impacting the key assumptions described below would not give rise to the recognition of a significant impairment loss against other CGUs.

The impairment tests carried out by the Group in 2015 gave rise to the recognition of an impairment loss against the goodwill of the PUMA CGU (€123.0 million), against the goodwill of one of the Other Luxury brands (€27.0 million), and against one of the Other Sport & Lifestyle brands (€24.0 million). In the case of PUMA, this loss results from the difference between the carrying amount of these CGUs and their recoverable amount, as well as strong currency volatility.

note 20 – investments in equity – accounted companies

(in € millions)	2016	2015
Investments in equity-accounted companies	48.3	20.9

As of December 31, 2016, investments in equity-accounted companies mainly comprised shares in Wildemess, Tomas Maier, Altuzarra, WG Alligator Farm and Wall's Gator Farm.

The market value of the Group's interest in Wilderness amounts to €25.3 million.

note 21 – non-current financial assets

(in € millions)	2016	2015
Non-consolidated investments	140.7	156.6
Available-for-sale financial assets	26.3	20.7
Loans and receivables due from non-consolidated investments	48.9	37.3
Deposits and guarantees	167.9	157.8
Other	96.6	86.0
TOTAL	**480.4**	**458.4**

note 22 – inventories

(in € millions)	2016	2015
Commercial inventories	2,811.5	2,508.4
Industrial inventories	562.8	460.3
Gross amount	**3,374.3**	**2,968.7**
Allowances	(942.1)	(777.5)
Carrying amount	**2,432.2**	**2,191.2**

Movements in allowances	2016	2015
As of January 1	**(777.5)**	**(609.8)**
Additions	(277.0)	(241.1)
Reversals	127.4	196.6
Changes in Group structure	4.2	(87.9)
Translation adjustments	(8.3)	(35.3)
Other movements	(10.9)	-
As of December 31	**(942.1)**	**(777.5)**

No inventories were pledged to secure liabilities as of December 31, 2016 or December 31, 2015.

Changes in gross inventories recognised during the period under "Cost of sales" represented an increase of €334.7 million (decrease of €30.7 million in 2015).

note 23 – trade receivables

(in € millions)	2016	2015
Trade receivables	1,278.7	1,211.2
Allowances	(82.3)	(74.1)
Carrying amount	**1,196.4**	**1,137.1**

Movements in allowances	2016	2015
As of January 1	**(74.1)**	**(73.9)**
Net (additions)/reversals	(3.7)	3.0
Changes in Group structure	3.6	0.1
Discontinued operations	-	(1.1)
Translation adjustments	(0.9)	(2.2)
Other movements	(7.2)	-
As of December 31	**(82.3)**	**(74.1)**

Provisions are calculated on the basis of the probability of recovering the receivables concerned. Trade receivables break down by age as follows:

(in € millions)	2016	2015
Not past due	976.1	915.5
Less than one month past due	183.6	147.4
One to six months past due	59.4	93.0
More than six months past due	59.6	55.3
Allowance for doubtful receivables	(82.3)	(74.1)
Carrying amount	**1,196.4**	**1,137.1**

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)	2015	Working capital cash flows	Other cash flows	Changes in Group structure	Translation adjustments and other	2016
Inventories	2,191.2	229.4		(6.5)	18.1	2,432.2
Trade receivables	1,137.1	61.5		(10.3)	8.1	1,196.4
Other financial assets and liabilities	(157.7)		0.7		2.1	(154.9)
Current tax receivables/payables	(210.8)		(88.5)	(2.5)	8.9	(292.9)
Trade payables	(939.7)	(145.5)		2.1	(15.4)	(1,098.5)
Other	(949.1)	(61.0)	4.2	18.9	(16.9)	(1,003.9)
Other current assets and liabilities	**1,071.0**	**84.4**	**(83.6)**	**1.7**	**4.9**	**1,078.4**

note 25 – equity

As of December 31, 2016, the 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, 2015).

25.1. Kering treasury shares and options on Kering shares

In 2016, the Group made a net disposal of 27,598 treasury shares, resulting from the following transactions:

- the acquisition of 1,556,728 shares under the liquidity agreement;
- the disposal of 1,556,728 shares under the liquidity agreement;
- the acquisition of 1,304 Kering shares to be allotted to employees under the last 2012 free share plan;
- the allotment of 28,902 shares to employees under the 2012 free share plan expiring in April 2016.

No stock subscription options were exercised during 2016.

On May 26, 2004, Kering signed an agreement with a financial broker in order to improve the liquidity of the Group's shares and ensure share price stability. This liquidity agreement complies with the Professional Code of Conduct drawn up by the French Association of Financial and Investment Firms (*Association française des marchés financiers* – AMAFI) and approved by the French financial markets authority (*Autorité des marchés financiers* – AMF). The agreement was initially endowed with €40.0 million, half of which was provided in cash and half in Kering shares. An additional €20.0 million in cash was allocated to the agreement on September 3, 2004, and a further €30.0 million on December 18, 2007. Since the amendment dated December 15, 2016, Kering has only maintained a credit balance of €5.0 million in the liquidity account with the financial broker.

As of December 31, 2016 or December 31, 2015, Kering did not hold any shares in treasury under the liquidity agreement.

It still held 27,598 shares within the scope of the free share plan (see Note 7 – Share-based payment) as of December 31, 2015. Kering's last free share plan expired in 2016.

25.2. Appropriation of 2016 net income

At its February 9, 2017 meeting, the Board decided that, at the Annual General Meeting to be held to approve the financial statements for the year ended December 31, 2016, it will ask shareholders to approve a €4.60 per-share cash dividend for 2016.

An interim dividend amounting to €1.50 per share was paid on January 18, 2017 pursuant to a decision by the Board of Directors on December 15, 2016.

The total cash dividend payout in 2017 would thus amount to €580.9 million.

The cash dividend paid for 2015 amounted to €4.00 per share, representing a total payout of €504.9 million (no dividends are paid on treasury shares).

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 UK, 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.

The large majority of plans operated by Kering group companies in Switzerland are currently over-funded compared to local practices and no additional funding is therefore required.

- **Final salary type supplementary pension plans – UK**

In the UK, 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 UK 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 option 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)	Dec. 31, 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)
Exchange differences	(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							

As of December 31, 2016, the present value of the benefit obligation amounted to €304.9 million, breaking down as:

- €59.6 million in respect of wholly unfunded plans (€57.3 million as of end-2015);
- €245.3 million in respect of fully or partially funded plans (€225.2 million as of end-2015).

(in € millions)	Dec. 31, 2015						
	Present value of obligation	Fair value of plan assets	Financial position	Change	Provision	Other comprehensive income	Expense recognised
As of January 1	**227.3**	**106.6**	**120.7**		**120.7**	**102.3**	
Current service cost	16.0		16.0		16.0		(16.0)
Curtailments and settlements	(3.2)	(3.2)					
Interest cost	5.4		5.4		5.4		(5.4)
Interest income on plan assets		3.0	(3.0)		(3.0)		3.0
Past service cost	(1.1)		(1.1)		(1.1)		1.1
Actuarial gains and losses	7.1	3.2	3.9		3.9	(3.9)	
Impact of changes in demographic assumptions	*(1.7)*		*(1.7)*		*(1.7)*	*1.7*	
Impact of changes in financial assumptions	*9.3*		*9.3*		*9.3*	*(9.3)*	
Impact of experience adjustments	*(0.5)*		*(0.5)*		*(0.5)*	*0.5*	
Return on plan assets (excluding interest income)		*3.2*	*(3.2)*		*(3.2)*	*3.2*	
Benefits paid	(14.5)	(8.3)	(6.2)		(6.2)		
Contributions paid by beneficiaries	5.0	5.0					
Contributions paid by employer		7.3	(7.3)		(7.3)		
Changes in Group structure	32.7	20.3	12.4		12.4		
Discontinued operations	(1.6)		(1.6)		(1.6)	(27.3)	
Insurance contract	(1.2)	(1.2)					
Administrative expense		(0.7)	0.7		0.7		(0.7)
Exchange differences	10.6	8.2	2.4		2.4		
As of December 31	**282.5**	**140.2**	**142.3**		**142.3**	**71.1**	**(18.1)**
o/w continuing operations					*142.3*		*(18.1)*
o/w discontinued operations							

26.3. Breakdown of the present value of the benefit obligation by country

(in € millions)	2016	2015
Supplementary pension plans (LPP) – Switzerland	171.3	157.6
Supplementary pension plans – United Kingdom	41.6	37.9
Statutory dismissal compensation (TFR) – Italy	34.7	33.5
Retirement termination benefits – France	21.8	19.9
Other	35.5	33.6
Present value of benefit obligation as of December 31	**304.9**	**282.5**

26.4. Contributions payable in 2017 by country

(in € millions)	Total	Switzerland	Italy	France	Other
Employer contributions in respect of 2017	7.2	5.5	-	-	1.7

26.5. Fair value of plan assets by type of financial instrument

(in € millions)	2016	%	2015	%
Debt instruments	52.4	34.0%	48.2	34.3%
Equity instruments	27.9	18.1%	25.4	18.1%
Real estate	22.3	14.5%	16.9	12.1%
Investment funds	17.2	11.1%	19.6	14.0%
Insurance contracts	15.5	10.0%	16.0	11.4%
Derivatives	8.4	5.4%	5.6	4.0%
Cash and cash equivalents	3.1	2.0%	2.6	1.9%
Other assets	7.3	4.9%	5.9	4.2%
Fair value of plan assets as of December 31	**154.1**		**140.2**	

26.6. Actuarial assumptions

	France		Switzerland		Italy		UK	
	2016	2015	2016	2015	2016	2015	2016	2015
Average maturity of plans	10.3	12.0	16.3	17.0	12.5	11.0	24.2	24.0
Discount rate	1.25%	2.00%	0.35%	0.90%	1.25%	2.00%	2.80%	4.00%
Expected rate of increase in salaries	3.18%	3.27%	1.07%	1.17%	3.00%	2.86%	1.00%	4.20%
Inflation rate	1.75%	1.75%	0.60%	0.60%	1.75%	1.75%	2.50%	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)	2015	Charge	Reversal (utilised provision)	Reversal (surplus provision)	Translation adjustments	Other	2016
Provision for restructuring costs		9.3	(0.2)		0.4		9.5
Provision for claims and litigation	6.6	7.2	(1.5)		0.1	(1.2)	11.2
Other provisions	75.7	3.1	(30.2)		1.3	3.4	53.3
Other non-current provisions	**82.3**	**19.6**	**(31.9)**		**1.8**	**2.2**	**74.0**
Provision for restructuring costs	25.2	19.5	(22.3)	(3.3)	(0.1)	5.1	24.1
Provision for claims and litigation	49.9	7.2	(20.4)	(5.2)		2.9	34.4
Other provisions	82.2	26.9	(13.0)	(9.7)	0.1	(1.3)	85.2
Other current provisions	**157.3**	**53.6**	**(55.7)**	**(18.2)**		**6.7**	**143.7**
TOTAL	**239.6**	**73.2**	**(87.6)**	**(18.2)**	**1.8**	**8.9**	**217.7**
Impact on income	**(59.1)**	**(73.2)**		**18.2**			**(55.0)**
– on recurring operating income	(19.6)	(35.7)		3.0			(32.7)
– on other non-recurring operating income and expenses	(38.1)	(30.0)		6.1			(23.9)
– on net finance costs	(0.1)						
– on income taxes							
– on income (loss) from discontinued operations	(1.3)	(7.5)		9.1			1.6

The "Other provisions" line mainly corresponds to vendor warranties granted within the scope of disposals in previous periods. The decrease in this item in 2016 reflects the early-2016 sale of the Electric brand, the net assets of which had been provisioned in full as of December 31, 2015.

note 28 – cash and cash equivalents

28.1. Breakdown by category

Cash and cash equivalents break down as follows:

(in € millions)	2016	2015
Cash	1,040.4	943.5
Cash equivalents	9.2	202.9
TOTAL	**1,049.6**	**1,146.4**

As of December 31, 2016, 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, 2016, no reclassifications were made as a result of these reviews.

28.2. Breakdown by currency

(in € millions)	2016	%	2015	%
EUR	260.6	24.8%	528.9	46.1%
CNY	150.4	14.4%	86.3	7.5%
USD	120.8	11.5%	114.1	10.0%
KRW	104.0	9.9%	62.9	5.5%
CHF	61.8	5.9%	44.7	3.9%
HKD	52.7	5.0%	41.4	3.6%
GBP	51.6	4.9%	54.4	4.8%
Other currencies	247.7	23.6%	213.7	18.6%
TOTAL	**1,049.6**		**1,146.4**	

note 29 – borrowings

29.1. Breakdown of borrowings by maturity

(in € millions)	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
Confirmed lines of credit							
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					
Confirmed lines of credit							
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%**

(in € millions)	2015	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond
Non-current borrowings	**4,039.9**		**447.8**	**593.0**	**536.6**	**692.7**	**1,769.8**
Bonds	3,674.5		349.4	498.2	497.0	635.8	1,694.1
Confirmed lines of credit							
Other bank borrowings	234.4		84.4	82.2	3.9	42.1	21.8
Obligations under finance leases	63.5		4.8	5.4	3.5	3.9	45.9
Other borrowings	67.5		9.2	7.2	32.2	10.9	8.0
Current borrowings	**1,785.9**	**1,785.9**					
Bonds							
Confirmed lines of credit							
Drawdowns on unconfirmed lines of credit	105.4	105.4					
Other bank borrowings	79.0	79.0					
Obligations under finance leases	7.6	7.6					
Bank overdrafts	243.5	243.5					
Commercial paper	1,299.7	1,299.7					
Other borrowings	50.7	50.7					
TOTAL	**5,825.8**	**1,785.9**	**447.8**	**593.0**	**536.6**	**692.7**	**1,769.8**
%		**30.6%**	**7.7%**	**10.2%**	**9.2%**	**11.9%**	**30.4%**

All gross borrowings as of December 31, 2016 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 77.1% of gross borrowings as of December 31, 2016 versus 63.1% as of end-2015.

Borrowings with a maturity of more than one year represented 77.2% of total gross borrowings as of December 31, 2016 and 69.4% as of December 31, 2015.

The total amount of confirmed lines of credit was €4,188.6 million at the end of the reporting period, including €35.5 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)	2016	Non-current borrowings	Current borrowings	%	2015	%
EUR	4,523.2	3,640.4	882.8	83.5%	4,936.5	84.7%
JPY	435.0	179.4	255.6	8.0%	377.0	6.5%
USD	368.0	328.5	39.5	6.8%	341.5	5.9%
CHF	33.2	17.9	15.3	0.6%	26.8	0.5%
GBP	11.3	11.1	0.2	0.2%	6.2	0.1%
HKD	8.5	8.5		0.1%	8.1	0.1%
Other currencies	41.1		41.1	0.8%	129.7	2.2%
Total	**5,420.3**	**4,185.8**	**1,234.5**		**5,825.8**	

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)	2016	2015
Bonds	4,180.9	3,674.5
Other bank borrowings	335.1	313.4
Confirmed lines of credit		
Drawdowns on unconfirmed lines of credit	23.4	105.4
Commercial paper	350.1	1,299.7
Obligations under finance leases	96.9	71.1
Bank overdrafts	292.1	243.5
Other borrowings	141.8	118.2
TOTAL	**5,420.3**	**5,825.8**

Group borrowings primarily consist of bonds, bank borrowings and commercial paper issues, which accounted for 92.4% of gross borrowings as of December 31, 2016 (92.8% as of December 31, 2015).

As of December 31, 2016, the Group's other borrowings included €95.3 million concerning put options granted to non-controlling shareholders (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, 2016.

This programme was signed and approved by Luxembourg's financial sector supervisory commission (*Conseil de Surveillance du Secteur Financier* – CSSF) on November 17, 2016. The existing programme as of December 31, 2016 expires on November 17, 2017.

As of December 31, 2016, the bonds issued under this programme totalled €4,184.6 million, of which €284.6 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 stable 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	2016	2015
150.0 (1)	6.50% fixed	6.57%	06/29/2009	-	06/29/2017	**149.8**	149.7
200.0 (2)	6.50% fixed	6.57%	11/06/2009	-	11/06/2017	**199.8**	199.7
500.0 (3)	3.125% fixed	3.31%	04/23/2012	-	04/23/2019	**497.9**	497.0
500.0 (4)	2.50% fixed	2.58%	07/15/2013	-	07/15/2020	**498.6**	498.3
500.0 (5)	1.875% fixed	2.01%	10/08/2013	-	10/08/2018	**498.8**	498.2
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	**512.6**	514.3
500.0 (7)	1.375% fixed	1.47%	10/01/2014	-	10/01/2021	**497.7**	497.2
500.0 (8)	0.875% fixed	1.02%	03/27/2015	-	03/28/2022	**496.3**	495.6
50.0 (9)	1.60% fixed	1.66%	04/16/2015	-	04/16/2035	**49.5**	49.5
500.0 (10)	1.25% fixed	1.35%	05/10/2016	-	05/10/2026	**495.7**	

(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.

Kering USD bond issues

(in € millions)

Par value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	2016	2015
142.3 (1)	Floating 3-month USD Libor +0.73%	1.55%	03/09/2015	2.589% fixed-rate swap for the full amount *Documented under IFRS*	03/09/2020	**142.1**	137.5
142.3 (2)	2.887% fixed	2.94%	06/09/2015	-	06/09/2021	**142.1**	137.5

(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 2009 and 2016 within the scope of the EMTN programme are all subject to change-of-control clauses entitling bondholders to request early redemption at par if Kering's rating is downgraded to non-investment grade following a change of control.

In addition, the bonds issued in 2009 include a step-up coupon clause that applies in the event that Kering's rating is downgraded to non-investment grade.

The corresponding amounts are recognised in the statement of financial position at amortised cost based on the effective interest rate, taking account of the fair value adjustment resulting from the hedging relationship documented in accordance with IAS 39.

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 has the following bank borrowings:

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	2016	2015
32.4 (1)	Floating JPY Tibor +0.35%	-	03/31/2011	-	03/31/2016		3.1
46.6 (2)	Floating JPY Tibor +0.45%	-	09/30/2013	-	09/30/2016		32.2
37.0 (3)	Floating JPY Tibor +0.38%	-	04/15/2014	-	04/15/2017	**26.6**	28.7
32.4 (4)	Floating JPY Tibor +0.40%	-	12/14/2014	-	12/14/2018	**32.4**	30.5
40.5 (5)	Floating JPY Tibor +0.40%	-	04/15/2015	-	04/15/2020	**40.5**	38.1
16.2 (6)	Floating JPY Tibor +0.35%	-	03/31/2016	-	03/31/2020	**16.2**	
16.2 (7)	Floating JPY Tibor +0.25%	-	03/31/2016	-	03/31/2021	**14.6**	
30.6 (8)	Floating JPY Tibor +0.29%	-	09/30/2016	-	09/30/2019	**28.7**	

(1) Redeemable loan contracted in March 2011 for JPY 4,000 million (€32.4 million).
(2) Redeemable loan contracted in September 2013 for JPY 5,756 million (€46.6 million).
(3) Redeemable loan contracted in April 2014 for JPY 4,560 million (€37.0 million). The outstanding balance on this loan was JPY 3,280 million (€26.6 million) as of December 31, 2016.
(4) Loan contracted in December 2014 for JPY 4,000 million (€32.4 million).
(5) Loan contracted in April 2015 for JPY 5,000 million (€40.5 million).
(6) Loan contracted in March 2016 for JPY 2,000 million (€16.2 million).
(7) Redeemable loan contracted in March 2016 for JPY 2,000 million (€16.2 million). The outstanding balance on this loan was JPY 1,800 million (€14.6 million) as of December 31, 2016.
(8) Redeemable loan contracted in September 2016 for JPY 3,771 million (€30.6 million). The outstanding balance on this loan was JPY 3,545 million (€28.7 million) as of December 31, 2016.

29.5.2. Confirmed lines of credit available to the Group

As of December 31, 2016, the Group had access to €4,188.6 million in confirmed lines of credit versus €4,152.7 million as of December 31, 2015.

29.5.3. Breakdown of confirmed lines of credit

Kering and Kering Finance SNC: €3,901.0 million breaking down by maturity as follows:

(in € millions)	2016	Less than one year	One to five years	More than five years	2015
Confirmed lines of credit	**3,901.0**		3,901.0		**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, 2016. Total confirmed undrawn credit lines available to Kering and Kering Finance SNC amounted to €3,901.0 million as of December 31, 2016.

Other confirmed lines of credit: €287.6 million breaking down by maturity as follows:

(in € millions)	2016	Less than one year	One to five years	More than five years	2015
PUMA [(1)]	**287.6**	255.7	31.9		**251.7**

(1) PUMA: including €35.5 million drawn down in the form of bank borrowings as of the end of December 2016.

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, 2016, Kering and Kering Finance SNC had not drawn down any of the €3,901.0 million available under confirmed lines of credit subject to this covenant.

The Group was in compliance with all of these covenants as of December 31, 2016 and there is no foreseeable risk of breach.

The undrawn balance on these confirmed lines of credit as of December 31, 2016 was €4,153.1 million (€4,131.8 million as of December 31, 2015).

The undrawn confirmed lines of credit guarantee the Group's liquidity and back the commercial paper issue programme, on which a total of €350.1 million remained outstanding as of December 31, 2016 (€1,299.7 million as of December 31, 2015).

note 30 – exposure to interest rate, foreign exchange and equity risk

The Group uses derivative financial instruments to manage its exposure to market risks.

Derivatives used by the Group as of December 31, 2016 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)	2016	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond	2015
Swaps: fixed-rate lender	400.0	400.0						500.0
Swaps: fixed-rate borrower	152.9				142.3		10.6	149.6
Other interest rate instruments								100.0
TOTAL	**552.9**	**400.0**			**142.3**		**10.6**	**749.6**

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, 2016, 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, 2016, documented and non-documented financial instruments can be analysed as follows:

(in € millions)	2016	Fair value hedges	Cash flow hedges	Non-documented hedges
Swaps: fixed-rate lender	400.0			400.0
Swaps: fixed-rate borrower	152.9		152.9	
Other interest rate instruments				
TOTAL	**552.9**		**152.9**	**400.0**

These interest rate derivatives are recognised in the statement of financial position at their market value at the end of the reporting period.

