Financial document
2016

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The consolidated financial statements of this document are identical to those published in the 2016 Financial Document and posted on kering.com on Friday, February 10, 2017. They are supplemented by the statutory auditors' report on the consolidated financial statements as of December 31, 2016.

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1. history

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

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

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

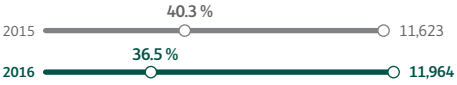
(in € millions)	2016	2015	Change
Revenue	**12,385**	**11,584**	**+6.9%**
EBITDA	**2,318**	**2,056**	**+12.7%**
EBITDA margin (as a % of revenue)	*18.7%*	*17.8%*	*+0.9pt*
Recurring operating income	**1,886**	**1,647**	**+14.5%**
Recurring operating margin (as a % of revenue)	*15.2%*	*14.2%*	*+1.0pt*
Net 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.*

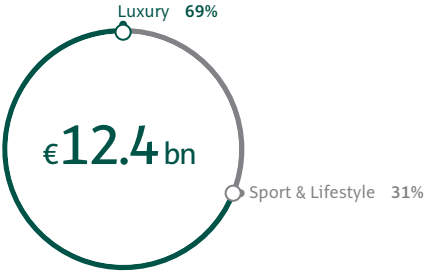
free cash flow from operations (2)
(in € millions)

net debt (3)
(in € millions)

solvency ratio
(Net debt(3)/EBITDA)

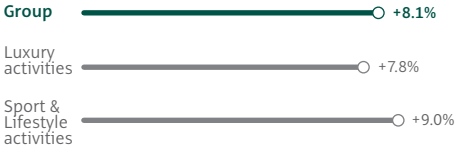
(1) Purchases of property, plant and equipment and intangible assets.
(2) Net cash flow from operating activities less net acquisitions of property, plant and equipment and intangible assets.
(3) Net debt is defined on page 58.
(4) Subject to the approval of the Annual General Meeting to be held on April 27, 2017.

revenue breakdown by activity

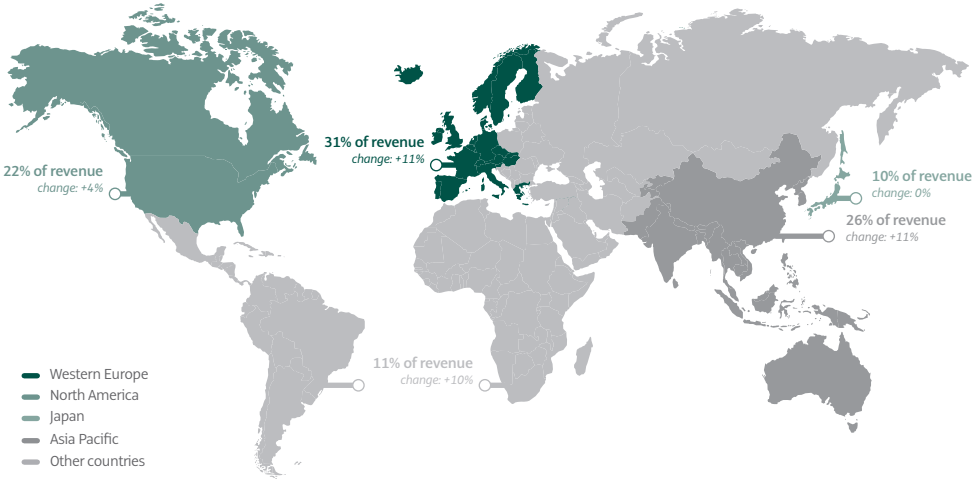


group revenue

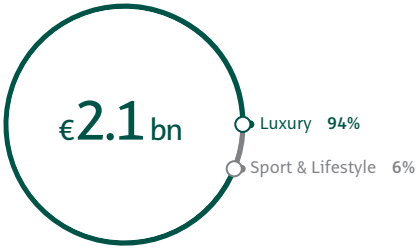
2016 vs 2015 comparable[1] change, in %



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 58.
(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

1 Multi-brand model

- **Balanced portfolio:**
  - of complementary brands;
  - built through acquisitions and developed through organic growth.
- **Business model and management aimed at leveraging:**
  - differentiated cycles and degrees of maturity;
  - growth dynamics specific to each brand.