The accounting treatment of fair value movements depends on the purpose of the derivative instrument and the resulting accounting classification.

In the case of interest rate derivatives designated as fair value hedges, fair value movements are recognised in net income for the 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, 2016, 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:

		2016 maturities			
(in € millions)	2016	Less than one year	One to five years	More than five years	2015
Fixed-rate financial assets	**56.6**	**10.9**	**45.7**		**58.1**
Bonds	4,038.8	349.6	2,135.1	1,554.1	3,537.0
Commercial paper	350.1	350.1			1,299.7
Other borrowings	39.0	24.4	14.4	0.2	28.4
Fixed-rate financial liabilities	**4,427.9**	**724.1**	**2,149.5**	**1,554.3**	**4,865.1**

- floating-rate financial assets and liabilities, exposed to a cash flow risk before hedging:

		2016 maturities			
(in € millions)	2016	Less than one year	One to five years	More than five years	2015
Floating-rate financial assets	**1,138.8**	**1,062.7**	**30.0**	**46.1**	**1,271.2**
Bonds	142.1		142.1		137.5
Commercial paper					
Other borrowings	850.3	510.4	285.6	54.3	823.2
Floating-rate financial liabilities	**992.4**	**510.4**	**427.7**	**54.3**	**960.7**

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:

		2016 maturities			
(in € millions)	2016	Less than one year	One to five years	More than five years	2015
Fixed-rate financial assets	**56.6**	**10.9**	**45.7**		**58.1**
Bonds	3,980.9	149.6	2,277.2	1,554.1	3,474.5
Commercial paper	150.1	150.1			899.7
Other borrowings	49.6	25.7	20.1	3.8	40.3
Fixed-rate financial liabilities	**4,180.6**	**325.4**	**2,297.3**	**1,557.9**	**4,414.5**

- floating-rate financial assets and liabilities, exposed to a cash flow risk after hedging:

		2016 maturities			
(in € millions)	2016	Less than one year	One to five years	More than five years	2015
Floating-rate financial assets	**1,138.8**	**1,062.7**	**30.0**	**46.1**	**1,271.2**
Bonds	200.0	200.0			200.0
Commercial paper	200.0	200.0			400.0
Other borrowings	839.7	509.1	279.9	50.7	811.3
Floating-rate financial liabilities	**1,239.7**	**909.1**	**279.9**	**50.7**	**1,411.3**

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)	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%

		Before hedging		After hedging	
(in € millions)	2015	Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
Gross borrowings	**5,825.8**	**4,865.1**	**960.7**	**4,414.5**	**1,411.3**
%		83.5%	16.5%	75.8%	24.2%

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 €2.2 million on pre-tax consolidated net income. As of December 31, 2015, the impact of a sudden 50 basis-point increase or decrease in interest rates was estimated at 5.2 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, 2016.

(in € millions)	Impact on reserves	Impact on income
As of December 31, 2016		
Increase of 50 basis points	2.2	(0.4)
Decrease of 50 basis points	(2.3)	0.4
As of December 31, 2015		
Increase of 50 basis points	2.9	(2.6)
Decrease of 50 basis points	(2.9)	2.3

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 cash flow 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)	2016	2015
Currency forwards	(3,253.2)	(3,332.9)
Cross currency swaps	(107.8)	(101.5)
Currency options – export tunnels	(204.2)	(55.3)
Currency options – purchases	(90.6)	(137.2)
Currency options – sales		
TOTAL	**(3,655.8)**	**(3,626.9)**

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 with respect to IAS 39 hedge accounting eligibility criteria. The Group has no derivatives eligible for net investment hedge accounting.

As of December 31, 2016, documented and non-documented derivative instruments were as follows:

(in € millions)	2016	USD	JPY	GBP	
Cash flow hedges					
Forward purchases and forward purchase swaps	**1,202.6**	1,127.6		45.0	
Forward sales and forward sale swaps	**(2,907.6)**	(889.9)	(481.4)	(213.2)	
Currency options – purchases of export tunnels	**(204.2)**	(72.6)	(67.5)	(27.4)	
Currency options – purchases	**(90.6)**	(76.4)	(2.8)	(5.3)	
Fair value hedges					
Forward purchases and forward purchase swaps	**530.1**	237.2	66.2	36.6	
Forward sales and forward sale swaps	**(1,267.4)**	(263.2)	(92.6)	(182.9)	
Not documented					
Forward purchases and forward purchase swaps	**131.1**	126.5		0.6	
Forward sales and forward sale swaps	**(942.0)**	(543.0)		(34.8)	
Cross currency swaps	**(107.8)**		(107.8)		
Currency options – purchases					
Currency options – sales					
Maturity					
Less than one year					
Forward purchases and forward purchase swaps	**1,640.5**	1,277.3	66.2	72.9	
Forward sales and forward sale swaps	**(4,892.4)**	(1,646.7)	(523.8)	(410.3)	
Currency options – purchases of export tunnels	**(204.2)**	(72.6)	(67.5)	(27.4)	
Currency options – purchases	**(90.6)**	(76.4)	(2.8)	(5.3)	
Currency options – sales					
More than one year					
Forward purchases and forward purchase swaps	**223.3**	214.0		9.3	
Forward sales and forward sale swaps	**(224.6)**	(49.4)	(50.2)	(20.6)	
Cross currency swaps	**(107.8)**		(107.8)		
Currency options – purchases of export tunnels					
Currency options – purchases					
Currency options – sales					

Foreign exchange derivatives are recognised in the statement of financial position at their market value at the end of the reporting period.

Derivatives qualifying as cash flow hedges are used to hedge highly probable future cash flows (not yet recognised) based on a budget for the current budget period (season or catalogue, quarter, half-year, etc.) or certain future cash flows not yet recognised (firm orders).

As of December 31, 2016, 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 at the end of the reporting period, or certain future cash flows not yet recognised (firm orders). Hedges of items recognised in the statement of financial position chiefly concern 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	2015
						30.0	**929.2**
	(284.7)	(382.6)	(46.4)	(57.0)	(169.6)	(382.8)	**(2,815.7)**
	(36.7)						**(55.3)**
	(6.1)						**(137.2)**
24.0	20.8	67.0	4.0	4.7	20.2	49.4	**444.1**
(14.5)	(158.2)	(172.7)	(35.6)	(28.7)	(68.5)	(250.5)	**(1,203.2)**
1.9						2.1	**193.6**
(309.7)	(49.0)					(5.5)	**(880.9)**
							(101.5)
25.9	20.8	67.0	4.0	4.7	20.2	81.5	**1,402.0**
(324.2)	(469.3)	(536.0)	(75.4)	(80.0)	(229.4)	(597.3)	**(4,794.9)**
	(36.7)						**(55.3)**
	(6.1)						**(137.2)**
							164.9
	(22.6)	(19.3)	(6.6)	(5.7)	(8.7)	(41.5)	**(104.9)**
							(101.5)

As of December 31, 2016, the exposure to foreign exchange risk on the statement of financial position was as follows:

(in € millions)	2016	USD	JPY	GBP
Monetary assets	3,309.2	1,177.6	227.8	230.0
Monetary liabilities	1,433.9	788.1	455.6	25.4
Gross exposure in the statement of financial position	1,875.3	389.5	(227.8)	204.6
Forecast exposure	1,991.0	(101.9)	551.7	200.9
Gross exposure before hedging	**3,866.3**	**287.6**	**323.9**	**405.5**
Hedging instruments	(3,650.5)	(462.1)	(685.9)	(381.4)
Gross exposure after hedging	**215.8**	**(174.5)**	**(362.0)**	**24.1**

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 currency in which the subsidiary operates or are converted into the Group's functional currency using foreign exchange derivatives in accordance with applicable procedures.

Analysis of sensitivity to foreign exchange risk

This analysis excludes the impact of translating the financial statements of each Group entity into the presentation currency (euro) and the measurement of the foreign exchange position 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, 2016, 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, 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

As of December 31, 2015	Impact on reserves		Impact on income	
(in € millions)	10% increase	10% decrease	10% increase	10% decrease
USD	10.2	(5.6)	0.7	(3.4)
JPY	43.5	(49.9)	(0.2)	(0.5)
CNY	27.1	(33.1)	(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 cash flow 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	2015
377.9	207.4	281.1	46.1	52.5	154.8	554.0	3,206.7
56.4	10.4	17.8	7.7	4.4	0.4	67.7	1,427.3
321.5	197.0	263.3	38.4	48.1	154.4	486.3	1,779.4
	327.6	382.6	46.4	56.9	169.6	357.2	2,092.2
321.5	**524.6**	**645.9**	**84.8**	**105.0**	**324.0**	**843.5**	**3,871.6**
(298.3)	(514.0)	(488.3)	(78.0)	29.3	(217.9)	(553.9)	(3,626.8)
23.2	**10.6**	**157.6**	**6.8**	**134.3**	**106.1**	**289.6**	**244.8**

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, 2016, no equity risk hedging transaction had been recognised as a derivative instrument in accordance with IAS 39.

30.4. Other market risks – Credit risk

The Group uses derivative instruments solely to reduce its overall exposure to foreign exchange, interest rate and equity risk arising in the normal course of business. All transactions involving derivatives are carried out on organised markets or over the counter with leading firms.

All bonds issued in 2009 within the scope of the EMTN programme are subject to a step-up coupon clause in the event that Kering's rating is downgraded to non-investment grade. This would increase the coupon payable on each issue by 1.25%, and could lead to an increase of €3.0 million in finance costs over a full year.

The Group has a large number of customers in a wide range of business segments and is therefore not exposed to any concentration of credit risk on its receivables. Generally, the Group considers that it is not exposed to any specific credit risk on these financial assets.

30.5. Derivative instruments at market value

As of December 31, 2016, 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)	2016	Interest rate risk	Foreign exchange risk	Other market risks	2015
Derivative assets	**121.9**		**121.9**		**72.0**
Non-current					
At fair value through income					
Cash flow hedges					
Fair value hedges					
Current	**121.9**		**121.9**		**72.0**
At fair value through income	1.6		1.6		2.7
Cash flow hedges	104.6		104.6		53.1
Fair value hedges	15.7		15.7		16.2
Derivative liabilities	**115.9**	**1.6**	**114.3**		**62.5**
Non-current	**19.6**	**1.6**	**18.0**		**14.8**
At fair value through income	18.0		18.0		12.3
Cash flow hedges	1.6	1.6			2.5
Fair value hedges					
Current	**96.3**		**96.3**		**47.7**
At fair value through income	5.2		5.2		2.3
Cash flow hedges	81.6		81.6		34.9
Fair value hedges	9.5		9.5		10.5
TOTAL	**6.0**	**(1.6)**	**7.6**		**9.5**

The effective portion of derivatives hedging future cash flows is recorded against equity.

Changes in the cash flow hedging reserve in 2016 are presented in Note 14 – Other comprehensive income.

In accordance with IFRS 13, derivatives were measured as of December 31, 2016 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.

30.6. Liquidity risk

Liquidity risk management for the Group and each of its subsidiaries is closely monitored and periodically assessed by Kering within the scope of Group financial reporting procedures.

In order to guarantee its liquidity, the Group holds confirmed lines of credit totalling €4,188.6 million. As of December 31, 2016, this includes an amount of €4,153.1 million not yet drawn and available cash of €1,049.6 million.

The table below shows contractual commitments relating to borrowings and trade payables. It includes accrued interest payable and excludes the impact of netting agreements. The table also includes Group commitments relating to derivative instruments recorded in assets or liabilities.

Forecast cash flows relating to 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 based on the last coupon for the current period, based on fixings applicable at the end of the reporting period for flows associated with subsequent maturities.

The future cash flows presented have not been discounted.

Based on data available as of the end of the reporting period, the Group does not expect that the cash flows indicated will materialise before the scheduled date or that the amounts concerned will differ significantly from those set out in the maturity schedule.

This analysis excludes non-derivative financial assets in the statement of financial position and in particular, the cash and cash equivalents and trade receivables line items, which amounted to €1,049.6 million and €1,196.4 million, respectively, as of December 31, 2016.

(in € millions)	2016 Carrying amount	2016 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)		
Other non-derivative financial instruments associated with assets classified as held for sale					
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)**

(in € millions)	2015 Carrying amount	2015 Cash flow	Less than one year	One to five years	More than five years
Non-derivative financial instruments					
Bonds	3,674.5	(3,675.6)		(1,987.8)	(1,687.8)
Commercial paper	1,299.7	(1,299.8)	(1,299.8)		
Other borrowings	851.6	(1,267.2)	(541.2)	(587.7)	(138.3)
Trade payables	939.7	(939.7)	(939.7)		
Other non-derivative financial instruments associated with assets classified as held for sale					
Derivative financial instruments					
Interest rate hedges	**2.9**				
Interest rate swaps		(7.2)	(1.6)	(5.4)	(0.2)
Other interest rate instruments					
Foreign exchange hedges	**(12.4)**				
Currency forwards and currency swaps					
Outflows		(5,596.9)	(5,346.2)	(250.7)	
Inflows		5,597.3	5,341.8	255.5	
Other foreign exchange instruments					
Outflows		(169.6)	(67.4)	(102.2)	
Inflows		156.1	65.3	90.8	
TOTAL	**6,756.0**	**(7,202.6)**	**(2,788.8)**	**(2,587.5)**	**(1,826.3)**

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, 2016 are presented below:

	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		

(in € millions)	2015 Carrying amount	2015 Market value	Breakdown by accounting classification: 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	458,4	458,4		177,3	281,1			
Current assets								
Trade receivables	1 137,1	1 137,1				1 137,1		
Other current financial assets	81,2	81,2			9,2		69,3	2,7
Cash and cash equivalents	1 146,4	1 146,4	202,9			943,5		
Non-current liabilities								
Non-current borrowings	4 039,9	3 970,5				4 039,9		
Other non-current financial liabilities	14,8	14,8					2,5	12,3
Current liabilities								
Current borrowings	1 785,9	1 785,9				1 785,9		
Other current financial liabilities	238,9	238,9				191,2	45,4	2,3
Trade payables	939,7	939,7				939,7		

As of December 31, 2016, 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, 2016 for listed securities.

- Financial instruments other than derivatives recorded in liabilities:

The market value of listed bonds was determined on the basis of the last market price at the end of the reporting period.

The market value of other borrowings was calculated using other valuation techniques such as discounted future cash flows, taking into account the Group's credit risk and interest rate conditions as of the end of the reporting period.

- Derivative financial instruments:

The market value of derivative financial instruments was provided by the financial institutions involved in the transactions or calculated using standard valuation methods that factor in market conditions as of the end of the reporting period.

The Group has identified three financial instrument categories based on the two valuation methods used (listed prices and valuation techniques). In accordance with international accounting standards, this classification is used as a basis for presenting the characteristics of financial instruments recognised in the statement of financial position at fair value through income as of the end of the reporting period:

Level 1 category: financial instruments quoted on an active market.

Level 2 category: financial instruments whose fair value is determined using valuation techniques drawing on observable market inputs.

Level 3 category: financial instruments whose fair value is determined using valuation techniques drawing on non-observable inputs (inputs whose value does not result from the price of observable market transactions for the same instrument or from observable market data available as of the end of the reporting period) or inputs which are only partly observable.

The table below shows the fair value hierarchy by financial instrument category as of December 31, 2016:

(in € millions)	Fair value hierarchy			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			1098.5	1098.5

(in € millions)	Fair value hierarchy			2015
	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	20.7		437.7	458.4
Current assets				
Trade receivables			1,137.1	1,137.1
Other current financial assets		72.0	9.2	81.2
Cash and cash equivalents	56.8	146.1	943.5	1,146.4
Non-current liabilities				
Non-current borrowings			4,039.9	4,039.9
Other non-current financial liabilities		14.8		14.8
Current liabilities				
Current borrowings			1,785.9	1,785.9
Other current financial liabilities		47.7	191.2	238.9
Trade payables			939.7	939.7

note 32 – net debt

(in € millions)	2016	2015
Gross borrowings	5,420.3	5,825.8
Fair value hedges (interest rate)		
Cash and cash equivalents	(1,049.6)	(1,146.4)
Net debt	**4,370.7**	**4,679.4**

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

Cash and cash equivalents net of bank overdrafts amounted to €757.5 million as of December 31, 2016, reflecting total cash and cash equivalents presented in the statement of cash flows.

(in € millions)	2016	2015
Cash and cash equivalents as reported in the statement of financial position	**1,049.6**	**1,146.4**
Bank overdrafts	(292.1)	(243.5)
Cash and cash equivalents as reported in the statement of cash flows	**757.5**	**902.9**

33.2. Breakdown of cash flow from operating activities

(in € millions)	2016	2015
Net income from continuing operations	**880.1**	**680.2**
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets	432.0	409.6
Other non-cash income and expenses:	295.0	209.6
Recurring operating income and expenses (Note 4)	*22.4*	*258.2*
o/w: Fair value of foreign exchange rate hedges	*7.5*	*249.5*
Other	*14.9*	*8.7*
Non-recurring operating income and expenses	*272.6*	*(48.6)*
o/w: Impairment losses on non-current operating assets	*296.6*	*174.3*
Asset impairment	*53.2*	*63.1*
Fair value of foreign exchange rate hedges in net finance costs	*(10.6)*	*(265.6)*
Deferred tax	*(79.4)*	*(55.3)*
Share in earnings (losses) of equity-accounted companies	*2.2*	*2.2*
Other	*10.6*	*32.7*
Cash flow from operating activities	**1,607.1**	**1,299.4**

33.3. Debt issues and redemptions

(in € millions)	2016	2015
Bond issues	570.5	1,070.4
Debt redemptions/repayments	(51.9)	(756.7)
Increase/decrease in other borrowings	(1,054.7)	87.3
TOTAL	**(536.1)**	**401.0**

New borrowings issued in 2016 included the first ten-year bonds issued by Kering SA, which represented a total of €500 million and have a fixed-rate annual coupon of 1.25%. The settlement/delivery date for these bonds was May 10, 2016.

Debt redemptions/repayments primarily relate to the impacts of annual repayments on certain JPY bank loans.

Changes in other borrowings chiefly comprise issues and redemptions of Kering Finance commercial paper.

note 34 – contingent liabilities, contractual commitments not recognised and other contingencies

34.1. Commitments given and received following asset disposals

Vendor warranties given by the Group on the sale of companies are summarised below:

Disposals	Vendor warranties
December 2010	
Sale of Conforama	Vendor warranties covering tax-related or similar claims expiring when the period becomes time barred, capped at €120 million. This disposal is related to the commitment by Kering to continue commercial relations between Conforama and the BNP Paribas group as regards customer loans.
December 2012	
Sale of The Sportsman's Guide and The Golf Warehouse	Vendor warranties covering (i) tax-related or similar claims expiring when the period becomes time barred, (ii) certain fundamental representations (including with respect to organisation, capitalisation and authority) which survive indefinitely and (iii) representations with respect to employment and benefit plans which terminate six months after the applicable statute of limitations. The warranty is capped at USD 21.5 million.
February 2013	
Sale of OneStopPlus	Vendor warranty covering (i) tax-related or similar claims expiring when the period becomes time barred, (ii) certain fundamental representations (including with respect to organisation, capitalisation and authority) which survive indefinitely and (iii) certain environmental obligations. The warranty is capped at USD 52.5 million.
March 2013	
Sale of Redcats' Children and Family division	Vendor warranty concerning (i) tax-related or similar claims expiring when the period becomes time barred, and (ii) representations with respect to employment and benefit plans, trademark and title ownership, which expire five years after the sale transaction date. The warranty is capped at €10 million.
June 2013	
Sale of Ellos	Customary vendor warranty expiring after December 31, 2014, except for certain fundamental representations (including with respect to organisation, capitalisation and authority), which survive indefinitely. The warranty is capped at €29 million. Specific vendor warranty covering tax-related or similar claims which expires on June 2, 2019 and is capped at €40 million. This was accompanied by a commitment received as regards the continuation of commercial relations with Finaref, covered by a €70 million bank guarantee expiring in 2023.

Disposals	Vendor warranties
June 2014	
Sale of La Redoute and Relais Colis	Customary vendor warranty covering certain fundamental representations (in particular as regards the existence of the companies sold, the availability of the shares sold and the power to complete the sale), which expire as applicable when the period becomes time barred, or on December 31, 2017. This general warranty is capped at €10 million. Vendor warranties covering tax-related claims capped at €10 million, expiring when the period becomes time barred. Specific vendor warranties for an indefinite amount covering the Group's restructuring operations prior to its sale, commercial litigation and environmental risks, expiring on December 31, 2021.
December 2015	
Sale of Sergio Rossi	Vendor warranties concerning (i) tax-related or similar claims expiring when the period becomes time barred in each jurisdiction concerned; (ii) certain fundamental representations (including with respect to organisation, capitalisation, securities and authority) which survive indefinitely; (iii) employment and employee benefit plans, and (iv) certain environmental obligations, guarantees relating to intellectual property rights and other customary business warranties; with (iii) and (iv) expiring 18 months after the date of the sale. These general warranties are capped at €15 million with the exception of (ii), which is capped at the sale price. Specific vendor warranties concerning (i) tax audits in progress for the years 2010 and 2012; (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*) survive indefinitely. These warranties are not capped.
March 2016	
Disposal of Electric	Customary vendor warranty concerning certain fundamental representations, including with respect to organisation, capitalisation and authority. The vendor warranties are limited to the seller's knowledge of insurance, litigation and tax-related matters. These warranties are not capped.

In addition to the vendor warranties described above, minor vendor warranty agreements with standard terms were set up for the purchasers of the other companies sold by the Group.

34.2. Other commitments given

34.2.1. Contractual obligations

The table below shows all the Group's contractual commitments and obligations, excluding employee benefit obligations presented in Note 26 – Employee benefits.

	Payments due by period				
(in € millions)	Less than one year	One to five years	More than five years	2016	2015
Borrowings (Note 29)	1,234.5	2,577.2	1,608.6	5,420.3	5,825.8
Operating lease agreements	715.5	1,736.2	1,280.6	3,732.3	3,317.6
Binding purchase commitments	122.4	184.2		306.6	311.3
TOTAL COMMITMENTS GIVEN	**2,072.4**	**4,497.6**	**2,889.2**	**9,459.2**	**9,454.7**

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 noncancellable rental payments in respect of stores, logistics hubs and other buildings (head offices and administrative offices).

As of December 31, 2016, total future minimum lease payments which the Group expects to receive under non-cancellable sub-lease agreements amounted to €7.0 million (€8.0 million as of December 31, 2015).

The rental expense for 2016 corresponding to minimum lease payments amounts to €749.9 million (€669.1 million in 2015). The contingent consideration expense, calculated on the basis of actual revenue, was €413.9 million (€393.1 million in 2015).

Sub-lease revenue totalled €2.7 million in both 2016 and 2015.

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)	2016	2015
Less than one year	9.7	10.3
One to five years	65.3	49.6
More than five years	40.5	23.4
	115.5	**83.3**
Finance costs included	(18.6)	(12.2)
Present value of future minimum lease payments	**96.9**	**71.1**

As of December 31, 2016, 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, 2016	Statement of financial position total (carrying amount)	Corresponding %	Amount of assets pledged as of Dec. 31, 2015
Intangible assets				11,272.7		
Property, plant and equipment	06/08/2001	03/31/2028	34.0	2,206.5	1.5%	101.6
Non-current financial assets				480.4		
TOTAL NON-CURRENT ASSETS PLEDGED AS COLLATERAL			**34.0**	**13,959.6**	**0.2%**	**101.6**

34.2.3. Other commitments

	Payments due by period				
(in € millions)	Less than one year	One to five years	More than five years	2016	2015
Confirmed lines of credit (see Note 29)	255.7	3,932.9		4,188.6	4,152.7
Letters of credit	20.6		1.9	22.5	20.4
Other guarantees received	32.0	5.1	2.5	39.6	29.5
TOTAL COMMITMENTS RECEIVED	**308.3**	**3,938.0**	**4.4**	**4,250.7**	**4,202.6**
Guarantees given to banks responsible for cash pooling arrangements	0.2	0.1	1.9	2.2	27.3
Rent guarantees, property guarantees	10.2	3.3	4.0	17.5	13.8
Sponsoring and advertising commitments	159.7	296.2	34.2	490.1	596.7
Other commitments	26.1	13.7	3.0	42.8	55.1
TOTAL COMMITMENTS GIVEN	**196.2**	**313.3**	**43.1**	**552.6**	**692.9**

Other commitments given primarily include customs warranties and operating guarantees.

To the best of the Group's knowledge, there are no significant contingent liabilities.

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 at the end of the reporting period. No individual claim is material to the Company or the Group.

The Group is not aware of any other dispute or arbitration, which has had in the recent past, or is likely to have in the future, a 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, 2016, the Artémis group held 40.9% of Kering's share capital and 57.4% of its voting rights.

The main transactions carried out between Kering's consolidated companies and Artémis in 2016 are described below:

- payment of an interim dividend in respect of 2016 totalling €77.4 million in January 2017, approved on December 15, 2016;
- balancing payment of the dividend for 2015 of €129.0 million, further to the payment of an interim dividend of €77.5 million in January 2016 (€207.6 million for the full 2014 dividend);
- recognition of fees totalling €3.2 million in 2016 (€3.0 million in 2015) 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)	2016	2015
Short-term benefits	25.2	24.5
Payroll taxes	5.2	5.2
Post-employment benefits	1.0	1.0
Other long-term benefits	2.6	2.0
Termination indemnities	2.2	16.6
Share-based payment	9.7	7.2
TOTAL	**45.9**	**56.5**

Short-term benefits, long-term benefits and termination benefits correspond to amounts paid during the year; post-employment benefits and share-based payment correspond to the amounts recognised as expenses.

A list of the members of the Board of Directors and Executive Committee is provided in the "Corporate Governance" section of the Reference Document.

note 36 – subsequent events

None.

note 37 – list of consolidated subsidiaries as of december 31, 2016

Details of Group subsidiaries are provided below.
Consolidation method: Full consolidation: C
Equity method: E

Company	% interest			
	Dec. 31, 2016		Dec. 31, 2015	
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 SA	C	100.00	C	100.00
C. MENDES SAS	C	100.00	C	100.00
CHRISTOPHER KANE FRANCE SA	C	80.00	Creation	
DODO PARIS SAS	C	81.00	C	81.00
FRANCE CROCO SAS	C	100.00	C	85.00
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	C	100.00	C	100.00
LES BOUTIQUES BOUCHERON SAS	C	100.00	C	100.00
POMELLATO PARIS SA	C	81.00	C	81.00
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	85.00
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				
BRANDON GERMANY GmbH	C	100.00	Creation	
BOTTEGA VENETA GERMANY GmbH	C	100.00	C	100.00
BRIONI GERMANY GmbH	C	100.00	Creation	
DODO DEUTSCHLAND GmbH	C	81.00	C	81.00
GG LUXURY GOODS GmbH	C	100.00	C	100.00
POMELLATO DEUTSCHLAND GmbH	C	81.00	C	81.00
TRADEMA GmbH	C	100.00	C	100.00
KERING WATCHES LUXURY DIVISION GmbH	C	100.00	C	100.00
YVES SAINT LAURENT GERMANY GmbH	C	100.00	C	100.00
Austria				
ALEXANDER McQUEEN GmbH	C	100.00	C	100.00
BOTTEGA VENETA AUSTRIA GmbH	C	100.00	C	100.00
BRIONI AUSTRIA GmbH	C	100.00	C	100.00
GUCCI AUSTRIA GmbH	C	100.00	C	100.00
YVES SAINT LAURENT AUSTRIA GmbH	C	100.00	C	100.00
Belgium				
GUCCI BELGIUM SA	C	100.00	C	100.00
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	81.00	C	81.00
LUXURY GOODS SPAIN SL	C	100.00	C	100.00
LUXURY TIMEPIECES ESPAÑA SL	C	100.00	C	100.00
STELLA McCARTNEY SPAIN SL	C	50.00	C	50.00
YVES SAINT LAURENT SPAIN SA	C	100.00	C	100.00
United Kingdom				
ALEXANDER McQUEEN TRADING Ltd	C	100.00	C	100.00
AUTUMNPAPER Ltd	C	100.00	C	100.00
BALENCIAGA UK Ltd	C	100.00	C	100.00
BIRDSWAN SOLUTIONS Ltd	C	100.00	C	100.00
BOTTEGA VENETA UK Co. Ltd	C	100.00	C	100.00
BOUCHERON UK Ltd	C	100.00	C	100.00

Company	% interest			
	Dec. 31, 2016		Dec. 31, 2015	
BRIONI UK Ltd	C	100.00	C	100.00
CHRISTOPHER KANE Ltd	C	80.00	C	80.00
DODO (UK) Ltd	C	81.00	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	Creation	
PAINTGATE Ltd	C	100.00	C	100.00
POMELLATO (UK) Ltd	C	81.00	C	81.00
QEELIN UK Ltd	C	100.00	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	94.75
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	C	100.00	C	100.00
BALENCIAGA LOGISTICA SRL	C	100.00	C	100.00
BALENCIAGA RETAIL ITALIA SRL	C	100.00	C	100.00
BRIONI SpA	C	100.00	C	100.00
BRIONI OUTLET SRL	C	100.00	C	100.00
BRIONI RETAIL SRL	C	100.00	C	100.00
BRIONI RETAIL ITALIA SRL	C	100.00	C	100.00
BV CALZATURE SRL	C	100.00	C	100.00
BV ITALIA SRL	C	100.00	C	100.00
BV OUTLET SRL	Merger		C	100.00
BV SERVIZI SRL	C	100.00	C	100.00
BOTTEGA VENETA SRL	C	100.00	C	100.00
CALZATURIFICIO CREST SRL	C	100.00	C	100.00
CALZATURIFICIO FLORA SRL	C	100.00	C	100.00
CAPRI GROUP SRL	Merger		C	100.00
CARAVEL PELLI PREGIATE SpA	C	100.00	C	100.00
CHRISTOPHER KANE SRL	C	80.00	C	80.00
CONCERIA BLUTONIC SpA	C	51.00	C	51.00
DESIGN MANAGEMENT SRL	C	100.00	C	100.00
DESIGN MANAGEMENT 2 SRL	C	100.00	Creation	
E_LITE SpA	C	51.00	C	51.00

Company	% interest			
	Dec. 31, 2016		Dec. 31, 2015	
GARPE SRL	C	100.00	C	100.00
GAUGUIN 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
LGM SRL	C	73.30	C	51.00
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	81.00	C	81.00
POMELLATO EUROPA SpA	C	81.00	C	81.00
ROMAN STYLE SpA	C	100.00	C	100.00
SFORZA SRL	C	100.00	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
ULYSSE NARDIN ITALIA SRL	C	100.00	C	100.00
YVES SAINT LAURENT DEVELOPMENT SRL	C	100.00	C	100.00
YSL LOGISTICA SRL	C	100.00	C	100.00
Luxembourg				
BOTTEGA VENETA INTERNATIONAL SARL	C	100.00	C	100.00
CASTERA SARL	C	100.00	C	100.00
GUCCI GULF INVESTMENTS SARL	C	100.00	C	100.00
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

Company	% interest			
	Dec. 31, 2016		Dec. 31, 2015	
SMHJ SAM	C	80.83	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	100.00	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
OLIMA BV	Liquidation		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	Creation	
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	51.00	C	51.00
GT SILK SA	C	76.00	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
Sweden				
GUCCI SWEDEN AB	Disposal		C	100.00

Company	% interest			
	Dec. 31, 2016		Dec. 31, 2015	
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				
G. BOUTIQUES Inc.	C	100.00	C	100.00
SAINT LAURENT CANADA BOUTIQUES Inc.	C	100.00	Creation	
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	81.00	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	38.50	E	38.50
LUXURY HOLDINGS Inc.	C	100.00	C	100.00
POMELLATO USA Inc.	C	81.00	C	81.00
STELLA McCARTNEY AMERICA Inc.	C	50.00	C	50.00
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	-	
WG ALLIGATOR FARM LLC	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

Company	% interest			
	Dec. 31, 2016		Dec. 31, 2015	
Mexico				
BOTTEGA VENETA MEXICO, S DE RL DE CV	C	100.00	C	100.00
BOTTEGA VENETA SERVICIOS S DE RL DE CV	C	100.00	C	100.00
D ITALIAN CHARMS SA DE CV	C	81.00	C	81.00
GUCCI IMPORTACIONES SA DE CV	C	100.00	C	100.00
GUCCI MEXICO SA DE CV	C	100.00	C	100.00
RETAIL LUXURY SERVICIOS SA DE CV	C	100.00	C	100.00
SAINT LAURENT MEXICO, S DE RL DE CV	C	100.00	C	100.00
SAINT LAURENT SERVICIOS, S DE RL DE CV	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	Creation	
New Zealand				
GUCCI NEW ZEALAND Ltd	C	100.00	C	100.00
China				
1921 (SHANGHAI) RESTAURANT Limited	C	100.00	C	100.00
ALEXANDER McQUEEN (HONG KONG) Limited	C	100.00	C	100.00
ALEXANDER McQUEEN (MACAU) Ltd	C	100.00	C	100.00
ALEXANDER McQUEEN (SHANGHAI) TRADING Limited	C	100.00	C	100.00
BALENCIAGA ASIA PACIFIC Ltd	C	100.00	C	100.00
BALENCIAGA FASHION SHANGAI Co. Ltd	C	100.00	C	100.00
BALENCIAGA MACAU Ltd	C	100.00	C	100.00
BOTTEGA VENETA (CHINA) TRADING Ltd	C	100.00	C	100.00
BOTTEGA VENETA HONG KONG Limited	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
BRIONI (SHANGHAI) TRADING Ltd	C	100.00	C	100.00
BRIONI HONG KONG Ltd	C	100.00	C	100.00
BOUCHERON (SHANGHAI) TRADING Ltd	C	100.00	Creation	

Company	% interest			
	Dec. 31, 2016		Dec. 31, 2015	
BOUCHERON HONG KONG Ltd	C	100.00	C	100.00
GUCCI ASIA COMPANY Ltd	C	100.00	C	100.00
GUCCI (CHINA) TRADING Ltd	C	100.00	C	100.00
GUCCI (HONG KONG) Ltd	C	100.00	C	100.00
GUCCI MACAU 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
LUXURY TIMEPIECES (HONG KONG) Ltd	C	100.00	C	100.00
MOVEN INTERNATIONAL Ltd	C	100.00	C	100.00
POMELLATO CHINA Ltd	C	81.00	C	81.00
POMELLATO SHANGHAI Co. Ltd	C	81.00	C	81.00
POMELLATO PACIFIC Ltd	C	81.00	C	81.00
QEELIN Ltd	C	100.00	C	100.00
QEELIN TRADING (SHANGHAI) Co. Ltd	C	100.00	C	100.00
QEELIN MACAU Ltd	C	100.00	C	100.00
STELLA McCARTNEY HONG KONG Ltd	C	50.00	Creation	
STELLA McCARTNEY (SHANGHAI) TRADING Ltd	C	50.00	C	50.00
SOWIND ASIA Ltd	C	100.00	C	100.00
ULYSSE NARDIN (ASIA PACIFIC) Ltd	C	100.00	C	100.00
YVES SAINT LAURENT MACAU Ltd	C	100.00	C	100.00
YVES SAINT LAURENT (SHANGHAI) TRADING Limited	C	100.00	C	100.00
YVES SAINT LAURENT (HONG KONG) Limited	C	100.00	C	100.00
Korea				
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
India				
GUCCI INDIA PRIVATE Ltd	C	100.00	C	100.00
LUXURY GOODS RETAIL PRIVATE Limited LGR	C	51.00	C	51.00

Company	% interest			
	Dec. 31, 2016		Dec. 31, 2015	
Japan				
BALENCIAGA JAPAN Ltd	C	100.00	C	100.00
BOTTEGA VENETA JAPAN Limited	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 Limited	C	100.00	C	100.00
POMELLATO JAPAN Co. Ltd	C	81.00	C	81.00
STELLA McCARTNEY JAPAN Ltd	C	50.00	C	50.00
SOWIND JAPAN KK	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	49.00	C	49.00
Qatar				
SAINT LAURENT PARIS LLC	C	24.00	C	24.00
LUXURY GOODS QATAR LLC	C	49.00	C	49.00
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	Creation	
Mongolia				
ULYSSE NARDIN MONGOLIA LLC	E	50.00	E	50.00
Singapore				
ALEXANDER McQUEEN (SINGAPORE) PTE Ltd	C	100.00	C	100.00
BOTTEGA VENETA SINGAPORE PRIVATE Limited	C	100.00	C	100.00
GUCCI SINGAPORE PTE Ltd	C	100.00	C	100.00
SAINT LAURENT (SINGAPORE) PTE Limited	C	100.00	C	100.00

Company	% interest			
	Dec. 31, 2016		Dec. 31, 2015	
Taiwan				
BOUCHERON TAIWAN Co. Ltd	C	100.00	C	100.00
GUCCI GROUP WATCHES TAIWAN Limited	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	81.00	C	81.00
Thailand				
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
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				
PUMA SE (GERMANY)	C	85.81	C	85.81
France				
DOBOTEX FRANCE SAS	C	85.81	C	85.81
PUMA FRANCE SAS	C	85.81	C	85.81
Germany				
DOBOTEX DEUTSCHLAND GmbH	C	85.81	C	85.81
PUMA EUROPE GmbH	C	85.81	C	85.81
PUMA INTERNATIONAL TRADING GmbH	C	85.81	C	85.81
PUMA MOSTRO GmbH	C	85.81	C	85.81
PUMA SPRINT GmbH	C	85.81	C	85.81
PUMA VERTRIEB GmbH	C	85.81	C	85.81
Austria				
AUSTRIA PUMA DASSLER GES MBH	C	85.81	C	85.81
DOBOTEX AUSTRIA GmbH	C	85.81	C	85.81
Cyprus				
SPORT EQUIPMENT TI CYPRUS Ltd	C	85.81	C	85.81
Croatia				
PUMA SPORT HRVATSKA DOO	C	85.81	C	85.81
Denmark				
PUMA DENMARK A/S	C	85.81	C	85.81
Spain				
DOBOTEX SPAIN SL	C	85.81	C	85.81
PUMA IBERIA SLU	C	85.81	C	85.81

Company	% interest			
	Dec. 31, 2016		Dec. 31, 2015	
Estonia				
PUMA ESTONIA OU	C	85.81	C	85.81
Finland				
BRANDON OY	Disposal		C	85.81
PUMA FINLAND OY	C	85.81	C	85.81
United Kingdom				
ADMIRAL TEAMSPORTS Ltd	C	85.81	Creation	
DOBOTEX UK Ltd	C	85.81	C	85.81
BRANDED SPORTS MERCHANDISING UK Ltd	C	85.81	C	85.81
GENESIS GROUP INTERNATIONAL Ltd	C	85.81	Creation	
PUMA PREMIER Ltd	C	85.81	C	85.81
PUMA UNITED KINGDOM Ltd	C	85.81	C	85.81
Greece				
PUMA HELLAS SA	C	85.81	C	85.81
Israel				
PUMA SPORT ISRAEL Ltd	C	85.81	C	85.81
Italy				
DOBOTEX ITALIA SRL	C	85.81	C	85.81
PUMA ITALIA SRL	C	85.81	C	85.81
Lithuania				
PUMA BALTIC UAB	Liquidation		C	85.81
Malta				
PUMA MALTA Ltd	C	85.81	C	85.81
PUMA RACING Ltd	C	85.81	C	85.81
Norway				
PUMA NORWAY AS	C	85.81	C	85.81
Netherlands				
BRANDED SPORTS MERCHANDISING BV	C	85.81	C	85.81
DOBO LOGIC BV	C	85.81	C	85.81
DOBOTEX INTERNATIONAL BV	C	85.81	C	85.81
DOBOTEX LICENSING HOLDING BV	C	85.81	C	85.81
DOBOTEX BV	C	85.81	C	85.81
BRAND PLUS LICENSING BV	C	85.81	C	85.81
PUMA INTERNATIONAL SPORTS MARKETING BV	C	85.81	C	85.81
PUMA BENELUX BV	C	85.81	C	85.81
Philippines				
PUMA INFORMATION TECHNOLOGY SERVICES PHILIPPINES COMPANY Limited Inc.	C	85.81	Creation	

Company	% interest			
	Dec. 31, 2016		Dec. 31, 2015	
Poland				
PUMA POLSKA SPOLKA ZOO	C	85.81	C	85.81
Czech Republic				
PUMA CZECH REPUBLIC SRO	C	85.81	C	85.81
Romania				
PUMA SPORT ROMANIA SRL	C	85.81	C	85.81
Russia				
PUMA-RUS Ltd	C	85.81	C	85.81
Slovakia				
PUMA SLOVAKIA SRO	C	85.81	C	85.81
Sweden				
BRANDON AB	Disposal		C	85.81
BRANDON COMPANY AB	Disposal		C	85.81
PUMA NORDIC AB	C	85.81	C	85.81
NROTERT AB	C	85.81	C	85.81
NROTERT SWEDEN AB	C	85.81	C	85.81
Switzerland				
DOBOTEX SWITZERLAND AG	C	85.81	C	85.81
MOUNT PUMA AG (SWITZERLAND)	C	85.81	C	85.81
PUMA RETAIL AG	C	85.81	C	85.81
Ukraine				
PUMA UKRAINE TOV	C	85.81	C	85.81
Argentina				
UNISOL SA	C	85.81	C	85.81
Brazil				
PUMA SPORTS Ltda	C	85.81	C	85.81
Canada				
JANED CANADA LLC	C	43.76	Creation	
PUMA CANADA Inc.	C	85.81	C	85.81
PUMA KIDS APPAREL CANADA, LLC	C	43.76	Creation	
Chile				
PUMA CHILE SA	C	85.81	C	85.81
PUMA SERVICIOS SpA	C	85.81	C	85.81
United States				
BRANDON USA Inc.	Disposal		C	85.81
COBRA GOLF Inc.	C	85.81	C	85.81
JANED LLC	C	43.76	C	43.76
PUMA KIDS APPAREL NORTH AMERICA, LLC	C	43.76	C	43.76
PUMA NORTH AMERICA Inc.	C	85.81	C	85.81
PUMA SUEDE HOLDING Inc.	C	85.81	C	85.81
PUMA ACCESSORIES NORTH AMERCIA LLC	C	72.94	C	72.94