2 Organic growth

- **Foundation:** secular growth of markets.
- **Capital:** attractiveness of the brands.
- **Growth lever:** same-store performance.
- **Accelerator:** online presence.

3 Value creation by brands and Group

- **Integrated specialised group.**
- **Optimisation of processes.**
- **Strong generation of free cash flow, from operations.**
- **Improving return on capital employed.**

4 Sustainability

- **Social and societal responsability.**
- **Environmental responsability.**
- **Creativity and leadership.**

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.

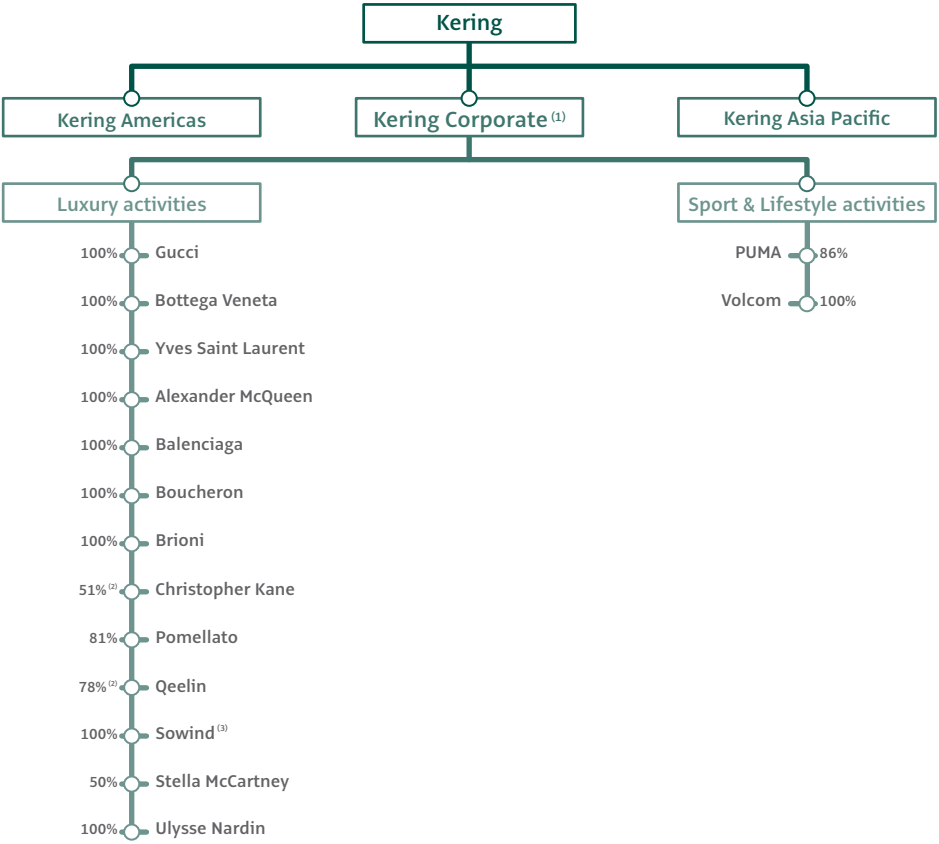
Gucci undertook a major transformation programme in early 2015 to overhaul its creative drive, organisation and collections. The results of its initiative in 2016 are proof of the ability of the soon-to-be 100-year-old brand to reinvent itself and rapidly return to the forefront of the Luxury industry. 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 77.
(2) Excluding put options.
(3) The Sowind group owns the Girard-Perregaux and JEANRICHARD brands.

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worldwide personal luxury goods market overview

This section contains information derived from studies conducted by organisations, such as Altagamma and Bain & Company. Unless otherwise indicated, all historical and forecast information, including trends, sales, market shares, sizes and growth, comes from the Bain Luxury Study – Altagamma Worldwide Market Monitor, published in October 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)

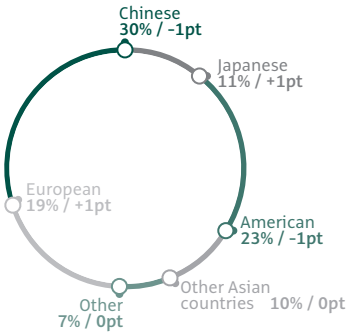
Annual change at reported or comparable exchange rates

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.