Company	% interest			
	Dec. 31, 2016		Dec. 31, 2015	
British Virgin Islands				
LIBERTY CHINA HOLDING Ltd	C	85.81	C	85.81
Mexico				
DOBOTEX DE MEXICO SA DE CV	C	85.81	C	85.81
IMPORTATIONES BRAND PLUS LICENSING SA DE CV	C	85.81	C	85.81
IMPORTACIONES RDS SA DE CV	C	85.81	C	85.81
PUMA MEXICO SPORT SA DE CV	C	85.81	C	85.81
SERVICIOS PROFESIONALES RDS SA DE CV	C	85.81	C	85.81
Peru				
DISTRUIBUIDORA DEPORTIVA PUMA SAC	C	85.81	C	85.81
DISTRUIBUIDORA DEPORTIVA PUMA TACNA SAC	C	85.81	C	85.81
PUMA RETAIL PERU SAC	C	85.81	C	85.81
Uruguay				
PUMA SPORTS LA SA	C	85.81	C	85.81
Botswana				
WILDERNESS HOLDINGS Ltd	E	22.16	E	22.16
South Africa				
PUMA SPORTS DISTRIBUTORS PTY Ltd	C	85.81	C	85.81
PUMA SPORTS SA	C	85.81	C	85.81
Australia				
KALOLA PTY Ltd	C	85.81	C	85.81
PUMA AUSTRALIA PTY Ltd	C	85.81	C	85.81
WHITE DIAMOND AUSTRALIA PTY Ltd	C	85.81	C	85.81
WHITE DIAMOND PROPERTIES PTY Ltd	C	85.81	C	85.81
New Zealand				
PUMA NEW ZEALAND Ltd	C	85.81	C	85.81
United Arab Emirates				
PUMA MIDDLE EAST FZ LLC	C	85.81	C	85.81
PUMA UAE LLC	C	85.81	C	85.81
Turkey				
PUMA SPOR GIYIM SANANYI VE TICARET AS	C	85.81	C	85.81
China				
BRANDON TRADING (SHANGHAI) Ltd	Disposal		C	85.81
DOBOTEX CHINA Ltd	C	85.81	C	85.81
GUANGZHOU WORLD CAT INFORMATION CONSULTING SERVICES Co. Ltd	C	85.81	C	85.81
PUMA CHINA Ltd	C	85.81	C	85.81
Hong Kong				
BRANDON HONG KONG Ltd	Disposal		C	85.81
DEVELOPMENT SERVICES Ltd	C	85.81	C	85.81
DOBOTEX Ltd	C	85.81	C	85.81
PUMA ASIA PACIFIC Ltd	C	85.81	C	85.81
PUMA HONG KONG Ltd	C	85.81	C	85.81
PUMA INTERNATIONAL TRADING SERVICES Ltd	C	85.81	C	85.81
WORLD CAT Ltd	C	85.81	C	85.81
India				
PUMA SPORTS INDIA PVT Ltd	C	85.81	C	85.81
PUMA INDIA CORPORATE SERVICES PVT Ltd	C	85.81	C	85.81
WORLD CAT SOURCING INDIA Ltd	C	85.81	C	85.81
Indonesia				
PT PUMA CAT INDONESIA	C	85.81	C	85.81
Japan				
PUMA JAPAN KK	C	85.81	C	85.81
Korea				
DOBOTEX KOREA Ltd	C	85.81	C	85.81
PUMA KOREA Ltd	C	85.81	C	85.81
Malaysia				
PUMA SPORTS GOODS SDN BHD	C	85.81	C	85.81
Singapore				
PUMA SPORTS SEA TRADING Pte Ltd	C	85.81	C	85.81
PUMA SEA HOLDING Pte Ltd	C	85.81	C	85.81
Taiwan				
PUMA TAIWAN SPORTS Ltd	C	85.81	C	85.81
Vietnam				
WORLD CAT VIETNAM CO. Ltd	C	85.81	C	85.81
WORLD CAT VIETNAM SOURCING & DEVELOPMENT SERVICES CO. Ltd	C	85.81	C	85.81
VOLCOM				
VOLCOM LLC	C	100.00	C	100.00
United States				
LS&S RETAIL LLC	C	100.00	C	100.00
VOLCOM RETAIL LLC	C	100.00	C	100.00

Company	% interest			
	Dec. 31, 2016		Dec. 31, 2015	
VOLCOM RETAIL OUTLET LLC	C	100.00	C	100.00
ELECTRIC VISUAL EVOLUTION LLC	Disposal		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	C	100.00	C	100.00
ELECTRIC EUROPE SARL	Disposal		C	100.00
United Kingdom				
VOLCOM DISTRIBUTION (UK) Limited	C	100.00	C	100.00
VOLCOM RETAIL (UK) Limited	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
ELECTRIC VISUAL EVOLUTION AUSTRALIA PTY Ltd	Disposal		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
China				
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	80.00	C	80.00
KERING FINANCE SNC	C	100.00	C	100.00
SAPARDIS	C	100.00	C	100.00
SAPRODIS SERVICES SAS	C	100.00	C	100.00

Company	% interest			
	Dec. 31, 2016		Dec. 31, 2015	
Germany				
KERING EYEWEAR DACH GmbH	C	80.00	C	80.00
SAPARDIS DEUTSCHLAND SE	C	100.00	C	100.00
Spain				
KERING EYEWEAR ESPAÑA SA	C	80.00	C	80.00
KERING SPAIN SL	C	100.00	C	100.00
United Kingdom				
KERING EYEWEAR UK Ltd	C	80.00	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	80.00	C	80.00
KERING ITALIA SpA	C	100.00	C	100.00
KERING OPERATIONS & SERVICES ITALIA SRL	C	100.00	Creation	
KERING SERVICE ITALIA SpA	C	100.00	C	100.00
Luxembourg				
BOUCHERON LUXEMBOURG SARL	C	100.00	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	C	100.00	C	100.00
Netherlands				
G 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	C	100.00	C	100.00
KERING INVESTMENTS EUROPE BV	C	100.00	C	100.00
Switzerland				
LUXURY GOODS SERVICES SA	C	100.00	C	100.00
LUXURY GOODS LOGISTICS SA	C	51.00	C	51.00
LUXURY GOODS OPERATIONS SA	C	51.00	C	51.00
China				
GUANGZHOU KGS CORPORATE MANAGEMENT & CONSULTANCY Limited	C	100.00	C	100.00
KERING ASIA PACIFIC Ltd	C	100.00	C	100.00
KERING (CHINA) ENTERPRISE MANAGEMENT Ltd	C	100.00	C	100.00
KERING EYEWEAR APAC Ltd	C	80.00	C	80.00

Company	% interest			
	Dec. 31, 2016		Dec. 31, 2015	
KERING EYEWEAR SHANGHAI TRADING ENTERPRISES Ltd	C	80.00	C	80.00
KERING EYEWEAR SINGAPORE PTE Ltd	C	80.00	C	80.00
KERING EYEWEAR TAIWAN Ltd	C	80.00	Creation	
KERING HOLDING Limited	C	100.00	C	100.00
KERING SOUTH EAST ASIA PTE Ltd	C	100.00	C	100.00
KGS GLOBAL MANAGEMENT SERVICES Ltd	C	100.00	C	100.00
KGS SOURCING Limited	C	100.00	C	100.00
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 KOREA Ltd	C	100.00	C	100.00
India				
KGS SOURCING INDIA PRIVATE Limited	C	100.00	C	100.00
Turkey				
KGS SOURCING TURKEY Limited	C	100.00	C	100.00
Japan				
GUCCI YUGEN KAISHA	C	100.00	C	100.00
KERING EYEWEAR JAPAN Ltd	C	80.00	C	80.00
KERING JAPAN Limited	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	80.00	C	80.00
Mexico				
BOTTEGA VENETA MEXICO, S DE RL DE CV	C	100.00	C	100.00

(1) The results of these companies are consolidated based on the Group's contractual share in their operations, which may differ from its percentage interest.

note 38 – statutory auditors' remuneration

Fees for the fiscal year 2016	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 individual and consolidated financial statements								
• Issuer	327.8	25%	n/a	n/a	300.2	40%	n/a	n/a
• Fully-consolidated subsidiaries	884.5	69%	4,165.5	83%	316.7	42%	2,349.1	78%
Sub-total	**1,212.3**	**94%**	**4,165.5**	**83%**	**616.9**	**82%**	**2,349.1**	**78%**
Services other than certification of financial statements								
• Issuer	38	3%	0.0	0%	138.0	18%	0.0	0%
• Fully-consolidated subsidiaries	38	3%	834.0	17%	0.0	0%	676.9	22%
Sub-total	**76**	**6%**	**834.0**	**17%**	**138.0**	**18%**	**676.9**	**22%**
TOTAL	**1,288.3**	**100%**	**4,999.5**	**100%**	**754.9**	**100%**	**3,026.0**	**100%**

5. statutory auditors' report on the consolidated financial statements
year ended december 31, 2016

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In accordance with our appointment as Statutory Auditors at your Annual General Meetings, we hereby report to you for the year ended December 31, 2016 on:

- the audit of the accompanying consolidated financial statements of Kering;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

1. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position and assets and liabilities of the Group as of December 31, 2016 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

2. Justification of our assessments

Pursuant to Article L. 823-9 of the French Commercial Code (*Code de commerce*) governing the justification of our assessments, we hereby report on the following:

- During the second half of the year, your Company systematically tests goodwill and assets with an indefinite useful life for impairment, and also assesses whether there is indication of impairment of long-term assets, in accordance with the methods described in Note 2.10 to the consolidated financial statements. We examined the methods used to implement these impairment tests, the cash flow forecasts and assumptions used and verified that Note 19 to the consolidated financial statements provides the appropriate disclosure.
- Your Company recognizes provisions, as described in Note 2.16 to the consolidated financial statements. Our procedures mainly consisted in assessing the data and assumptions underlying such estimates, verifying, on a test basis, the Company's calculations and examining the Management approval procedures for these estimates. We have assessed the reasonableness of those estimates based on this work.
- Note 2.17 to the consolidated financial statements sets out the methods used to measure post-employment benefits and other long-term employee benefit obligations. These obligations were measured by independent actuaries. Our procedures consisted in examining the data used, assessing the underlying assumptions and verifying that Note 26 to the consolidated financial statements provides the appropriate disclosures.

These assessments were performed as part of our audit approach for the consolidated financial statements taken as a whole and therefore contributed to the expression of our opinion in the first part of this report.

3. Specific verification

We have also performed the other procedures required by law on the information presented in the Group's Management Report, in accordance with professional standards applicable in France.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris La Défense and Neuilly-sur-Seine, March 6, 2017

The Statutory Auditors

KPMG Audit *Division of KPMG S.A.*		Deloitte & Associés	
Isabelle Allen	Grégoire Menou	Frédéric Moulin	Stéphane Rimbeuf

6. parent company financial statements

6.1. balance sheet – assets

as of december 31, 2016 and 2015

ASSETS				Dec. 31, 2016	Dec. 31, 2015
(in € millions)	Notes	Gross	Depreciation, amortisation and provisions	Carrying amount	Carrying amount
Non-current assets					
Investments		11,169.4	(1,847.7)	9,321.7	8,766.1
Other long-term investments [1]		304.6		304.6	319.3
	3	11,474.0	(1,847.7)	9,626.3	9,085.4
Property, plant and equipment and intangible assets	4	105.4	(26.2)	79.2	483.1
Non-current assets		**11,579.4**	**(1,873.9)**	**9,705.5**	**9,568.5**
Current assets					
Receivables [2] [3]	5	95.4	(1.1)	94.3	70.7
Marketable securities	6	0.0		0.0	61.9
Cash [3]	6	1,779.2		1,779.2	1,733.7
Current assets		**1,874.6**	**(1.1)**	**1,873.5**	**1,866.3**
TOTAL ASSETS		**13,454.0**	**(1,875.0)**	**11,579.0**	**11,434.8**
(1) o/w due in less than one year:				*19.8*	*0.4*
(2) o/w due in more than one year:				*0.0*	*0.0*
(3) o/w concerning associates:				*1,812.6*	*1,615.9*

6.2. balance sheet – shareholders' equity and liabilities

as of december 31, 2016 and 2015

SHAREHOLDERS' EQUITY AND LIABILITIES *(in € millions)*	Notes	Dec. 31, 2016	Dec. 31, 2015
Shareholders' equity			
Share capital		505.1	505.1
Additional paid-in capital		2,052.4	2,052.4
Reserves	7	1,585.5	1,586.3
Retained earnings		2,121.1	2,098.6
Net income for the year		682.9	527.4
Shareholders' equity		**6,947.0**	**6,769.8**
Provisions	**8**	**95.6**	**611.4**
Liabilities			
Bonds [1]	9.1	4,184.6	3,675.6
Other borrowings [1] [3]	9.1	46.1	41.8
Other liabilities [2] [3]	10	305.7	336.2
		4,536.4	**4,053.6**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**11,579.0**	**11,434.8**
(1) o/w due in more than one year:		*3,834.6*	*3,675.6*
(2) o/w due in more than one year:		*30.0*	*32.7*
(3) o/w concerning associates:		*17.2*	*19.4*

6.3. income statement

For the years ended December 31, 2016 and 2015

(in € millions)	Notes	2016	2015
Operating income		129.9	105.6
Operating expenses		(162.4)	(141.1)
Net operating loss	**12**	**(32.5)**	**(35.5)**
Dividends		863.3	657.4
Other financial income and expenses		(97.0)	(97.6)
Net financial income	**13**	**766.3**	**559.8**
Recurring income before tax		**733.8**	**524.3**
Net non-recurring expense	14	(75.5)	(18.3)
Employee profit-sharing		(2.8)	(2.1)
Income tax	15	27.4	23.5
Net income for the year		**682.9**	**527.4**

6.4. statement of cash flows

For the years ended December 31, 2016 and 2015

(in € millions)	2016	2015
Dividends received	863.3	657.4
Interest on borrowings	(96.1)	(91.4)
Income tax received	27.1	11.4
Other	(79.6)	(92.1)
Change in cash resulting from operating activities	**714.7**	**485.3**
(Acquisitions)/disposals of operating assets	(64.5)	(60.4)
Change in long-term investments	(663.1)	(318.1)
Change in cash resulting from investing activities	**(727.6)**	**(378.5)**
Net change in borrowings	501.4	271.5
Share capital increases	-	1.0
Dividends paid by Kering	(504.9)	(504.9)
Change in cash resulting from financing activities	**(3.5)**	**(232.4)**
Change in cash and cash equivalents	**(16.4)**	**(125.6)**
Cash and cash equivalents at beginning of year	**1,795.6**	**1,921.2**
Cash and cash equivalents at end of year	**1,779.2**	**1,795.6**

6.5. statement of changes in shareholders' equity

(in € millions) *(before appropriation of net income)*	Number of shares	Share capital	Additional paid-in capital	Reserves and retained earnings	Net income for the year	Shareholders' equity
As of December 31, 2014	**126,266,490**	**505.1**	**2,051.4**	**3,373.0**	**817.6**	**6,747.1**
Appropriation of 2014 net income				817.6	(817.6)	-
Dividends paid				(315.5)		(315.5)
Interim dividend				(189.4)		(189.4)
Exercise of stock options	12,832		1.0			1.0
Changes in tax-driven provisions				(0.8)		(0.8)
2015 net income					527.4	527.4
As of December 31, 2015	**126,279,322**	**505.1**	**2,052.4**	**3,684.9**	**527.4**	**6,769.8**
Appropriation of 2015 net income				527.4	(527.4)	-
Dividends paid				(315.5)		(315.5)
Interim dividend				(189.4)		(189.4)
Changes in tax-driven provisions				(0.8)		(0.8)
2016 net income					682.9	682.9
As of December 31, 2016	**126,279,322**	**505.1**	**2,052.4**	**3,706.6**	**682.9**	**6,947.0**

As of December 31, 2016, Kering's share capital comprised 126,279,322 shares with a par value of €4 each.

6.6. notes to the parent company financial statements

Note 1. 2016 highlights

During 2016, Kering moved its registered office to 40 rue de Sèvres, 75007 Paris, France.

On May 10, 2016, Kering issued €500 million worth of 10-year fixed rate notes paying a coupon of 1.25%.

Note 2. Accounting policies and methods

The annual financial statements are prepared in accordance with the provisions of the French accounting standards setter (*Autorité des normes comptables* – ANC) Regulation No. 2014-03.

2.1. Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are recorded in the balance sheet at their acquisition cost. Depreciation and amortisation are calculated using the straight-line method based on the nature and useful life of each component.

2.2. Long-term investments

Investments

Securities classified as "Investments" are those considered necessary for the Company's activities, particularly because they provide the Company with influence over, or control of, the issuer.

Pursuant to notice No. 2007-C issued by the Emerging Issues Taskforce of the French accounting standards authority (*Conseil National de la Comptabilité* – CNC) on June 15, 2007, the Company elected to recognise acquisition fees as part of the cost of investments.

As of the end of the reporting period, the gross amount of investments is compared to their value in use to the Company, determined with reference to the subsidiary's estimated economic value and taking into consideration the purpose of the original transaction. Value in use is determined using a multi-criteria approach based on future cash flow projections, the revised asset value, and the share of consolidated or revalued shareholders' equity. Other methods are used where necessary.

An impairment loss is recorded when market value falls below the gross value.

Other long-term investments

Other long-term investments include other investments and certain treasury shares.

Other investments (excluding treasury shares)

Other investments are investments that the Company plans or is required to hold on a long-term basis, but which are not deemed necessary for the Company's activities.

The gross amount of such investments is equal to the acquisition cost plus any related acquisition fees.

An impairment loss is recognised based on the value in use of these securities to the Company.

Treasury shares

Treasury shares acquired under liquidity agreements are recorded under "Other long-term investments". These shares are written down where necessary to reflect the average share price over the last month of the fiscal year.

Treasury shares acquired for the express purpose of being used in a future capital reduction are also classified under "Other long-term investments". These shares are not written down to reflect the share price.

2.3. Receivables

Receivables are recorded in the balance sheet at their nominal value, and are written down where they present a risk of non-recovery.

2.4. Marketable securities and negotiable debt securities

Treasury shares

Treasury shares acquired for the express purpose of being subsequently granted to employees under stock purchase option plans and free share plans are recorded under "Marketable securities". No impairment is recognised on treasury shares to reflect the share price.

Other shares

Shares are recorded at their acquisition cost. An impairment loss is recognised when their closing price falls below their carrying amount.

Bonds

Bonds are recorded on the acquisition date at their par value adjusted by the premium or discount. Accrued interest as of the acquisition date and as of the end of the reporting period is recorded in an accrued interest account.

As of the end of the reporting period, the cost of the bonds is compared to the market value of the principal over the last month of the year, excluding accrued interest. An impairment loss is recorded when market value falls below the gross value.

Mutual funds (Sicav)

Shares in mutual funds are recorded at their acquisition cost excluding subscription fees, and their net asset value is estimated as of the end of the reporting period. A provision for impairment is recorded in respect of any unrealised capital losses. No unrealised capital gains are recognised.

Negotiable certificates of deposit, certificates of deposit and notes issued by financing companies

These negotiable debt securities are subscribed on the primary market or purchased on the secondary market. They are recorded at acquisition cost less accrued interest as of the acquisition date when purchased on the secondary market.

Prepaid interest is recognised as financial income on a proportional basis for the fiscal year.

2.5. Financial instruments

All foreign currency and interest rate positions are taken via instruments listed on exchange-traded or over-the-counter markets representing minimal counterparty risk. Any gains or losses generated on financial instruments used in hedging transactions are offset against the corresponding gain or loss on the hedged items.

Where financial instruments do not qualify as hedges, any gains or losses resulting from changes in their market value are recorded in the income statement, except for over-the-counter transactions. For these transactions, a provision is recorded for any unrealised losses, while unrealised gains are not recognised.

2.6. Foreign currency transactions

Income and expenses denominated in foreign currencies are recorded at their euro-equivalent value on the transaction date. Borrowings, receivables and liquidity positions denominated in foreign currencies are translated at the closing exchange rate. In the case of foreign currency hedging, borrowings and receivables are translated at the hedging rate.

Any translation differences resulting from the valuation of foreign currency borrowings and receivables are recorded in accrual accounts, as an asset for unrealised losses and as a liability for unrealised gains. A contingency provision is recorded to cover any unhedged unrealised losses. Where borrowings and receivables are hedged by financial instruments, any foreign currency gains or losses are immediately recorded in the income statement.

2.7. Bond issue and capital increase fees – Bond redemption premiums

Bond issue fees are recognised as of the issue date.

Costs associated with increases in capital, mergers or restructuring are charged against the additional paid-in capital arising from the merger or restructuring.

Bonds are recorded at their par value.

Any issue or redemption premiums are assigned to the relevant balance sheet item and amortised over the term of the bond.

For convertible bonds, the redemption premium is recognised over the term of the bond, in accordance with the benchmark accounting treatment.

In the case of an indexed bond issue, a contingency provision must be recorded in respect of redemption when the estimated amount required to redeem the bonds as of the end of the reporting period exceeds the amount of the issue. This provision is calculated on a proportional basis over the term of the bond.

2.8. Provisions

Provisions are recognised in accordance with CNC Regulation No. 2000.06 and include pension and other employee benefit obligations pursuant to ANC Recommendation No. 2013-02.

Under defined benefit plans, obligations are valued using the projected unit credit method based on agreements in effect in the Company. Under this method, each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation. The obligation is then discounted. The actuarial assumptions used to determine the obligations vary depending on economic conditions.

These benefit obligations are assessed by independent actuaries on an annual basis. The valuations take into account the level of future compensation, the probable active life of employees, life expectancy and staff turnover.

Kering applies the notice relating to CRC Regulation No. 2008-15 of December 4, 2008 on the accounting treatment of stock option plans and employee free share plans.

2.9. Tax consolidation

Kering has set up a tax consolidation group in France with several sub-groups and subsidiaries.

Each subsidiary recognises a tax expense for the amount of tax it would have paid on a stand-alone basis. The tax savings generated by the Group as a result of tax consolidation are retained by Kering as parent company of the tax consolidation group.

Note 3. Net long-term investments

(in € millions)	As of Dec. 31, 2015	Increase	Decrease	Reclassification	As of Dec. 31, 2016
Gross value					
Investments	**10,144.0**	**686.8**	**(5.5)**	**344.1**	**11,169.4**
Kering Netherlands BV	4,237.2			344.1 [3]	4,581.3
Kering Holland NV	2,566.9				2,566.9
Redcats	1,171.6	605.0			1,776.6
Sapardis	1,804.0				1,804.0
Discodis	299.7				299.7
Yves Saint Laurent SAS		81.8			81.8
Other	64.6		(5.5)		59.1
Other long-term investments	**319.5**	**259.7**	**(274.6)**		**304.6**
Treasury shares (liquidity agreement) [1]		250.6	(250.6)		
Loans and accrued interest on loans [2]	319.0	9.1	(23.9)		304.2
Deposits and guarantees	0.5		(0.1)		0.4
Gross value	**10,463.5**	**946.5**	**(280.1)**	**344.1**	**11,474.0**
Impairment losses					
Investments	**(1,377.9)**	**(581.4)**	**111.6**		**(1,847.7)**
Redcats	(1,171.6)	(569.5)			(1,741.1)
Sapardis	(200.0)		109.5		(90.5)
Other	(6.3)	(11.9)	2.1		(16.1)
Other long-term investments	**(0.2)**		**0.2**		
Impairment losses	**(1,378.1)**	**(581.4)**	**111.8**		**(1,847.7)**
Carrying amount	**9,085.4**				**9,626.3**

(1) The amount corresponding to treasury shares is unavailable and recognised in tax-driven reserves.
(2) Loans mainly include a €285 million (USD 300 million) loan with Kering Finance.
(3) In accordance with Article 12 of Regulation no. 2015-06 dated November 23, 2015, which is applicable as of January 1, 2016, the Financière Marothi merger loss has been reclassified under investments.

Treasury share transactions

In 2016, the Group made a net disposal of 27,598 treasury shares, resulting from the following transactions:

- the acquisition of 1,556,728 shares under the liquidity agreement;
- the disposal of 1,556,728 shares under the liquidity agreement;
- the acquisition of 1,304 shares to be allotted to employees under the 2012 free share plan;
- the allotment of 28,902 shares which mature in April 2016 to employees under the 2012 free share plan.

As no stock subscription options were exercised in 2016, the share capital at December 31, 2016 remained unchanged from December 31, 2015, at a total of 126,279,322 shares.

On May 26, 2004, Kering signed an agreement with a financial broker in order to improve the liquidity of the Group's shares and ensure share price stability. This agreement complies with the Professional Code of Conduct drawn up by the French association of financial and investment firms (*Association française des marchés financiers* – AMAFI) and approved by the French financial markets authority (*Autorité des marchés financiers* – AMF). The agreement was initially endowed with €40.0 million, half of which was provided in cash and half in Kering shares. An additional €20.0 million in cash was allocated to the agreement on September 3, 2004, and a further €30.0 million on December 18, 2007.

In accordance with the amendment dated December 15, 2016, Kering maintains a credit balance of €5 million in the liquidity account with the financial broker.

As of December 31, 2016 and December 31, 2015, Kering held no shares in treasury under the liquidity agreement.

It still held 27,598 shares within the scope of the free share plan as of December 31, 2015. Kering's last free share plan expired in 2016.

Note 4. Property, plant and equipment and intangible assets

Movements in property, plant and equipment and intangible assets are presented below:

(in € millions)	Software	Other intangible assets	Property, plant and equipment	Total
Gross value				
December 31, 2015	30.9	436.1	41.3	508.3
Acquisitions	36.2		10.6	46.8
Reclassification		(344.1) [1]		(344.1)
Other movements		(92.0) [2]		(92.0)
Disposals			(13.6)	(13.6)
December 31, 2016	**67.1**	**0.0**	**38.3**	**105.4**
Depreciation, amortisation and provisions				
December 31, 2015	(13.2)		(12.0)	(25.2)
Additions	(4.4)		(1.8)	(6.2)
Reversals on disposals			5.2	5.2
December 31, 2016	**(17.6)**	**0.0**	**(8.6)**	**(26.2)**
Carrying amount				
December 31, 2015	17.7	436.1	29.3	483.1
December 31, 2016	**49.5**	**0.0**	**29.7**	**79.2**

(1) In accordance with Article 12 of Regulation No. 2015-06 dated November 23, 2015, and applicable as of January 1, 2016, the Financière Marothi merger loss has been reclassified under investments.
(2) Following a review of the terms of its agreements with Safilo, Kering SA considered that of the €92 million, €62 million corresponded to compensation recognised in other non-recurring expenses in the period, and €30 million was recorded under receivables.

Note 5. Receivables

These line items break down as follows:

(in € millions)	Dec. 31, 2016	Dec. 31, 2015
Tax consolidation current accounts	5.8	7.5
Kadéos account	-	9.4
Income tax benefit	14.9	13.6
Group customers	29.2	11.3
Bond issue premiums	(4.4)	(7.2)
Other [1]	44.6	33.9
Prepaid expenses	4.2	2.2
TOTAL	**94.3**	**70.7**
o/w concerning associates:	38.5	18.8

(1) o/w €4.0 million in respect of collateral (escrow).

Note 6. Marketable securities and cash

These line items break down as follows:

(in € millions)	Dec. 31, 2016	Dec. 31, 2015
Treasury shares pending employee grants	-	5.1
Listed securities	-	56.8
Marketable securities		**61.9**
Bank deposits and fund transfers	5.1	136.6
Cash current accounts	1,774.1	1,597.1
Cash	**1,779.2**	**1,733.7**
CASH AND CASH EQUIVALENTS	**1,779.2**	**1,795.6**
o/w concerning associates:	1,774.1	1,597.1

Listed securities as of December 31, 2015 mainly comprised mutual funds (Sicav) for €56.8 million.

Bank deposits include certificates of deposit and term deposits and accounts with a maturity of less than three months.

Note 7. Reserves

The Company's reserves before the appropriation of net income break down as follows:

(in € millions)	Dec. 31, 2016	Dec. 31, 2015
Legal reserve	51.4	51.4
Tax-driven reserves	1,293.6	1,293.6
Other reserves	240.3	240.3
Reserves	**1,585.3**	**1,585.3**
Tax-driven provisions	0.2	1.0
TOTAL	**1,585.5**	**1,586.3**

Note 8. Provisions

(in € millions)	Dec. 31, 2015	Additions	Reversals (utilised provisions)	Reversals (surplus provisions)	Dec. 31, 2016
Disputes	33.1	0.2	14.8	4.7	13.8
Risks relating to subsidiaries	546.5	58.1	545.3 [(1)]		59.3
Pensions and other employee benefit obligations	8.4	1.0		0.9	8.5
Other contingencies	22.1	2.1	3.2	7.3	13.7
Foreign exchange risk	1.3	0.3	1.3		0.3
TOTAL	**611.4**	**61.7**	**564.6**	**12.9**	**95.6**
o/w:					
operating items		0.7			
financing items		0.7	1.3	0.9	
non-recurring items		60.3	563.3	12.0	

(1) Following the recapitalisation of the subsidiary Redcats (see Note 3 above).

The main actuarial assumptions used to determine pensions and other employee benefit obligations are:

- discount rate of 1.25% versus 2.00% in 2015;
- salary increase rate of 3.00% (unchanged from 2015).

Note 9. Borrowings

Bond issues

Euro-denominated bond issues

(in € millions)	Interest rate	Issue date	Hedge	Maturity	Dec. 31, 2016	Dec. 31, 2015
Bond issue (1)	6.50% fixed	06/29/2009	-	06/29/2017	**150.0**	150.0
Bond issue (2)	6.50% fixed	11/06/2009	-	11/06/2017	**200.0**	200.0
Bond issue (3)	3.125% fixed	04/23/2012	-	04/23/2019	**500.0**	500.0
Bond issue (4)	2.50% fixed	07/15/2013	-	07/15/2020	**500.0**	500.0
Bond issue (5)	1.875% fixed	10/08/2013	-	10/08/2018	**500.0**	500.0
Bond issue (6)	2.75% fixed	04/08/2014 & 05/30/2014 & 06/26/2014 & 09/22/2015 & 11/05/2015	-	04/08/2024	**500.0**	500.0
Bond issue (7)	1.375% fixed	10/01/2014	-	10/01/2021	**500.0**	500.0
Bond issue (8)	0.875% fixed	03/27/2015	-	03/28/2022	**500.0**	500.0
Bond issue (9)	1.60% fixed	04/16/2015	-	04/16/2035	**50.0**	50.0
Bond issue (10)	1.25% fixed	05/10/2016	-	05/10/2026	**500.0**	-

(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.

USD-denominated bond issues

(in € millions)	Interest rate	Issue date	Hedge	Maturity	Dec. 31, 2016	Dec. 31, 2015
Bond issue (1)	Floating 3-month USD Libor + 0.73%	03/09/2015	-	03/09/2020	**142.3**	137.8
Bond issue (2)	2.887% fixed	06/09/2015	-	06/09/2021	**142.3**	137.8

(1) Issue price: bond issue on March 9, 2015 in the form of floating-rate notes, comprising 150 notes with a par value of USD 1,000,000 under the EMTN programme, i.e., representing a total of USD 150 million.
Redemption: in full on March 9, 2020.

(2) Issue price: bond issue on June 9, 2015, comprising 150 bonds with a par value of USD 1,000,000 each under the EMTN programme, i.e., representing a total of USD 150 million.
Redemption: in full on June 9, 2021.

The bonds issued between 2009 and 2016 within the scope of the EMTN programme are all subject to change-of-control clauses entitling bondholders to request early redemption at par if Kering's rating is downgraded to non-investment grade following a change of control.

In addition, the bonds issued in 2009 include a step-up coupon clause that applies in the event that Kering's rating is downgraded to non-investment grade.

9.1. Breakdown by type

(in € millions)	Dec. 31, 2016	Dec. 31, 2015
Bonds	**4,184.6**	**3,675.6**
Interest on bond issues	46.0	41.8
Cash current accounts	0.1	-
Other borrowings	**46.1**	**41.8**
TOTAL	**4,230.7**	**3,717.4**
o/w concerning associates:	0.1	-

As of December 31, 2016 and 2015, no borrowings were secured by collateral.

9.2. Breakdown by maturity

(in € millions)	Dec. 31, 2016	Dec. 31, 2015
Less than one year	396.1	41.8
One to five years	2,284.6	1,987.8
More than five years	1,550.0	1,687.8
TOTAL	**4,230.7**	**3,717.4**

9.3. Net debt

(in € millions)	Dec. 31, 2016	Dec. 31, 2015
Borrowings	4,230.7	3,717.4
Marketable securities	-	(61.9)
Cash	(1,779.2)	(1,733.7)
TOTAL	**2,451.5**	**1,921.8**

9.4. Information on interest rates

	Dec. 31, 2016	Dec. 31, 2015
Average gross interest rate over the year	2.41%	2.61%
% average gross debt at fixed rates	96.60%	96.90%
% average gross debt at floating rates	3.40%	3.10%

Note 10. Other liabilities

These line items break down as follows:

(in € millions)	Dec. 31, 2016	Dec. 31, 2015
Tax consolidation current accounts	4.3	4.6
Dividends to be paid	189.4	189.4
Tax and employee-related liabilities	43.1	34.8
Other	68.9	107.4
TOTAL	**305.7**	**336.2**
o/w concerning associates:	17.1	19.4

"Other" includes €30 million in respect of Safilo, payable in September 2018.

Note 11. Off-balance sheet commitments

11.1. Interest rate hedges

As part of the Group's policy of hedging interest rate risk, Kering sets up interest rate swaps in connection with certain borrowings.

No interest rate hedges were in place at December 31, 2016.

11.2. Stock option and free share plans

The nature and main characteristics of the plans are indicated in the table below:

Stock option and free share plans	2012/2 Plan Free shares
Grant date	04/27/2012
Expiry date	N/A
Vesting of rights	(a)
Number of beneficiaries	88
Number initially granted	39,640
Number outstanding as of Jan. 1, 2016	29,140
Number forfeited in 2016	238
Number of shares issued (AGM)	28,902
Number expired in 2016	
Number outstanding as of Dec. 31, 2016	
Number exercisable as of Dec. 31, 2016	
Strike price *(in €)*	N/A

(a) Shares were subject to a four-year lock-in period, commencing on the grant date. Shares vested four years after being granted, except in the event of resignation or dismissal for gross negligence or misconduct (when all rights are lost). The final number of shares granted was subject to stock market performance conditions. These shares are not subject to a non-transferability period.

11.3. Other off-balance sheet commitments

(in € millions)	Dec. 31, 2016	Dec. 31, 2015
Endorsements and guarantees in favour of:		
associates	-	-
third parties outside the Group	24.8	29.7
Endorsements and guarantees	**24.8**	**29.7**
Collateral: in favour of subsidiaries	**-**	**-**
in favour of third parties	**-**	**-**

Note 12. Net operating loss

Net operating loss breaks down as follows:

(in € millions)	2016	2015
Group management fees	92.2	80.3
Property rental income	4.8	0.2
Payroll expenses	(51.6)	(44.7)
External purchases and expenses, taxes	(91.5)	(82.5)
Depreciation, amortisation and provisions	(6.9)	(4.5)
Other income and expenses	20.5	15.7
TOTAL	**(32.5)**	**(35.5)**
o/w Directors' fees:	(0.9)	(0.9)

Note 13. Net financial income

Net financial income breaks down as follows:

(in € millions)	2016	2015
Net interest expense	**(97.0)**	**(97.6)**
Expenses and interest on non-Group debt	(97.0)	(97.6)
Dividends	**863.3**	**657.4**
Kering Netherlands BV	450.0	275.0
Kering Holland NV	335.3	335.3
Discodis	19.2	-
Kering Finance	57.0	47.0
Other	1.8	0.1
TOTAL	**766.3**	**559.8**
o/w concerning associates:		
Dividends	863.3	657.4

Note 14. Net non-recurring expense

Net non-recurring expense breaks down as follows:

(in € millions)	2016	2015
Net proceeds from disposals of operating assets	(0.1)	-
Net proceeds from disposals of securities, impairment losses and related transactions	7.9	(2.3)
Cost of disputes, litigation and restructuring	3.4	3.2
Other non-recurring income/(expense)	(86.7)	(19.2)
TOTAL	**(75.5)**	**(18.3)**

In 2016, net non-recurring expense mainly reflects the reclassification of compensation paid to Safilo.

Note 15. Income tax

Income tax breaks down as follows:

(in € millions)	2016	2015
Tax consolidation benefit	42.9	39.9
Income tax on dividends	(15.2)	(15.1)
Other	(0.3)	(1.3)
TOTAL	**27.4**	**23.5**

Under a tax consolidation agreement that came into effect on January 1, 1988, Kering pays the tax due by members of the tax consolidation group and fulfils all relevant tax obligations.

The tax consolidation group comprised 39 companies in 2016 and 40 in 2015.

If no tax consolidation arrangement had existed, the Company would not have paid any income tax.

Note 16. Deferred tax assets and liabilities (34.433% rate)

(in € millions)	
Deferred tax assets	
Retirement termination benefits	1.3
Employee profit-sharing	1.0
Other	0.5

Note 17. Other information

17.1. Average headcount

The Company had an average of 259 employees in 2016 compared to 240 in 2015.

17.2. Fees paid to Statutory Auditors

Statutory Auditors' fees recorded in the income statement are shown below:

	KPMG Audit		Deloitte & Associés	
(in € thousands)	2016	2015	2016	2015
Certification and half-year limited review of the individual and consolidated financial statements	328	328	300	300
Services other than certification of financial statements	38	42	138	222
TOTAL	**366**	**370**	**438**	**522**

17.3. Executive compensation

In 2016, total compensation of €17.7 million was awarded to members of the governance and management bodies, versus €10.6 million in 2015.

17.4. Consolidating company

Kering is controlled by Artémis, which holds 40.88% of its share capital. Artémis is wholly owned by Financière Pinault.

17.5. Transactions with related parties

The support agreement between Artémis and Kering signed on September 27, 1993 generated an expense of €3.3 million in 2016 compared with an expense of €3.0 million in 2015.

The other transactions with related parties were contracted at arm's length conditions. As a result, no additional disclosures are required pursuant to Article R. 183-198 11 of the French Commercial Code.

Note 18. Subsequent events

On January 18, 2017, Kering paid out an interim dividend amounting to €1.50 per share.

Subsidiaries and investments as of December 31, 2016

(in € thousands)		Share capital	Shareholders' equity excl. share capital and net income
I – DETAILED INFORMATION			
A – Subsidiaries (more than 50%-owned and representing over 1% of the share capital)			
Conseil et Assistance	France	2,010	1,921
Discodis	France	153,567 [(1)]	161,079 [(1)]
Kering Netherlands BV	Netherlands	20,000 [(1)]	5,382,390 [(1)]
Christopher Kane Limited [(2)]	UK	1 [(1)]	(1,642) [(1)]
Kering International [(2)]	UK	17,031 [(1)]	550 [(1)]
Redcats	France	401 [(1)]	(705,962) [(1)]
Sapardis	France	1,799,936	(317,946)
Trémi 2	France	20,710	(93)
	Sub-total		
B – Investments (less than 50%-owned and representing over 1% of the share capital)			
Kering Holland NV	Netherlands	108 [(1)]	2,708 [(1)]
Yves Saint Laurent	France	123,811 [(1)]	(33,648) [(1)]
	Sub-total		
II – SUMMARY INFORMATION			
A – Subsidiaries not listed in I			
French subsidiaries			
Non-French subsidiaries			
B – Investments not listed in I			
French investments			
Non-French investments			

(1) Based on accounts as of December 31, 2015.
(2) GBP exchange rate as of December 31, 2015.
(3) Including the Financière Marothi merger loss of €344,066 thousand.

% of capital held	Carrying amount of shares – Gross	Carrying amount of shares – Net	Outstanding loans granted by the Company	Endorsements and guarantees given by the Company	Last published revenue excl. VAT	Last published net income (loss)	Dividends received by the Company during the year
90.00	7,724	3,603				73	
99.99	299,736	299,736				7,375 [1]	19,196
100.00	4,581,306 [3]	4,581,306				671,220 [1]	450,000
51.00	12,174	262			11,818 [1]	(11,746) [1]	
100.00	14,773	14,773			8,270 [1]	357 [1]	
99.99	1,776,587	35,454				1,477 [1]	
100.00	1,804,008	1,713,508				(14,918)	
100.00	20,475	20,475				(12)	
	8,516,783	**6,669,117**					
33.53	2,566,912	2,566,912			143,657 [1]	807 [1]	335,308
1.97	81,873	81,873			191,010 [1]	28,378 [1]	
	2,648,785	**2,648,785**					
	487	425					
	31	0					
	0	0					
	37	37					
	11,166,123	**9,318,364**					

6.7. five-year financial summary

	2016	2015	2014	2013	2012
Share capital at year-end					
Share capital *(in €)*	505,117,288	505,117,288	505,065,960	504,907,044	504,466,808
Number of ordinary shares outstanding	126,279,322	126,279,322	126,266,490	126,226,761	126,116,702
Maximum number of potential shares to be issued	0	0	14,146	70,795	188,160
by conversion of bonds					
by exercise of stock subscription options	0	0	14,146	70,795	188,160
Operations and results for the year *(in € thousands)*					
Income from operating activities	92,248	80,383	70,811	88,795	73,581
Net income before tax, employee profit-sharing, depreciation, amortisation and provisions	618,657	481,459	968,460	1,635,162	680,689
Income tax (expense)/benefit	27,436	23,500	22,320	20,139	142,124
Employee profit-sharing for the year	2,809	2,071	2,406	3,339	2,055
Net income after tax, employee profit-sharing, depreciation, amortisation and provisions	682,887	527,399	817,551	832,903	505,561
Dividend distribution	580,885 (1)	505,117	505,066	473,350	472,937 (2)
Per share data *(in €)*					
Net income after tax, employee profit-sharing, but before depreciation, amortisation and provisions	5.09	3.98	7.83	13.09	6.51
Net income after tax, employee profit-sharing, depreciation, amortisation and provisions	5.41	4.18	6.47	6.60	4.01
Dividend:					
Net dividend per share (3)	4.60 (1)	4.00	4.00	3.75	3.75
Employee data					
Average number of employees during the year	259	240	194	171	146
Total annual payroll *(in € thousands)*	36,964	32,114	27,124	21,602	19,794
Total employee benefits paid during the year (social security, social works, etc.) *(in € thousands)*	14,648	12,617	11,169	10,222	8,817

(1) Subject to approval by the Annual General Meeting. Including an interim dividend of €1.50 per share paid on January 18, 2017.
(2) At the Annual General Meeting on June 18, 2013, the shareholders authorised a dividend in the form of Groupe Fnac shares at a ratio of one Groupe Fnac share for every eight Kering shares held.
(3) Pursuant to Article 243 bis of the French Tax Code (Code général des impôts), the full amount of the dividend paid to individuals who are tax residents in France qualifies for the 40% tax credit provided under Article 158-3,2 of said Code.

7. statutory auditors' report on the financial statements

year ended december, 31 2016

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the Company financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the Company financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the Company financial statements. This report should be read in conjunction and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In accordance with our appointment as Statutory Auditors at your Annual General Meetings, we hereby report to you for the year ended December 31, 2016 on:

- the audit of the accompanying financial statements of Kering SA;
- the justification of our assessments;
- the specific procedures and disclosures required by law.

The financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

1. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position and the assets and liabilities of the Company as of December 31, 2016 and the results of its operations for the year then ended in accordance with accounting principles generally accepted in France.

Without challenging the opinion expressed above, we would like to draw your attention to Notes 3 and 4 to the financial statements which describes the change in accounting method regarding the allocation of technical losses in accordance with Article 12 of Regulation No. 2015-06 of November 23, 2015.

2. *Justification of our assessments*

Pursuant to Article L. 823-9 of the French Commercial Code (*Code de commerce*) governing the justification of our assessments, we hereby report on the following:

As mentioned in the first part in this report, Notes 3 and 4 to the financial statements describes the change in accounting method pursuant to the new accounting regulation on the allocation of technical losses.

As part of our assessment of the accounting policies implemented by your Company, we have verified the correct implementation of the above-mentioned accounting method change and its correct presentation.

Note 2.2 to the financial statements describes the accounting policies relating to the measurement of long-term investments.

As part of our assessment of the accounting policies implemented by your Company, we have verified the appropriateness of the above-mentioned accounting methods and their proper application.

These assessments were performed as part of our audit approach for the financial statements taken as a whole and therefore contributed to the expression of our opinion in the first part of this report.

3. *Specific procedures and disclosures*

We have also performed the other procedures required by law, in accordance with professional standards applicable in France.

We have no matters to report regarding the fair presentation and consistency with the financial statements of the information given in the Management Report of the Board of Directors and in the documents addressed to the shareholders in respect of the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code relating to remuneration and benefits received by the corporate officers and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest that such information is accurate and fair.

Pursuant to the law, we have verified that the Management Report contains the appropriate disclosures as to the identity of and voting rights held by shareholders.

Paris La Défense and Neuilly-sur-Seine, March 28, 2017
The Statutory Auditors

KPMG Audit
Division of KPMG SA
Isabelle Allen Grégoire Menou

Deloitte & Associés
Frédéric Moulin Stéphane Rimbeuf

8. statutory auditors' special report on regulated agreements and commitments with third parties

shareholders' meeting held to approve the financial statements for the year ended december 31, 2016

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments with third parties that is issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction and construed in accordance with French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code (Code de commerce) and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby report to you on regulated agreements and commitments with third parties.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or which we may have discovered during the course of our audit, and the reasons justifying that these commitments and agreements are in the Company's interest, without expressing an opinion on their usefulness and appropriateness or identifying such other agreements, if any. It is your responsibility, pursuant to Article R. 225-31 of the French Commercial Code (*Code de commerce*), to assess the interest involved in respect of the conclusion of these agreements for the purpose of approving them.