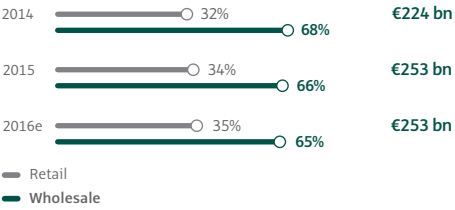
Perfume and cosmetics

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.

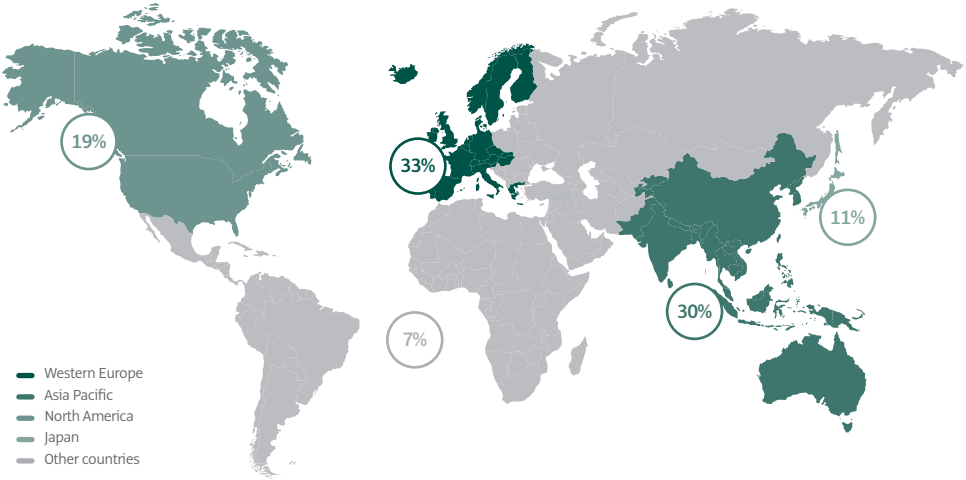
luxury activities

2016 key figures

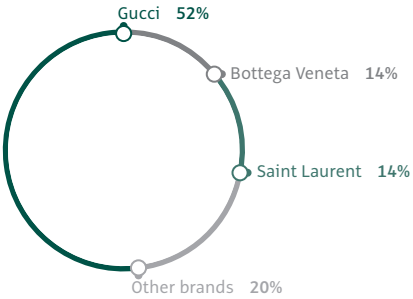
€8,469 million
in revenue

Revenue (in € millions)

Breakdown by region



Breakdown by brand

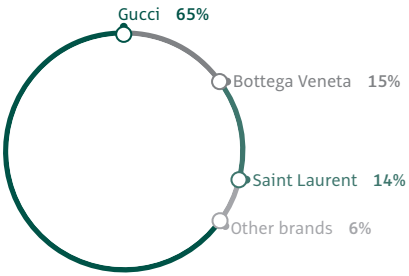


Breakdown by product category

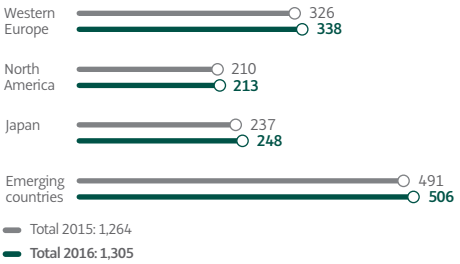
€1,936 million
in recurring operating income

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

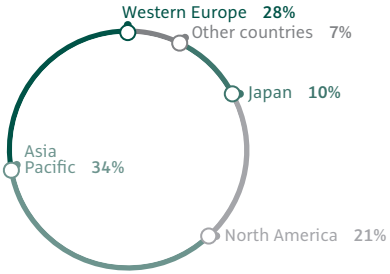
€1,256 million
in recurring operating income

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 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 improve 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 rationalizing 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 to the new brand aesthetic, through the implementation of a comprehensive retail excellence program 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, most 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 the full renovation, continued on a worldwide basis, helping to create further visibility for the new brand positioning and the 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 Q4 2016 total revenues compared to slightly over 30% in the last quarter of 2015.