Our role is also to provide you with the information provided for in Article R. 225-31 of the French Commercial Code in respect of the performance of the agreements and commitments, already authorized by the Shareholders' Meeting and having continuing effect during the year, if any.

We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) relating to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

Agreements and commitments submitted to the approval of the shareholders' meeting

Agreements and commitments authorized during the year

We inform you that we have not been advised of any agreement or commitment authorized during the year subject to the approval of the shareholder Meetings pursuant to Article L. 225-38 of the French Commercial Code.

Agreements and commitments previously approved by the shareholders' meeting

Agreements and commitments authorized in previous years and having continuing effect during the year

Pursuant to Article R. 225-31 of the French Commercial Code, we have been advised that the following agreements and commitments authorized in previous years by the Shareholders' Meeting have had continuing effect during the year.

- **Support agreement for services provided by Artémis SA**

Pursuant to the terms of a support agreement between Kering SA and Artémis SA signed on September 27, 1993, Artémis SA carries out research and advisory work for Kering S.A. in the following areas:

- strategy and development of the Kering group and support in carrying out complex legal, tax, financial and real estate transactions;
- sourcing of business development opportunities in France and abroad or cost-cutting measures.

At its March 10, 1999 meeting, the Kering SA Supervisory Board authorized payment for these services amounting to 0.037% of consolidated net revenue (excluding VAT).

In line with the appropriate modifications to Kering SA's corporate governance rules, your Board of Directors resolved on July 6, 2005, without amending the agreement in force since September 27, 1993, that the Kering SA Audit Committee would perform, in addition to the usual annual review of the substance of the support provided by Artemis SA to Kering SA, an annual assessment of the services and their fair price given the facilities provided and the cost savings realized in the common interest.

The methods for assessing the contractually-agreed amount were reviewed by the Audit Committee which, at its meeting of February 7, 2017, noted that Kering SA had continued to benefit, during 2016, from the advice and assistance of Artemis SA on recurring issues including communications, public and institutional relations, as well as the development strategy and its implementation.

At its February 9, 2017 meeting, your Board of Directors re-examined this agreement, and duly noted the payment of €3,235,000 (excluding VAT) under this agreement in respect of 2016, it being specified that the revenue of the PUMA group was excluded from the calculation of this fee, as was the case in previous years, together with revenue from discontinued operations.

Persons involved: Mrs. Patricia Barbizet and Mr. François-Henri Pinault, members of the Board of Directors of Artémis S.A., a Kering S.A. shareholder with more than 10% of voting rights.

Paris La Défense and Neuilly-sur-Seine, March 28, 2017
The Statutory Auditors

KPMG Audit
Division of KPMG SA
Isabelle Allen Grégoire Menou

Deloitte & Associés
Frédéric Moulin Stéphane Rimbeuf

chapter 6
share capital and ownership structure

1. Share capital 368

1.1. Share capital 368
1.2. Treasury shares held by the Company and its subsidiaries 368
1.3. Authorisations to issue securities giving access to the share capital 370
1.4. Employee share ownership 372
1.5. Appropriation of net income – Dividends paid by the Company 372
1.6. Share pledges 373
1.7. Arrangements and agreements 373

2. Share ownership structure 374

1. share capital

1.1. share capital

Share capital as of December 31, 2016

As of December 31, 2016, the share capital amounted to €505,117,288 and was divided into 126,279,322 shares with a par value of €4 each (all of the same class), all fully paid up. The number of voting rights at the same date totalled 179,011,319 (after deducting treasury shares, which do not carry voting rights).

At the same date, to the Company's knowledge:

- the Directors directly held 0.087% of the share capital, representing 0.120% of the voting rights (after deducting treasury shares, which do not carry voting rights);
- the Company did not hold any treasury shares nor did it hold any shares under the liquidity agreement; none of the Company's shares were held by controlled companies.

As of January 1, 2016, the share capital amounted to €505,117,288 and was divided into 126,279,322 shares.

Share capital movements over the past three years

Year	Description of transaction	Additional paid-in capital	Nominal amount of capital changes	Aggregate amounts of Company capital (as of Dec. 31)	Aggregate number of ordinary €4 shares (as of Dec. 31)	Aggregate number of voting rights[1] (as of Dec. 31)
2016	-	-	-	**505,117,288**	**126,279,322**	**179,011,319**
2015	Exercise of options	€950,080	€51,328		12,832	
		€950,080	**€51,328**	**€505,117,288**	**126,279,322**	**179,001,033**
2014	Exercise of options	€3,106,096	€158,916		39,729	
		€3,106,096	**€158,916**	**€505,065,960**	**126,266,490**	**179,359,204**

(1) Total number of voting rights, including treasury shares.

1.2. treasury shares held by the company and its subsidiaries

Acquisition of treasury shares by the Company

Pursuant to a liquidity agreement dated May 26, 2004, Kering signed an agreement with a financial broker in order to improve the liquidity of the Group's shares and ensure share price stability. This agreement complies with the Professional Code of Conduct drawn up by the French association of financial and investment firms (*Association française des marchés financiers* – AMAFI) and approved by the French financial markets authority (*Autorité des marchés financiers* – AMF).

The agreement was initially endowed with €40 million, half of which was provided in cash and half in Kering shares. An additional €20 million in cash was allocated to the agreement on September 3, 2004, and a further €30 million on December 18, 2007.

In accordance with an amendment dated December 15, 2016, Kering maintains a credit balance of €5 million in the liquidity account with the financial broker.

The Annual General Meeting on May 6, 2014 authorised the Board of Directors to trade in Company shares for a period of 18 months in accordance with the goals and terms of the share buy-back programme filed with the AMF. This programme specifies a maximum purchase price of €220 per share and states that the number of shares purchased may not exceed 10% of the share capital.

The authorisation given to the Board of Directors to trade in Company shares for a period of 18 months was renewed

at the Annual General Meetings on April 23, 2015 (maximum purchase price of €250 per share) and April 29, 2016 (maximum purchase price of €230 per share).

On April 27, 2017, the Annual General Meeting will be asked to authorise the Company to trade in its own shares under a new share buy-back programme under the same conditions as those stipulated for previous authorisations. The maximum purchase price would be raised to €320 per share.

Buy-backs and sales of shares during 2016 – Trading costs – Number of treasury shares held as of December 31, 2016

Share buy-backs

- 1,016,019 shares were bought back by the Company pursuant to the authorisation given by the Annual General Meeting on April 23, 2015, at an average price of €153.06 per share;
- 542,013 shares were bought back by the Company pursuant to the authorisation given by the Annual General Meeting on April 29, 2016, at an average price of €175.72 per share.

In 2016, Kering therefore bought back a total of 1,558,032 shares at an average price of €160.94 for the following purposes:

- 1,304 shares to be granted to employees under the 2012 free share plans;
- 1,556,728 shares purchased under the liquidity agreement.

The number of shares bought back represent 1.23% of the share capital.

Sales of treasury shares

In 2016, Kering sold 1,556,728 shares at an average price of €161.37 per share, under the liquidity agreement.

A further 28,902 shares were granted to employees under the 2012 free share plans, maturing in April 2016.

The number of shares sold represent 1.23% of the share capital.

Trading costs

Total share trading costs for buy-backs and sales amounted to €0.5 million in 2016.

Share cancellations in 2016

No Kering shares were cancelled during the year.

As of the end of the reporting period, the Company did not hold any treasury shares.

Buy-backs and sales of Kering shares carried out between January 1 and March 10, 2017

Since January 1, 2017, the Company has acquired 106,594 shares at an average price of €224.33 and has sold 106,594 shares at an average price of €224.64, in connection with the liquidity agreement.

As of March 10, 2017, the Company did not hold any shares under the liquidity agreement.

Outside the scope of the liquidity agreement, the Company did not acquire any Kering shares.

As of March 10, 2017, Kering did not therefore hold any treasury shares.

Share cancellations in 2017

No shares were cancelled between January 1 and March 10, 2017.

Use of derivatives in 2016

Kering did not buy any call options on its own shares in 2016.

As of December 31, 2016, Kering did not hold any call options on its own shares.

1.3. authorisations to issue securities giving access to the share capital

Authorisations to issue shares or other securities in force as of December 31, 2016

Pursuant to the decisions of the Extraordinary General Meeting, the Board of Directors has the following authorisations:

Description of authorisation	Date of Annual General Meeting (resolution No.)	Term of validity (expiry date)	Maximum authorised nominal amount	Current use
Share capital increases with pre-emptive subscription rights				
Share capital increase via the issue, with pre-emptive subscription rights, of shares, warrants and/or securities giving access, either immediately or in the future, to shares or to debt securities [1]	April 23, 2015 (8th)	26 months (June 2017)	€200 million	Unused
Share capital increase via the capitalisation of reserves, profits or additional paid-in capital	April 23, 2015 (9th)	26 months (June 2017)	€200 million [2]	Unused
Share capital increases without pre-emptive subscription rights				
Share capital increase via the issue, without pre-emptive subscription rights, by public offering, of shares, warrants and/or securities giving access, either immediately or in the future, to shares in the Company, including as consideration for shares tendered in a public exchange offer, or to debt securities	April 23, 2015 (10th)	26 months (June 2017)	€50.5 million [2]	Unused
Share capital increase via the issue, without pre-emptive subscription rights, by private placement, of shares, warrants and/or securities giving access, either immediately or in the future, to shares in the Company or to debt securities	April 23, 2015 (11th)	26 months (June 2017)	€50.5 million [1] [3]	Unused
Authorisation to set the issue price for a share capital increase, without pre-emptive subscription rights, by public offering or private placement, limited to 5% of the share capital per year	April 23, 2015 (12th) (related to the 10th and 11th resolutions above)	26 months (June 2017)	€25.3 million per year	Unused
Share capital increase in consideration for in-kind contributions, limited to 10% of the share capital	April 23, 2015 (14th)	26 months (June 2017)	€50.5 million [3]	Unused
Share capital increase with or without pre-emptive subscription rights				
Increase in the number of shares or securities to be issued within the scope of a share capital increase, with or without pre-emptive subscription rights, in the event of excess demand	April 23, 2015 (13th)	26 months (June 2017)	15% of the amount of the initial issue	Unused
Share capital reductions by cancelling shares				
Authorisation to reduce the share capital by cancelling shares	April 23, 2015 (7th)	24 months (April 2017)	10% of the share capital per 24-month period	Unused
Free share grants				
Grant of existing shares or shares to be issued, reserved for employees and corporate officers	April 29, 2016 (15th)	24 months (April 2018)	0.5% of the share capital at the grant date	Unused

(1) Limited by Article L. 225-136 of the French Commercial Code to 20% of the share capital per year in all cases.
(2) This amount is deductible from the overall €200 million cap for issues of shares and/or securities giving access to the share capital set by the 8th resolution.
(3) This amount is deductible from the €200 million and €50 million caps for issues of shares and/or securities giving access to the share capital set by the 8th and 10th resolutions.

As indicated in the above table, the Extraordinary General Meetings on April 23, 2015 and April 29, 2016 authorised the Board of Directors to issue, with or without pre-emptive subscription rights, securities giving access to the Company's share capital, either immediately or in the future, to increase the share capital by capitalising reserves, profits or additional paid-in capital and to grant free shares.

These delegations of authority were not used during the year.

Other securities giving access to the share capital

Special report on stock subscription and purchase options and free share grants

No new free shares have been granted since 2014.

Stock option plans

Grants are, in principle, made annually. However, no stock subscription and purchase option plans have been set up since 2007.

The plans set up in 2006 and 2007 have terms of eight years (compared to terms of ten years for previous plans) and the options granted are purchase options. As they have no impact on the number of shares comprising the share capital, they are not dilutive.

As of December 31, 2016, there were no stock subscription or purchase options outstanding.

Performance share plans

No performance shares were granted in 2016.

The Group granted Kering Monetary Units (KMUs) instead of performance shares, as described on pages 167, 168, 186, 194 and 285.

Performance shares vest fully at the end of a two-year vesting period, which is followed by a two-year lock-in period during which the performance shares granted may not be sold (four years for foreign residents, with no lock-up period).

The last performance share plan set up for foreign residents in 2012 vested on April 27, 2016.

Kering free shares plan as of Dec. 31, 2016	2012-II Plan
Date of Annual General Meeting	05/19/2010
Date of Board meeting	04/27/2012
Number of shares initially granted	39,640
to François-Henri Pinault *to Jean-François Palus*	
Shares forfeited as of Dec. 31, 2016	10,738
Number of shares issued as of April 27, 2016	0
Number of shares outstanding as of Dec. 31, 2016	0
Number of beneficiaries	88
Vesting date	04/27/2016
Date on which shares may be sold	04/27/2016

Performance shares granted to the top ten employee beneficiaries (excluding Directors and executive corporate officers) of the Company	Total number of free shares granted
Free shares granted in 2016 by Kering or any other company within the scope of the share grant to the ten employees (excluding Directors and executive corporate officers) of Kering receiving the most shares	0

Changes in share capital and rights attached to shares

Any changes in the share capital and the rights attached to shares are governed by the legal requirements and the specific provisions of the Articles of Association as set out below.

Under Article 15 of the Articles of Association, in the Company's internal organisation, decisions by the Chief Executive Officer and, where applicable, the Group Managing Director relating to the issue of securities, regardless of their nature, require the prior approval by the Board of Directors when such issues are likely to change the share capital.

1.4. employee share ownership

As of December 31, 2016, Company and Group employees held 459,417 shares, representing 0.36% of the share capital, under the provisions of Article L. 225-102 of the French Commercial Code (*Code de commerce*). Company employees also held 14,296 shares via an employee investment fund, representing 0.01% of the share capital.

1.5. appropriation of net income – dividends paid by the company

Appropriation of net income

At its meeting on February 9, 2017, the Board of Directors acknowledged and proposed the following net income appropriation to the Annual General Meeting:

(in €)

Source	
Retained earnings	2,121,093,708.39
Net income for the year	682,887,416.34
Total for appropriation	2,803,981,124.73
Appropriation	
Legal reserve (1)	-
Dividend (2)	580,884,881.20
Retained earnings	2,412,515,226.53
Total	2,803,981,124.73

(1) No further charge to the legal reserve is proposed since the reserve stood at €51,354,910 as of December 31, 2016, i.e., above the minimum amount required by law (10% of the share capital).

(2) Representing a dividend of €4.60 per share qualifying for the 40% tax allowance, payable on May 5, 2017. This amount corresponds to the interim dividend (€1.50 per share) paid on January 18, 2017 (€189,418,983.00) plus the final dividend of €391,465,898.20, equal to €3.10 per share, calculated on the basis of the maximum number of shares carrying dividend rights.

The Board of Directors will propose to the Annual General Meeting on April 27, 2017 the payment of a dividend of €4.60 per share eligible for dividends as of January 1, 2016.

An interim dividend in the amount of €1.50 per share was paid on January 18, 2017 pursuant to a decision by the Board of Directors on December 15, 2016.

If this dividend is approved, the balance of €3.10 per share will have an ex-dividend date of May 3, 2017 and will be payable as from May 5, 2017.

Dividends paid out over the past three fiscal years

Year of payment	Net dividend	Qualifying for a tax allowance of
2016	€4	40%
2015	€4	40%
2014	€3.75	40%

1.6. share pledges

As of December 31, 2016, 8,750,000 registered shares were pledged by the Artémis group.

Name of registered shareholder	Beneficiary	Pledge start date	Pledge expiry date	Terms of release of the pledges	Number of issuer shares pledged	% of the issuer's capital pledged[2]
Artémis	CA CIB	07/23/2015	Unspecified[1]		3,850,000	3.05%
Artémis	CA CIB	12/07/2015	Unspecified[1]		1,600,000	1.27%
Artémis	CA CIB	07/25/2016	Unspecified[1]		3,300,000	2.61%

(1) Full reimbursement or payment of the receivable.
(2) Based on the share capital as of December 31, 2016, comprising 126,279,322 shares with a par value of €4 each.

1.7. arrangements and agreements

To the Company's knowledge, there are no contractual arrangements or agreements involving shares or voting rights of the Company that should have been disclosed to the AMF pursuant to Article L. 233-11 of the French Commercial Code.

2. share ownership structure

Change in share ownership and voting rights as of December 31, 2016

	2016				2015			
	Number of shares	% of share capital	Number of voting rights[1]	% of voting rights[2]	Number of shares	% of share capital	Number of voting rights[1]	% of voting rights[2]
Artémis group	51,617,767	40.88%	102,770,114	57.41%	51,638,516	40.89%	102,746,612	57.41%
Harris Associates[4]		-			6,318,723	5.00%	6,318,723	3.53%
The Capital Group[5]	8,943,087	7.08%	8,943,087	4.99%	6,348,513	5.03%	6,348,513	3.55%
Kering	0	0.00%	0[3]	0.00%	27,598	0.02%	27,598[3]	0.00%
Employees	476,713	0.38%	904,377	0.51%	510,379	0.41%	929,288	0.52%
Free float	65,241,755	51.66%	66,393,741	37.09%	61,435,593	48.65%	62,630,299	34.99%
TOTAL	**126,279,322**	**100.00%**	**179,011,319**	**100.00%**	**126,279,322**	**100.00%**	**179,001,033**	**100.00%**

	2014			
	Number of shares	% of share capital	Number of voting rights[1]	% of voting rights[2]
Artémis group	51,675,702	40.93%	103,216,483	57.56%
Harris Associates[4]			-	
The Capital Group[5]			-	
Kering	21,537	0.02%	21,537[3]	0.00%
Employees	542,579	0.43%	904,522	0.51%
Free float	74,026,672	58.62%	75,216,662	41.93%
TOTAL	**126,266,490**	**100.00%**	**179,359,204**	**100.00%**

(1) Total number of voting rights, including treasury shares.
(2) Shares held for more than two years in a registered account in the name of the same shareholder carry double voting rights (see the section entitled "General information – Annual General Meetings" on page 381).
(3) Theoretical voting rights, in the Annual General Meeting these shares lose their voting rights.
(4) On February 11, 2016, Harris Associates L.P., based in Chicago (United States) and acting on behalf of funds and clients for whom it provides asset management services, reported that it had crossed below the 5% threshold of Kering's share capital on February 9, 2016, and that it held, on behalf of said funds and clients, 6,275,730 Kering shares representing an equal number of voting rights, i.e., 4.97% of the share capital and 3.51% of the voting rights. This threshold was crossed as a result of a sale of Kering shares on the open market. Harris Associates L.P., controlled by Natixis Global Asset Management, L. P., itself controlled by Natixis, L.P., states that it acts independently from the person that controls it, in accordance with the conditions laid down in Article L. 233-9 II of the French Commercial Code and Articles 223-12 and 223-12-1 of the AMF's General Regulations.
(5) Acting as an investment adviser on behalf of the funds. The Capital Group Companies, Inc. combines the positions held by Capital Research and Management Company (CRMC) and Capital Group International (CGI).

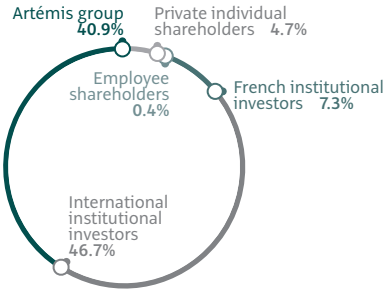
Artémis is wholly owned by Financière Pinault, itself controlled by the Pinault family. Artémis holds 57.41% of the Company's voting rights and as such has *de jure* control of the Company within the meaning of Article L. 233-3-I of the French Commercial Code.

On August 23, 2016, The Capital Group Companies, Inc.[5], based in Los Angeles (United States), reported that it had crossed above the 5% threshold of Kering's voting rights on August 18, 2016 and that it held 8,951,212 shares representing an equal number of voting rights, i.e., 7.09% of the share capital and 5.0002% of the voting rights. On November 7, 2016, The Capital Group Companies, Inc. reported that it had crossed below the 5% threshold of Kering's voting rights on November 3, 2016 and that it held 8,943,087 shares representing an equal number of voting rights, i.e., 7.08% of the share capital and 4.99% of the voting rights. This threshold was crossed as a result of a sale of Kering shares on the open market.

To the Company's knowledge, no other shareholder directly, indirectly, or jointly holds 5% or more of the share capital or voting rights.

Regarding the majority shareholder's control of the Company, the organisation and operating rules of the Board and of its specialised Committees, the number of independent Directors – representing (i) more than half of the Board members (who oversee the prevention of conflicts of interest and regularly carry out a self-assessment), (ii) three-quarters of the Audit Committee, and (iii) three-quarters of the Remuneration Committee, it being specified that no executive corporate officer is a member of these Committees – and general compliance with current rules, internal rules and good governance practices all contribute to maintaining an effective balance of power (see Chapter 4 "Corporate governance").

BREAKDOWN OF SHARE CAPITAL AS OF DECEMBER 31, 2016 (ROUNDED FIGURES)



Source: Identifiable Bearer Security (Titre au Porteur Identifiable) as of December 31, 2016.

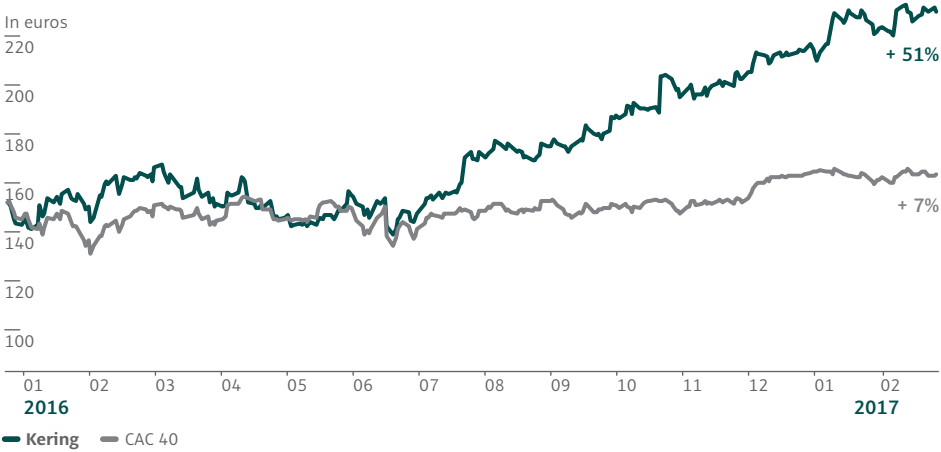
As of December 31, 2016, private individual shareholders held 4.7% of the Group's share capital. Institutional investors owned 54.0% of the share capital, with 7.3% held by French institutions and 46.7% by investors residing outside France.