In terms of products, 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, 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 the digital leadership, Gucci has been recognized as the first brand in the Fashion Digital IQ Index, thanks to its revamped website, a superior customer service, unrivaled visibility on category search terms, and best in class visibility on retailer sites and social platforms.

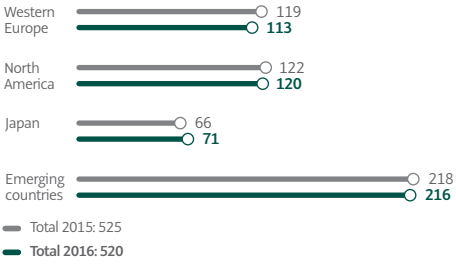
Maintaining the brand's digital leadership through innovation remains one of the pillars of the brand ambition. Prioritizing incremental investment in digital activities, exploiting newsworthy collaborations to generate native content stories, and continuous social media innovation are the key drivers 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 a second year in a row. Marco Bizzarri's achievements were also recognized by the British Fashion Council with the 2016 International Business Leader Award.

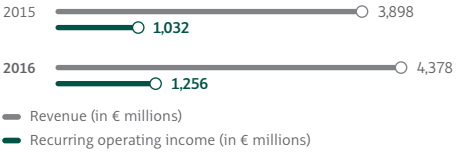
In 2017, Gucci will build on 2016 successful results completing the product transition for all categories and seeking to capture all growth opportunities across product categories and channels of distribution. Increased sales density and the progressive roll-out of Gucci.com across regions will be among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

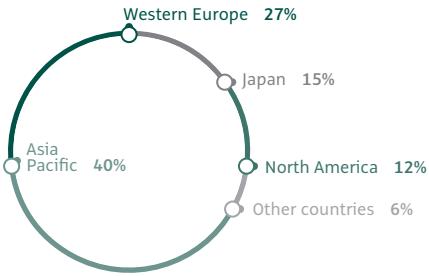
€297 million
in recurring operating income

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, as part of both license agreements (Coty Prestige for fragrances) and supply partnerships (Poltrona Frau for seating, KPM for porcelain and Kering Eyewear for eyewear).

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 4th 2016, Claus-Dietrich Lahrs has been 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 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 the 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.

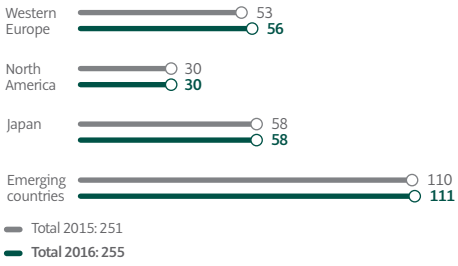
Embracing the current changes in the consumers' behaviour, Bottega Veneta will further begin a new era with regards its digital presence and activities aiming to recruite new audiences, entertain the clients as well as provide them with a deeper omnichannel experience.

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.

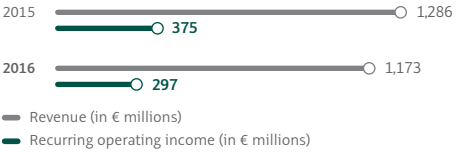
Moreover, in 2017, Bottega Veneta will present its collections with two annual combined women's and men's fashion shows, one for Fall/Winter and the other one for the Spring/Summer seasons, held during the February and September Milan women's fashion weeks respectively, and which confirms the approach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

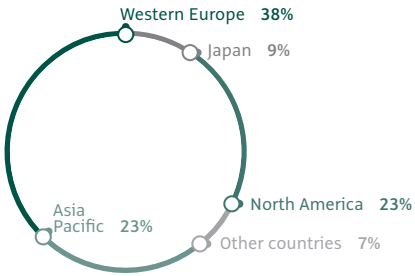
€269 million
in recurring operating income

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 revenues.

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 has been 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.

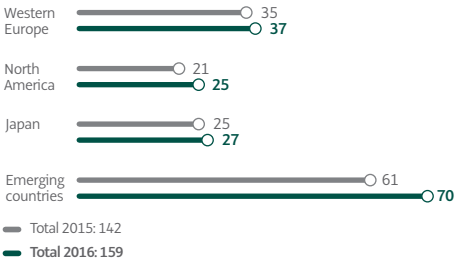
Saint Laurent also made 2016 another year of investment, enhancing its retail network with selective store openings worldwide, in both emerging and mature markets, and key refurbishments and relocations. Throughout the year the brand opened 17 (net) directly operated stores worldwide, including the entry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

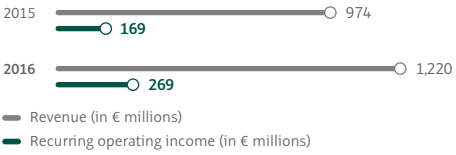
Social media initiatives were met with extraordinary success as social platforms were fully integrated into global communications practices and strategies. As of December 2016, Yves Saint Laurent had more than 2.6 million fans on Facebook and was one of the most popular luxury brands on Twitter with 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

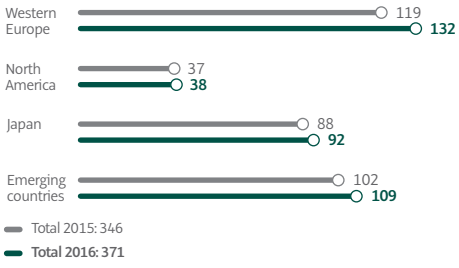
€1,698 million
in revenue

€114 million
in recurring operating income

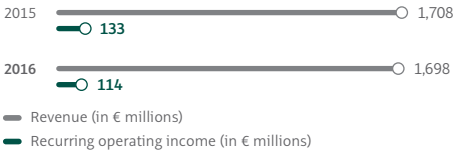
5,685
average number of employees (full time equivalent)

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, 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 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 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, 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, 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 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 consolidates 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 5th 2016, in London, Demna Gvasalia received the prestigious award by 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 showing 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 in Instagram with over 2.9 million followers.

In 2017 the brand will benefit from the impulse 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) were under 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. At 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 iconic line, *Quatre*, has been extended with the worldwide launch of new references, using two signature motifs, *Grosgrain* and *Clou de Paris*. *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 feminine new round watchcase was launched during 2016 Baselworld 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, to extend its iconic jewelry lines and to 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 by 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 accounts. 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 has been opened for two years, 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.

Finally, Girard-Perregaux ended the year very successfully being awarded two times in 2016, at the *Grand Prix d'Horlogerie de Genève*: the brand received 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 capitalize on the re-organization 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 the 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 year of the 15th anniversary 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 has completed a 360° digital strategy including website, social media and newsletter. In this perspective the new Pomellato website with integrated e-commerce 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.

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 DNA with a focus on playfulness and Chinese emotions.

STELLA McCARTNEY

Stella McCartney is a luxury lifestyle brand that was launched under the designer name in partnership with Kering in 2001. Since then, the brand has experienced a 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 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 apparels with Adidas and lingerie with Bendon. The brand has also developed eyewear and perfumes lines through licence agreements.

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

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

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

Most recently and for several years, the brand focussed 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 the last years, a very important role has been played by e-commerce, which contributed to enhance and reinforce market penetration both in terms of image and revenue. Stella McCartney online presence today is very well developed worldwide and represents a significant part of its total revenues.

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 engaged and connected clients, particularly Millennials to the 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 the synergies with the online business while aiming towards one «universal» client experience. In addition, for the year, 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 International Salon of *Haute Horlogerie* in Madrid, and was nominated «Watch of the Year» by a jury committee 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 focus on digital media and on the launch of Ulysse Nardin 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 manages directly 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 addition, the brand will extend the length of its warranty program 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.

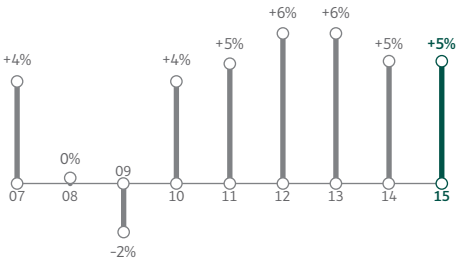
Also note that i) all growth rates are expressed in reported terms (unless stated otherwise); ii) the designation «Sport & Lifestyle» (SLS) refers to all types of sports from running and hiking to snowboarding; iii) the global sport market, as reported by NPD, includes four major segments: apparel, footwear,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

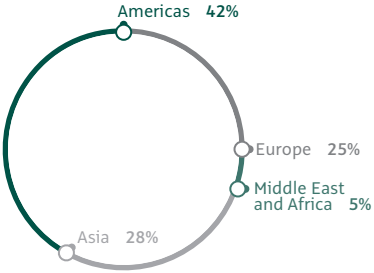
competitive environment

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.