Among the international institutional investors, North American-based and UK-based shareholders held 20.6% and 10.9% of the share capital, respectively. Continental European investors (excluding France) held 6.9% of the share capital, including notably Switzerland (1.9%) and Norway (1.4%). Shareholders based in the Asia-Pacific region represented 3.7% of the share capital.

Stock market information

Kering share	
Place of listing	Euronext Paris
Market	Eurolist A
Benchmark index	CAC 40
Initial public offering	October 25, 1988 on the Second Market February 9, 1995 on the CAC 40
Number of shares	126,279,322 as of December 31, 2016
Tickers	ISIN code: FR 00 00 121 485 Reuters: KER.PA Bloomberg: KERFP

Change in the price of the Kering share compared to the CAC 40 index from January 1, 2016 to Feruary 28, 2017



Market price and trading volume of the Kering share

	2016	2015	2014	2013	2012
High[1] *(in €)*	214.35	197.00	167.40	184.50	144.50
Low[1] *(in €)*	138.60	139.05	137.35	140.28	106.35
Price[1] as of December 31 *(in €)*	213.30	157.95	159.50	153.65	140.90
Market capitalisation as of December 31 *(in € millions)*	**26,935**	**19,946**	**20,140**	**19,395**	**17,764**
Daily average trading volume *(in number of shares)*	255,805	356,633	224,261	254,343	317,960
Number of shares as of December 31	**126,279,322**	**126,279,322**	**126,266,490**	**126,226,761**	**126,116,702**

(1) Closing price.
Source: Euronext.

Listed securities of the Group as of December 31, 2016

Securities listed on Euronext Paris	ISIN code
Equities	
Kering	FR 00 00 121 485

Securities listed on the Luxembourg Stock Exchange	ISIN code
Bonds	
Kering 6.50% November 2017	FR 00 10 784 082
Kering 1.875% October 2018	FR 00 11 584 929
Kering 3.125% April 2019	FR 00 11 236 983
Kering 1.375% October 2021	FR 00 12 199 008
Kering 2.75% April 2024	FR 00 11 832 039
Kering 2.50% July 2020	FR 00 11 535 764
Kering 0.875% March 2022	FR 00 12 648 244
Kering 1.25% May 2026	FR 00 13 165 677
Kering 1.6% April 2035	FR 00 12 669 257

Stock market data
Kering share

2015	Share price *(in €)*				Volume	
					Shares traded	
	Average [1]	High [2]	Low [2]	Monthly change	Average daily (in number of shares)	*€m*	Number of shares
January	167.34	181.75	152.70	+12.5%	278,695	985	5,852,599
February	180.66	185.00	174.75	+1.4%	242,083	872	4,841,652
March	187.35	198.50	180.15	-0.1%	332,143	1,373	7,307,148
April	173.94	184.70	164.95	-10.7%	478,344	1,659	9,118,029
May	164.85	171.85	158.35	-3.1%	326,617	1,074	6,532,333
June	158.78	164.50	152.55	+0.1%	400,562	1,403	8,812,363
July	165.81	176.70	154.40	+9.6%	357,438	1,367	8,221,064
August	166.56	181.95	146.20	-13.0%	388,856	1,339	8,165,983
September	145.91	155.05	136.75	-4.4%	502,069	1,618	11,045,515
October	158.05	174.40	141.75	+15.4%	381,638	1,329	8,396,041
November	166.96	176.70	159.00	-3.0%	268,021	938	5,628,449
December	158.42	167.55	153.25	-3.4%	335,308	1,169	7,376,786

2016	Share price *(in €)*				Volume	
					Shares traded	
	Average [1]	High [2]	Low [2]	Monthly change	Average daily (in number of shares)	*€m*	Number of shares
January	147.90	156.50	138.65	-1.8%	317,834	938	6,356,677
February	155.00	165.35	143.20	+3.6%	399,321	1,304	8,385,740
March	161.11	167.85	153.20	-2.2%	257,553	871	5,408,622
April	153.44	162.15	146.70	-4.7%	314,685	1,012	6,608,395
May	145.05	152.70	140.35	-3.0%	188,140	600	4,139,082
June	148.65	156.70	136.55	+0.2%	293,493	958	6,456,855
July	153.21	173.30	140.55	+16.8%	233,005	763	4,893,096
August	171.98	177.00	167.85	0.0%	173,403	685	3,988,278
September	176.70	184.35	170.05	+5.6%	222,983	864	4,905,619
October	191.30	206.40	179.00	+12.5%	286,084	1,162	6,007,770
November	198.80	206.95	191.30	+1.5%	208,692	912	4,591,226
December	210.29	214.90	200.55	+4.0%	190,504	825	4,000,588

(1) Closing price.
(2) Intra-day price.
Source: Euronext.

2017	Share price *(in €)*				Volume		
					Average daily (in number of shares)	Shares traded	
	Average[1]	High[2]	Low[2]	Monthly change		€m	Number of shares
January	222.55	232.90	208.55	+3.2%	210,569	1,028	4,632,526
February	227.09	235.00	219.40	+4.3%	202,416	920	4,048,322

(1) Closing price.
(2) Intra-day price.
Source: Euronext.

Financial communications policy

Kering's financial communications policy endeavours to disseminate accurate and reliable information. Its actions are targeted and customised to offer different audiences, private individual shareholders and the financial community, messages suited to their respective expectations while complying with the principle of equal access to information.

Towards individual shareholders

Private individual shareholders have access to numerous media and tools to keep themselves informed on the Group and on the life of the security. These include the twice-yearly Letter to Shareholders, the Shareholders' Guide (in French only), the shareholders' hotline in France (+33 1 45 64 65 64), the email address (actionnaire@kering.com), financial notices in the press and on the Internet, and the annual report.

Towards the financial community

The Group maintains close relationships with the French and international financial community. A number of initiatives are designed to keep the financial community informed about its businesses, strategy and outlook. Kering has expanded its communication by organising conference calls upon the release of quarterly revenue and half-year results, and a meeting to present its annual results. Kering also participates in industry conferences held by major banks. All of the presentation material is available on the Group's website. Kering also meets with investors during roadshows held in the major financial centres around the world. In addition, the Group meets with individual investors and analysts upon request and maintains proactive relationships in terms of reporting to the AMF.

Procedures for communicating regulatory information

Pursuant to obligations – applicable since January 20, 2007 – to disclose regulatory information resulting from the implementation of the Transparency Directive in the AMF's General Regulations, Kering's Financial Communications Department oversees the proper and full disclosure of regulatory information. This information is filed with the AMF at the time of its disclosure and stored on the Kering website.

Full and effective communication is carried out electronically in compliance with the criteria defined by the AMF's General Regulations which require communication to a wide audience within the European Union and according to terms and conditions guaranteeing the security of the communication and information. Accordingly, Kering's Financial Communications Department has chosen to call on a professional communications agency satisfying the communication criteria set by EU Regulation 596/2014 on market abuse and the AMF's General Regulations. The communication agency features on the list published by the AMF, thus benefiting from a presumption of full and effective communication.

2017 shareholders' agenda	
April 25, 2017	First-quarter 2017 revenue
April 27, 2017	Combined General Meeting
July 2017	Half-year 2017 results
October 2017	Third-quarter 2017 revenue

chapter 7
additional information

1. Additional information 380

1.1. General information 380
1.2. Information on trade payables – payment terms 382
1.3. Information on trade receivables – payment terms 382

2. Person responsible for the Reference Document 383

2.1. Declaration by the person responsible for the Reference Document and for the Annual Financial Report 383

3. Statutory Auditors 384

3.1. Principal Statutory Auditors 384
3.2. Substitute Statutory Auditors 384

4. Documents incorporated by reference 385

5. Cross-reference table to the disclosure requirements set out in Annex 1 of European Regulation No. 809/2004 386

6. Cross-reference table for the Management Report (articles L. 225-100 et seq., L. 232-1 and R. 225-102 of the French Commercial Code) 389

7. Cross-reference table for the Annual Financial Report (article 222-3 of the AMF's general regulations) 391

8. Index 392

1. additional information

1.1. general information

Company name and registered office

Company name: Kering

Registered office: 40 rue de Sèvres, 75007 Paris, France

Legal form

A French joint stock company (*société anonyme*)

Applicable law

French law

Date of incorporation and term

The Company was incorporated on June 24, 1881 for a term of 99 years. The term was extended to May 26, 2066 by the Extraordinary General Meeting on May 26, 1967, except in the case of an early dissolution or of an extension approved by the Extraordinary General Meeting.

Corporate purpose

- the purchase, retail sale or wholesale, either directly or indirectly, by all means and using all existing or future techniques, of all goods, products, commodities or services;
- the creation, acquisition, leasing, operating or sale, either directly or indirectly, of all establishments, stores or warehouses, by all means and using all existing or future techniques, for the retail sale or wholesale of all goods, products, commodities or services;
- the direct or indirect manufacture of all goods, products or commodities that are useful for corporate operations;
- the direct or indirect supply of all services;
- the purchase, operation and sale of all buildings that are useful for corporate operations;
- the creation of all commercial, non-trading, industrial and financial concerns, whether in moveable or real property, service or other businesses, the acquisition of participating interests by all means, subscription, acquisition, contribution, merger or otherwise in, to or of such concerns and businesses and the management of its participating interests;
- and, in general, all commercial, non-trading, industrial and financial operations, whether in moveable or real property, service or other businesses that can be directly or indirectly connected to the purposes specified above or to all similar, complementary or related purposes or purposes that are liable to favour the creation or development thereof.

(Article 5 of the Articles of Association)

Trade and Companies Registry

552 075 020 RCS Paris

APE code: 7010Z

Consultation of legal documents

The Articles of Association, the minutes of Annual General Meetings and other corporate documents may be consulted at the registered office under the conditions provided for by law.

Fiscal year

The Company's fiscal year begins on January 1 and ends on December 31 of the same year.

Appropriation of earnings

From the profit for the fiscal year, less deferred losses where applicable, a minimum withdrawal of one-twentieth is made and paid into a reserve fund known as the "legal reserve". Said withdrawal ceases to be mandatory once said reserve reaches one-tenth of the share capital.

From the distributable profit, which is made up of the profit for the fiscal year less the deferred losses and the withdrawal referred to above, as well as the amounts to be paid into the reserves in accordance with the law, plus deferred profits, the Annual General Meeting, pursuant to a proposal by the Board of Directors, may withdraw all amounts it deems appropriate, either to be deferred to the subsequent fiscal year, or to be entered into one or more extraordinary, general or special reserve funds, the allocation and use of which is determined by the Annual General Meeting.

The balance, if any, is allocated among the shareholders.

The Annual General Meeting that votes on the financial statements for the fiscal year has the option of granting each shareholder, for all or part of the dividend or interim dividend distributed, an option between the payment of the dividend or the interim dividend in cash, in kind or in shares. The Annual General Meeting may also decide, for all or part of the dividend, interim dividends, reserves, or premiums distributed, or for any capital reduction, that the distribution of dividends, reserves or premiums or the

capital reduction will be made in kind in the form of corporate assets, including securities.

(Article 22 of the Articles of Association)

Dividends not claimed after five years are paid to the French State.

Dividends paid over the last three fiscal years are presented in the Management Report.

Administrative and management bodies

Information regarding administrative and management bodies is presented in the "Corporate governance" chapter.

Annual General Meetings – Double voting rights

Annual General Meetings are convened by the Board of Directors and deliberate on their agenda under the conditions provided for by the law and the regulations.

Meetings are held at the registered office or in any other place specified in the convening notice.

All shareholders may attend meetings, either in person or via a proxy, under the conditions laid down by law, subject to providing proof of their identity and of the title to their securities, by the recognition of said securities in the accounts in their name within the regulatory timeframes, either in the accounts of registered securities held by the Company, or in the accounts of bearer securities held by an accredited intermediary. Proof of the capacity of a shareholder can be provided electronically, under the conditions set by the regulations in force. Pursuant to a decision of the Board of Directors, shareholders may participate in meetings via video-conference or via telecommunications means that make it possible to identify them under the conditions laid down by the regulations in force. All shareholders may vote by correspondence using a form filled out and sent to the Company under the conditions laid down by the regulations in force, including electronically, pursuant to a decision by the Board of Directors. This form must reach the Company in accordance with the regulatory conditions in order to be taken into account. The Board of Directors may reduce said timeframe for the benefit of all shareholders. The owners of securities who are not resident on French territory may be represented by an intermediary who is registered in accordance with the conditions laid down by the regulations in force.

Meetings are chaired by the Chairman of the Board of Directors or, in his/her absence, by the member of the Board who is specifically appointed for this purpose by the Board. Failing this, the meeting elects its own chair.

Meeting minutes are prepared and copies thereof are certified and issued in accordance with the law.

In all Annual General Meetings, a voting right that is double that conferred on the other shares is granted to all shares that are fully paid up and for which proof is provided that they have been held in registered form for at least two years in the name of the same shareholder. This double voting right, which existed in the Articles of Association of Pinault SA prior to its merger with Printemps SA, was restated at the time of their 1992 merger.

This double voting right may be withdrawn outright at any time pursuant to a decision of the Extraordinary General Meeting and after ratification by a special meeting of the beneficiary shareholders.

(Article 20 of the Articles of Association)

The double voting right existed in Pinault SA and Printemps SA prior to their 1992 merger. The Company's Articles of Association do not provide that, in the event of a free allocation of registered shares to a shareholder in respect of old shares for which he/she/it had a double voting right, the new shares are also entitled to a double voting right.

Pursuant to the relevant legislation, double voting rights are cancelled for any share converted to a bearer share or in the event of a transfer of ownership except in the case of a transfer following inheritance, liquidation of joint property between spouses, or donation between living family members (spouse or relative) with legal inheritance rights.

Voting rights are not limited under the Articles of Association.

The legal and regulatory provisions relating to the crossing of thresholds by shareholders apply. The Company's Articles of Association do not include any special provision in this regard.

There are no shares not representing capital.

The steps required to amend shareholder rights are those provided for by law.

Share capital

The Company is authorised to use the provisions of the law and regulations regarding the identification of the holders of securities that grant immediate or deferred access to voting rights at its own Annual General Meetings.

(Article 7 of the Articles of Association)

In addition to the voting right that is granted to each share by the law and by the specific provisions of Article 20 below, each share grants the right to a percentage, which is proportional to the number and par value of the existing shares, of the corporate assets, the profit after deduction of the deductions provided for by law and the Articles of Association, or of the liquidating dividend.

In order for all the shares to receive the same net amount, without distinction, and to be listed on the same line, the Company shall, unless prohibited by law, pay the amount of any proportional tax that may be owed on certain shares only, in particular upon a winding up of the Company or capital reduction; however, the Company will not make this payment when the tax applies under the

same conditions to all the shares in the same class, if there are several classes of shares to which different rights are attached.

Each time it is necessary to possess more than one share in order to exercise a right, it is the responsibility of the owners who do not possess such number to make arrangements to regroup the required number of shares.
(Article 8 of the Articles of Association)

In the event of liquidation of the Company, the remaining shareholders' equity after repayment of the par value of the shares will be allocated among the shareholders in the same proportions as their holdings in the capital.
(Article 24 of the Articles of Association)

Any changes in the share capital or the rights attached to shares are governed by the legal requirements and the specific provisions of the Articles of Association as set out below.

Under Article 15 of the Articles of Association, in the Company's internal organisation, decisions by the Chief Executive Officer and the Group Managing Director relating to the issue of securities, regardless of their nature, require the prior approval by the Board of Directors when such issues are likely to change the share capital, except in the event of a decision by the Annual General Meeting.

1.2. information on trade payables – payment terms

Kering's trade payables, amounting to €16.3 million as of December 31, 2016 (€17 million as of December 31, 2015), fall due in less than 60 days.

1.3. information on trade receivables – payment terms

Kering's trade receivables, amounting to €33 million as of December 31, 2016 (€16.6 million as of December 31, 2015), fall due 30 days after the invoice date.

2. person responsible for the reference document

Jean-François Palus

Group Managing Director

2.1. declaration by the person responsible for the reference document and for the annual financial report

Having taken all reasonable measures to that effect, I hereby attest that the information in this Reference Document is, to my knowledge, in accordance with the facts and contains no omission likely to affect its import.

I certify that, to my knowledge, the annual consolidated and parent company financial statements of Kering SA for the year ended December 31, 2016 have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and the undertakings included in the consolidation, and that the Management Report (the cross-reference table for which is shown on page 389) includes a fair review of the development of the business, the results of operations and the financial position of the Company and of all the undertakings included in the consolidation and also describes the main risks and uncertainties to which they are exposed.

I have obtained a statement from the Statutory Auditors, KPMG Audit and Deloitte & Associés, confirming that they have audited the information contained in this document relating to the financial position and the financial statements contained herein, and that they have read this document in its entirety.

The annual consolidated and parent company financial statements of Kering SA for the year ended December 31, 2016 shown in the Reference Document are subject to reports by the Statutory Auditors on pages 344-345 and 363-364 respectively of said document. The Statutory Auditors' report on the parent company financial statements contains an emphasis of matter regarding the information presented in the Management Report on remuneration paid and benefits granted to corporate officers.

Londres, March 28, 2017

Jean-François Palus

Group Managing Director (*Directeur Général délégué)*

3. statutory auditors

3.1. principal statutory auditors

KPMG SA

Tour EQHO, 2 avenue Gambetta, CS 60055, 92066 Paris-La Défense, France

Grégoire Menou and Isabelle Allen

Date of first appointment: Annual General Meeting of June 18, 1992.

Reappointment, term and expiry: reappointed at the Combined General Meeting on April 29, 2016 for six years until the Annual General Meeting called to approve the 2021 financial statements.

Deloitte & Associés

185 avenue Charles-de-Gaulle, 92524 Neuilly-sur-Seine Cedex, France

Frédéric Moulin and Stéphane Rimbeuf

Date of first appointment: Annual General Meeting of May 18, 1994.

Reappointment, term and expiry: reappointed at the Combined General Meeting on May 6, 2014 for six years until the Annual General Meeting called to approve the 2019 financial statements.

3.2. substitute statutory auditors

Salustro Reydel

Tour EQHO, 2 avenue Gambetta, CS 60055, 92066 Paris-La Défense, France

Date of first appointment: Annual General Meeting of April 29, 2016.

Appointment, term and expiry: appointed at the Combined General Meeting on April 29, 2016 for six years until the Annual General Meeting called to approve the 2021 financial statements.

BEAS

7-9 Villa Houssay, 92524 Neuilly-sur-Seine Cedex, France

Date of first appointment: Annual General Meeting of May 19, 2005.

Reappointment, term and expiry: reappointed at the Combined General Meeting on May 6, 2014 for six years until the Annual General Meeting called to approve the 2019 financial statements.

4. documents incorporated by reference

In compliance with Article 28 of European Regulation No. 809/2004 dated April 29, 2004, this Reference Document incorporates by reference the following information, to which the reader is invited to refer:

- for the fiscal year ended on December 31, 2015: key figures, activities of the Group, activity report, investment policy, consolidated financial statements, parent company financial statements and the related Statutory Auditors' reports, set out on pages 6-7, 15-55, 176-203, 204-206, 215-302, 304-320, 303 and 321 respectively of the Reference Document filed on April 4, 2016 with the AMF;
- for the fiscal year ended on December 31, 2014: key figures, activities of the Group, activity report, investment policy, consolidated financial statements, parent company financial statements and the related Statutory Auditors' reports, set out on pages 6-7, 15-55, 168-193, 195-198, 207-294, 298-316, 295 and 317 respectively of the Reference Document filed on April 1, 2015 with the AMF.

Information included in these two Reference Documents other than that listed above is, where relevant, replaced or updated by the information included in this Reference Document. These two Reference Documents are available at the Group's registered office and on its website: www.kering.com, under the Finance section.