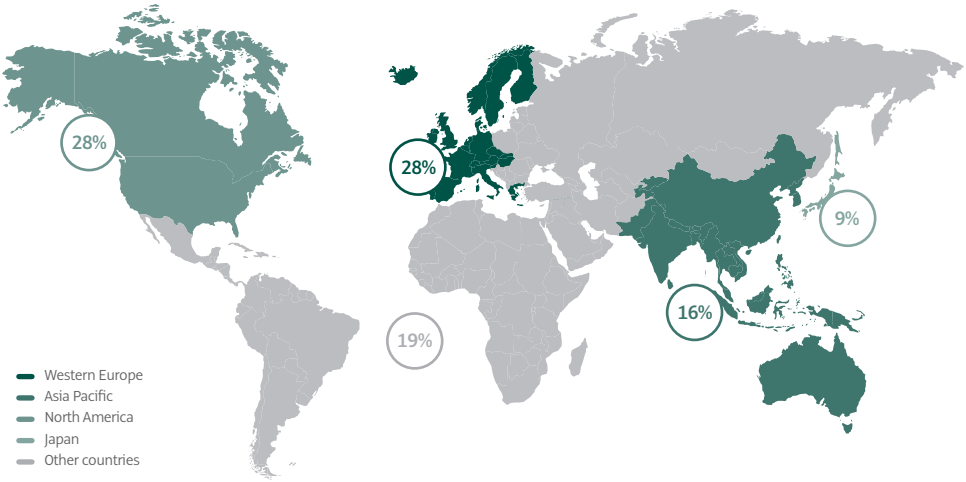
sport & lifestyle activities

2016 key figures

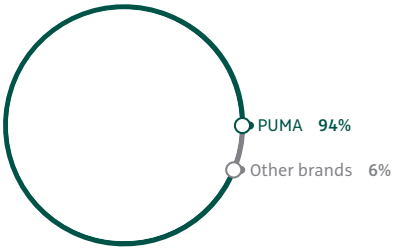
€3,884 million
in revenue

Revenue (in € millions)

Breakdown by region



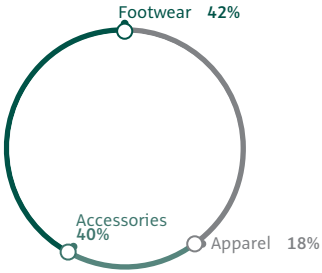
Breakdown of 2016 revenue by brand



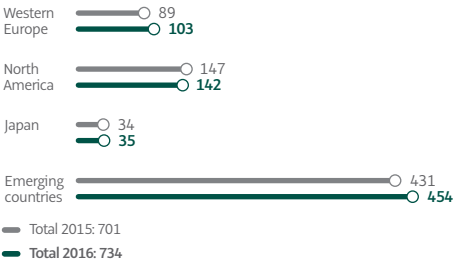
€123 million
in recurring operating income

Recurring operating income
(in € millions)

Breakdown of 2016 revenue by product category



734
directly operated stores



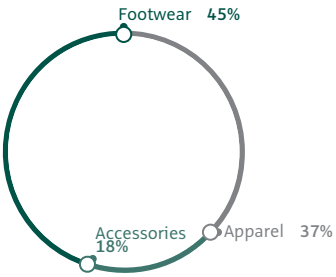
2016 key figures

€3,642 million
in revenue

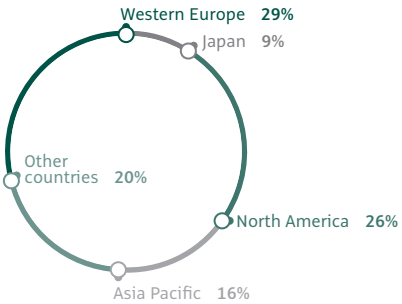
€127 million
in recurring operating income

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.