5. cross-reference table

to the disclosure requirements set out in annex 1 of european regulation no. 809/2004

1. Person responsible		
1.1.	Name and position of the person responsible	383
1.2.	Declaration by the person responsible	383
2. Statutory Auditors		
2.1.	Names and addresses of the Statutory Auditors	384
2.2.	Resigned, removed or not reappointed	N/A
3. Selected financial information and key figures		**6-7**
3.1.	Selected historical financial information	6-7
3.2.	Selected financial information for interim periods	N/A
4. Risk factors		**211-219, 252-260, 316- 325**
5. Information about the Company		
5.1.	The Company's history and development	
	5.1.1. The Company's legal and commercial name	380
	5.1.2. Place of registration and registration number	380
	5.1.3. Date of incorporation and term	380
	5.1.4. Registered office and legal form	380
	5.1.5. Important events in the development of the business	4-5, 223, 278
5.2.	Investments	
	5.2.1. Principal investments made by the Company for each fiscal year for the period covered by the historical financial information	17-56, 250-251
	5.2.2. Principal investments in progress, the geographic distribution of these investments (France and abroad) and the method of financing (internal or external)	279-282, 329
	5.2.3. Information concerning the issuer's principal future investments to which its management bodies are already firmly committed	N/A
6. Business overview		
6.1.	Principal activities	
	6.1.1. Nature of operations and principal activities	17-56
	6.1.2. Significant new products and/or services introduced	26-45, 52-56
6.2.	Principal markets	17-56
6.3.	Exceptional factors	
6.4.	Any dependencies	N/A
6.5.	The basis for any statements made by the Company regarding its competitive position	8-14, 18-23, 27, 30, 33, 46-49, 53
7. Organisational structure		
7.1.	Brief description of the Group	8-15
7.2.	List of the Company's significant subsidiaries	15
8. Property, plant and equipment		
8.1.	Existing or planned material property, plant and equipment	242, 246, 298
8.2.	Environmental issues that may affect the utilisation of property, plant and equipment	85-115

9. Operating and financial review		
9.1.	Financial position	222-249
9.2.	Operating results	
	9.2.1. Significant factors	222-249
	9.2.2. Material changes in revenue	224-226
	9.2.3. Any policy or factor that could affect the Company's operations	8-15, 18-23, 46-49, 252-260
10. Capital resources		
10.1.	Information concerning the Company's capital resources (both short and long term)	241-247, 265, 303
10.2.	Sources and amounts of the Company's cash flows	246-247, 264, 329
10.3.	Information on the borrowing terms and the funding structure of the Company	244-246, 253-254, 309-325
10.4.	Information regarding any restrictions on the use of capital resources that have materially affected, or could materially affect, directly or indirectly, the Company's operations	310-325
10.5.	Information regarding the anticipated sources of funds	310-325
11. Research and development, patents and licences		**N/A (1)**
12. Trend information		**13-14, 249**
13. Profit forecasts and estimates		**N/A (2)**
14. Administrative, management and supervisory bodies and Executive Management		
14.1.	Members of administrative, management and supervisory bodies	145-161, 174-176
14.2.	Administrative, management and supervisory bodies and Executive Management conflicts of interest	173, 199, 202, 206
15. Remuneration and benefits		
15.1.	Remuneration of Directors and executive corporate officers	162-170
15.2.	Total amounts set aside or accrued to provide pension, retirement or similar benefits	303-307
16. Board practices		
16.1.	Expiry date of the current terms of office	145-161, 198
16.2.	Members of the administrative, management or supervisory bodies' service contracts	162-163, 210, 334, 361, 366
16.3.	Information on the Company's Audit Committee and Remuneration Committee	206-207
16.4.	Statement of compliance with corporate governance rules in force in France	200
17. Employees		
17.1.	Number of employees	68-70
17.2.	Shareholdings and stock options	71-72, 370-371
17.3.	Arrangements for involving the employees in the capital of the Company	370-371
18. Major shareholders		
18.1.	Shareholders owning more than 5% of the share capital or voting rights	374
18.2.	Existence of different voting rights	374, 381
18.3.	Control of the Company	374
18.4.	Any arrangements, known to the Company, the operation of which may at a subsequent date result in a change in its control	N/A
19. Related-party transactions		**334, 359**

(1) Not material given the Group's business.
(2) This Reference Document does not include any profit forecasts.

20. Financial information concerning the issuer's assets and liabilities, financial position and profits and losses		
20.1.	Historical financial information	261-343, 346-362
20.2.	Proforma financial information	N/A
20.3.	Financial statements	261-343, 346-362
20.4.	Auditing of historical annual financial information	
	20.4.1. Statement that the historical financial information has been audited	344-345, 362-363
	20.4.2. Other information audited by the Statutory Auditors	137-139, 220, 365-366
	20.4.3. Source of financial data not extracted from the issuer's audited financial statements	N/A
20.5.	Date of latest financial information	261, 346
20.6.	Interim and other financial information	N/A[3]
20.7.	Dividend distribution policy	246-248, 303, 362, 372
	20.7.1. Amount of dividend per share adjusted, where the number of shares in the issuer has changed, to make it comparable	N/A
20.8.	Legal and arbitration proceedings	257
20.9.	Significant change in the financial or trading position	N/A
21. Additional information		
21.1.	Share capital	
	21.1.1. Amount of issued capital	368
	21.1.2. Shares not representing capital	N/A
	21.1.3. Shares held by the Company, on its behalf or by subsidiaries	368-369
	21.1.4. Amount of any convertible securities, exchangeable securities or securities with warrants	N/A
	21.1.5. Information about the terms of any acquisition rights and/or any obligations over capital issued but not paid-up or an undertaking to increase the capital	N/A
	21.1.6. Information about the capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option	N/A
	21.1.7. History of share capital	368
21.2.	Memorandum and Articles of Association	
	21.2.1. Corporate purpose	380
	21.2.2. Provisions with respect to the members of the Company's administrative bodies	197-210
	21.2.3. Rights, preferences and restrictions attaching to each class of existing shares	374, 380-381
	21.2.4. Action necessary to change the shareholders' rights	N/A
	21.2.5. Conditions governing the manner in which Annual General Meetings are called	381
	21.2.6. Provisions that would have an effect of delaying, deferring or preventing a change in control	209
	21.2.7. Provision governing the ownership threshold above which holdings must be disclosed	381
	21.2.8. Conditions, articles or Charter governing changes in the capital	381-382
22. Material contracts		**N/A[4]**
23. Third party information and statements by experts and declarations of any interest		**N/A**
24. Documents on display		**377, 380, 385**
25. Information on holdings		**335-343, 360-361**

(3) No quarterly financial statements have been published between the closing of the annual financial statements and the publication of the Reference Document.
(4) Not material.

6. cross-reference table for the management report

(articles l. 225-100 et seq., l. 232-1 and r. 225-102 of the french commercial code)

Position of the Company and activity over the past fiscal year	222-249
Results of operations of the Company, its subsidiaries and companies under their control	222-241
Key financial performance indicators	6-7
Review of the business, results of operations and financial position	222-249
Trade payables and trade receivables – Payment terms	382
Progress achieved and problems encountered	223, 244-247
Description of main risks and uncertainties	252-260, 316-325
Notes on the use of financial instruments: the Company's financial risk management policies and objectives	316-325
Information on market risks (interest rate, foreign exchange and equity)	316-325
Information on country risks	254
Significant events that have occurred between the end of the reporting period and the date of the Management Report	N/A
Planned development of the Company and of entities within the scope of the consolidation and outlook	249
List of positions held and duties performed by each Director (or equivalent) and executive corporate officer in all companies	148-160
Total remuneration and benefits in kind paid to each Director and executive corporate officer during the year (including the principles and rules used to determine the remuneration and benefits allocated to them)	162-173
Commitments of any kind entered into by the Company in favour of its Directors and executive corporate officers	162-173
Transactions by management, Directors and executive corporate officers in the Company's securities	176
Key environmental and social indicators	67
Employee information	68-84
Employee share-ownership	372, 375
Environmental information	85-115
Information on the risk-reduction policy for technological accidents	N/A
Significant shareholdings in companies with registered offices in France	N/A
Changes in the presentation of the annual parent company or consolidated financial statements	222-223
Major shareholders, share ownership structure and voting rights as of December 31, 2016	374
Information on factors likely to have an impact in the event of a public offering	209
Company's management structure	142-144, 199-200
Special report on stock subscription and purchase options and free share grants	371
Information on the share buy-back programme – transactions carried out by the Company in its own shares (number and average exchange price of purchases and sales, reasons for acquisitions and proportion of the capital they represent, etc.)	368-369

Summary table showing the authorisations currently in force to increase the share capital	370
Five-year financial summary	362
Net income for the year and proposed appropriation of net income	372
Dividends paid during the last three fiscal years	372
Information on related-party agreements	359, 365
Information on the renewal of the terms of office of the Statutory Auditors	384
Research and development activity	N/A
Works Council's observations on the economic and employment situation	N/A
Expenses that are not deductible for tax purposes	N/A

7. cross-reference table for the annual financial report

(article 222-3 of the amf's general regulations)

Kering SA parent company financial statements	346-362
Kering group consolidated financial statements	261-343
Management Report	refer to the cross-reference table for the Management report
Statement by the person responsible for the Annual Financial Report	383
Statutory Auditors' report on the financial statements	363-364
Statutory Auditors' report on the consolidated financial statements	344-345
Fees paid to Statutory Auditors	343
Report by the Chairman of the Board of Directors on the conditions of preparation and organisation of the work performed by the Board, and on the internal control and risk management procedures implemented by the Company	197-219
Statutory Auditors' report prepared in accordance with Article L. 225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Directors	220

8. index

A

Accounting methods and principles 206, 268, 344, 363-364

Activities

- Luxury: 7, 15, 24, 60, 66, 80, 122, 125, 143, 200, 211, 218, 224, 226-227, 229-231, 236, 241, 244, 247, 249-250, 255-256, 258, 268, 284, 287-288, 295-297, 299-300, 314, 320, 335
- Sport & Lifestyle: 4, 7, 10, 15, 47, 50, 66, 125, 143, 152, 200, 211, 218, 223-224, 226, 238, 241, 249-252, 254-256, 258-259, 278, 284, 287, 295-297, 299-300

AFEP-MEDEF Code 71, 142, 144, 161, 163, 177, 190, 194, 196, 198, 200-203, 206-208

Alexander McQueen 4, 11, 15, 21, 35-36, 79, 99, 106-107, 111, 113, 126-128, 131-132, 223, 237, 278, 335-339

Annual General Meeting 6, 71, 143, 148, 150, 152, 154-160, 163, 171, 188-190, 196, 199-200, 203-204, 208-210, 219, 248, 267, 303, 344, 362-363, 368-369, 371-372, 374, 380-382, 384, 388

APE code (French activity code) 380

Arrangements and agreements 373

Artémis 45, 148, 150, 152, 173, 207, 209, 334, 359, 366, 373-375

Audit

- internal: 124, 202-207, 212-213, 215-218
- social: 67, 118, 126, 140, 256

B

Balenciaga 4, 11, 15, 21, 35, 37, 77, 80-81, 83, 86-87, 98-99, 107, 110-113, 126-127, 131-133, 180, 223, 231, 236-237, 250, 258, 278, 335-339

Black-out periods 176, 199, 214

Board of Directors

- Composition of the Board of Directors: 197-198
- Internal rules of the Board of Directors: 199
- Work of the Board of Directors: 174, 199, 200, 203

Bottega Veneta 4, 11, 15, 21, 24-25, 29-31, 71, 77, 79, 86-88, 98-99, 102, 104-109, 111-113, 116, 119-120, 126-128, 132-133, 138, 176, 200, 215, 223, 225-226, 230, 233-234, 251, 278, 335-339, 343

Boucheron 4, 11, 15, 22, 35, 38, 80-82, 86, 99, 108-109, 111, 116, 127, 131-132, 148, 237, 299, 335-339, 342

Brioni 5, 9, 11, 15, 21, 35, 39, 69, 77, 87, 99, 109, 111-112, 116-117, 119, 126, 129, 131-133, 138, 149, 153, 223, 227, 236-237, 241, 251, 278, 287, 299-300, 335-339

C

Cfao	4-5, 8, 148-149, 153
Christopher Kane	5, 9, 11, 15, 21, 35, 40, 79, 152, 223, 237, 278, 299, 335-337, 360
COBRA	5, 52, 55, 107, 239, 340
Code of Business Practices	58
Code of ethics	60, 65, 72-73, 76, 78, 120-121, 125-126, 137, 214, 255-256
Committees	
Appointments	66, 142-143, 145-146, 150, 159-160, 171, 188, 197-199, 201-203, 205-206, 208-210
Audit	66, 143-146, 150, 154-155, 158-159, 197-199, 203-207, 211-213, 215-219, 334, 366, 374, 387
Ethics and Corporate Social Responsibility Committee (ECSRC)	58, 72
European Works Council	78, 80, 83-84, 215
Executive	12, 58, 63, 65-66, 69, 76, 78, 85, 91, 175-176, 180, 191, 200, 203, 208, 215, 223, 253, 278, 334
Insider Good Practices	175-176, 214
Remuneration	66, 143, 145-146, 150, 154-155, 162-164, 167, 171, 177, 179, 182-183, 186, 189, 192, 195, 198-199, 201, 203, 206, 208, 210, 374, 387
Strategy and Development	66, 143-146, 148, 150, 154, 156-159, 174, 198-199, 201, 209, 215
Sustainability	58, 63, 65-66, 143, 145-146, 148, 150, 152, 160, 198-199, 203, 205-206, 209
Commodities/Raw materials	11, 61, 63-64, 73, 85-86, 88-95, 103-105, 107, 110-111, 115, 117, 119-120, 123, 135, 156, 255, 258-259, 299, 380
Control of the Company	374, 387
Corporate governance	63, 141-142, 147, 159, 200, 203, 205-206, 208-209, 212, 220, 223, 278, 334, 366, 374, 381, 387
Corporate Social Responsibility	58, 72, 136, 147, 164, 177, 179-180, 183-184, 190-191, 195, 208, 210, 256

D

Debt	6, 169, 188, 222, 224, 227, 241, 244-246, 253-254, 264, 269, 271, 273-275, 288, 307, 315-316, 323, 328-329, 350, 356, 358, 370
Directors	13, 58, 62-63, 65-66, 70-71, 74-75, 78, 85, 116, 118-120, 130-131, 137, 142-164, 167, 169-175, 177, 179-183, 186, 188-189, 191-192, 194-195, 197-211, 213, 215-220, 248-249, 258, 267, 285, 303, 334, 344, 358, 363-364, 366, 368, 370-372, 374, 380-382, 387, 389, 391
Directors' fees	162-163, 171-172, 181, 188-189, 194, 199, 203-204, 208, 210, 358
Dividend	6, 79, 190, 204, 222, 243, 246-248, 264-265, 286, 289, 303, 334, 348-349, 356, 358-362, 372, 380-381, 388, 390
Documents on display	388
Dodo	(see Pomellato)

E

EBITDA 6, 222, 224, 227, 229, 231-240, 245, 251, 254, 287, 315

Electric 4-5, 56, 67, 94-97, 99, 102-103, 112, 140, 223-224, 238, 240, 243, 278, 308, 331, 342

Employees (see Human resources)

Employee benefits 63-64, 71, 164, 243, 268, 276, 284, 303, 332, 362

Employee profit-sharing 348, 359, 362

Employee savings plan 72

EMTN 203-204, 246, 253, 311-313, 323, 355-356

Environment

- Paper 60, 86, 90, 104, 108-113, 227, 244, 310-311, 315, 317, 325, 329, 335, 398
- Transport and energy policy 12, 61, 64, 67, 71, 85-86, 88, 91, 94-103, 105, 110-112, 126, 129, 135, 138, 140, 156, 211
- Waste recycling 112
- Water 54, 60, 63-65, 67, 86, 88, 90-93, 98-99, 105, 107-108, 111, 113-115, 123, 126, 129, 135, 140, 259-260

Equity 6, 224, 228, 241-245, 247, 252, 261, 263, 265, 268-270, 273-275, 282-283, 286, 290, 293, 295, 300, 303, 307, 316, 318, 322-324, 329, 335, 347, 349, 360, 382, 389

Executive Management 78, 144, 175-176, 199, 209, 211, 212-213, 215-218, 253, 387

F

Financial and accounting information 197, 211, 213, 218

Financial communications 199, 218, 377

Financial statements

- consolidated 170, 192, 197, 199, 203, 216-218, 222, 227-228, 238, 241-243, 246, 249-250, 252-255, 257, 261, 266-270, 279, 343-345, 359, 385, 389, 391
- parent company 197, 200, 203, 211, 217, 248, 264, 267, 335, 346, 349, 351, 383, 385, 389, 391

Five-year financial summary 362, 390

Fnac 4-5, 8, 148-150, 152-153, 291, 362

Free share grants 208, 370-371, 389

G

General information 380

Girard-Perregaux 5, 11, 15, 22, 35, 41, 86, 98-99, 108-109, 119, 127, 132, 237

Gucci 4-5, 8, 11, 13, 15, 21-28, 71, 77-78, 80-81, 83, 86-88, 98-99, 102, 105, 107-108, 111-113, 116, 119-120, 126-129, 131-133, 138, 144, 152, 174, 176, 180, 200, 203, 205, 215, 225-227, 230-233, 241-243, 250-251, 258, 280, 287-288, 299-300, 335-339, 342-343

Gucci Group 4-5, 8, 335, 337-339

H

Highlights 27, 30, 33, 54, 59, 62, 78, 223, 231, 278, 349

History 4-5

Human resources 11-12, 66, 68-69, 71, 73-74, 77-79, 83-84, 86, 125, 137-138, 160, 164, 176, 180, 205, 208, 214-215, 218, 223, 258, 278

I

IFRS 134, 170, 250, 254, 267-268, 270, 275-277, 313, 324

Insurance 71, 197, 211, 218-219, 256, 258-260, 304-307, 331

Internal control

- Chairman's report (section on internal control) 143, 203, 207, 220, 252
- Internal control procedures 211, 213, 217-218, 220

Internal rules 143-144, 199, 202-205, 212, 374

Investment policy 250, 385

J

JEANRICHARD 5, 15, 35, 41

K

Kering Foundation 13, 59, 62, 65, 67, 76, 130-132

Kering share

- Pledges 119, 130-131, 246, 253, 274, 301-302, 315, 333, 373
- Share performance 285
- Stock market prices 272, 327
- Treasury shares 244, 263-265, 275, 277, 293-294, 303, 350, 352, 354, 368-369, 374

Key figures 24, 26, 29, 32, 35, 50, 52, 56, 67, 385-386

L

La Redoute 4-5, 8, 331

Luxury (see Activities)

M

McQ (see Alexander McQueen)

N

Non-controlling interests 228, 243, 261-264, 268-270, 273, 277, 292, 294-295

Non-voting Directors 171, 174, 198, 200, 202

O

OCEANE bonds 273

Organisational structure of the Group 233, 237, 386

Ownership structure 367, 374, 377, 389

P

Pension plan 169, 173, 181, 188, 194, 196, 294, 303-304, 306

Pomellato 5, 9, 11, 15, 22, 35, 42, 71, 82-83, 86, 99, 108-109, 111, 131-133, 152, 237, 299, 335, 336-339

Public offer (impact) 209, 370, 375, 389

PUMA 4-5, 13, 15, 47, 49, 51-55, 58, 71, 77-79, 81-83, 85-87, 99, 102, 105-106, 111, 113-114, 118-119, 121-122, 124-128, 132-133, 138, 143, 148, 152, 174, 176, 193, 200, 211-213, 215-216, 224-228, 238-240, 242-244, 246-247, 249, 251, 256, 281, 286, 288, 299-300, 315, 339-341, 366

Q

Qeelin 5, 9, 11, 15, 22, 35, 43, 131-132, 237, 299, 335-336, 338

R

Redcats 4, 5, 8, 153, 228, 241, 250, 291, 330, 343, 352-354, 360

Remuneration

- paid to executive corporate officers 71, 162-170, 178-179, 182-189
- paid to other corporate officers (see Directors' fees)

Reports

- business review 65, 85, 224
- Chairman's report 143, 203, 207, 220, 252
- Statutory Auditors' report (see Statutory Auditors)

Risk

- credit 258, 323, 327
- equity 252, 268, 274, 316, 323
- financial 197, 211, 219, 252, 319, 389
- foreign exchange 252-253, 274, 319, 322-323, 354
- insurance 197, 218-219
- interest rate 222, 252-253, 275, 316-318, 323, 357
- legal 257
- operational 254-255
- prevention (see Risk prevention)

Risk prevention 81, 259

S

Saint Laurent (see Yves Saint Laurent)

Securities market 374-375

Seller's warranties 228, 292, 308, 330-331

Sergio Rossi 4-5, 228, 250, 291-292, 331

Share buy-back (programme) 203, 209, 252, 368-369, 389

Share capital 143, 200, 203, 244, 263-265, 277, 303, 334, 347-349, 352, 359-360, 362, 367-375, 377, 380-382, 387-388, 390, 398

- Share capital structure 374-375
- Share capital transactions 368-369

Sport & Lifestyle (see Activities)

Staff 12, 14, 63, 74, 81-82, 86, 131, 176, 214, 217, 257-258, 276, 351

Statutory Auditors 137, 139, 144, 202-203, 206-207, 215-218, 220, 343-345, 359, 363-366, 383-386, 388, 390-391

- Engagement 61, 136-137, 207, 217, 220, 234, 365
- Fees 207, 343, 359, 391
- Reports
  - by the Chairman 197, 211
  - on related-party agreements and commitments 365
  - on the consolidated financial statements 344
  - on the financial statements 363

Stella McCartney 4, 11, 13, 15, 21, 35, 44, 62, 79, 83, 87, 98-99, 102, 104-107, 109, 111, 113, 116-120, 126-128, 131-132, 148, 231, 236-237, 250, 335-339

Subsidiaries and investments 360

Suppliers 12, 54, 60, 63-67, 9-92, 94, 99, 103-108, 111-114, 116, 118-128, 136, 173, 202, 214, 255-256

Stock market prices 272, 327

Stock options (see Stock subscription and purchase options)

Stock subscription and purchase options 169, 275, 277, 286, 303, 350, 352, 362, 371, 389

Strategy 8-13, 19, 27, 30, 33-34, 37, 39, 42, 44, 53, 58-63, 65-69, 71, 76, 82, 84-87, 89, 91, 94-95, 104-106, 117-119, 127-129, 138, 143-146, 148, 150, 154, 156-159, 164, 174, 179-180, 183, 190-191, 193, 197-201, 203-207, 209, 211, 215, 223, 230-231, 233-237, 239-240, 249-251, 254, 258, 278, 304, 366, 377

T

Thresholds 127, 168, 233, 251, 304, 374, 381, 388

Tomas Maier 30-31, 228, 242, 300, 337

Trade and Companies Registry 267, 380

Tretorn 5, 224, 227, 238-239

U

Ulysse Nardin 5, 9, 11, 15, 22, 35, 45, 77, 86, 98-99, 109, 116, 119, 127, 132, 138, 148, 152, 227, 237, 241, 287, 296, 299-300, 336-339

V

Volcom 5, 15, 47, 56, 85, 87-88, 99, 101, 104-105, 112, 118-119, 121, 124-126, 129, 132-133, 148, 152, 223, 238, 240, 251, 278, 299, 341-342

Voting rights 209, 269, 334, 364, 366, 368, 373-374, 381, 387, 389

Y

Yves Saint Laurent 4, 15, 32-34, 148-151, 153, 200, 223, 225-226, 230-231, 235-236, 250-251, 258, 278, 335-338, 352, 360

kering

Société anonyme (a French corporation) with a share capital of €505,117,288
Registered office: 40 rue de Sèvres - 75007 Paris
552 075 020 RCS Paris

Tel.: +33 1 45 64 61 00 – Fax: +33 1 45 64 60 00
kering.com

This document was produced by an "Imprim'Vert" eco-responsible printer
on PEFC certified paper from sustainably managed forests.

Design and Production: Agence Marc Praquin




Empowering Imagination