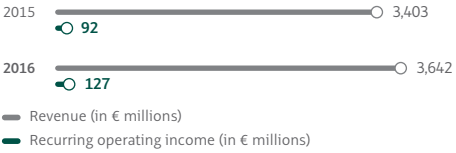
In the brand's Sportstyle and women's business, the first quarter of 2016 provided a lot of positive buzz, when Creative Director Rihanna presented her first «FENTY PUMA by Rihanna» collection at the New York Fashion Show in February. Her first collection hit the stores worldwide in September, while 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
financial information

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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 Quicksilver US in September 2015 and Pacific Sun 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.

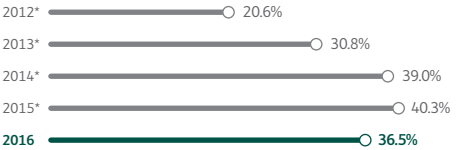
Kering only carries out borrowing and investment transactions with leading financial institutions and it spreads these transactions amongst the various institutions concerned.

Solvency

As of December 31, 2016, Kering had a very robust financial structure:

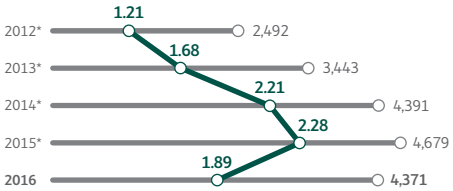
- Its gearing ratio (net debt to equity) was 36.5% (versus 40.3% as of December 31, 2015);
- Its solvency ratio (net debt to EBITDA) was 1.89 (versus 2.28 as of December 31, 2015).

GEARING



* *Reported data, not restated.*

SOLVENCY



* *Reported data, not restated.*

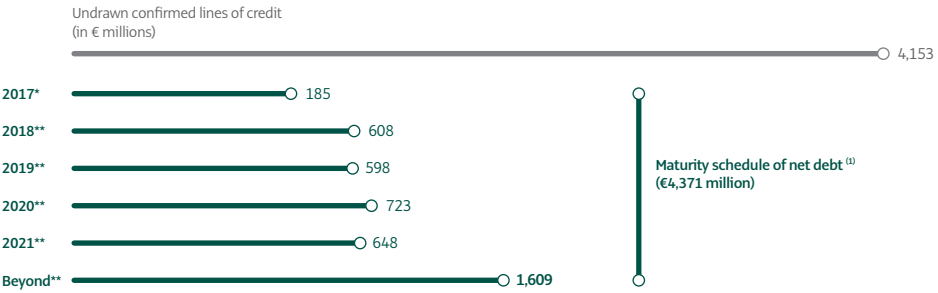
Kering's bank borrowing facilities are subject to just one financial covenant which provides that the solvency ratio (net debt to EBITDA, calculated annually on a pro forma basis at the year-end) must not exceed 3.75.

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 58.

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).

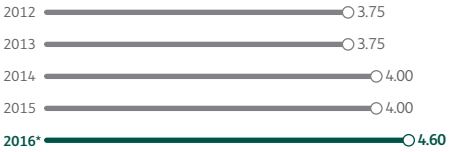
At its February 9, 2017 meeting, the Board decided that, at the Annual General Meeting to be held to approve the financial statements for the year ended December 31, 2016, it will ask shareholders to approve a €4.60 per share cash dividend for 2016.

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.

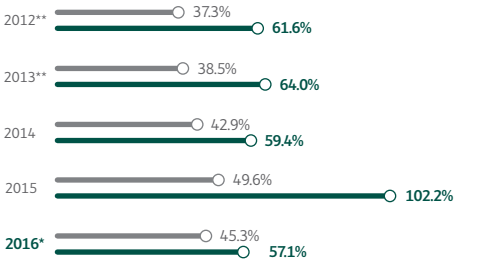
Kering's goal is to maintain well-balanced payout ratios bearing in mind, on the one hand, changes in net income from continuing operations (excluding non-recurring items) attributable to owners of the parent and, on the other hand, the amount of available cash flow. The Group has decided to raise its 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. consolidated financial statements as of december 31, 2016

2.1. 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

2.2. 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.

2.3. 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**

2.4. 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**

2.5. 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.

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note 1 – introduction

Kering, the Group's parent company, is a *société anonyme* (French joint stock company) with a Board of Directors, incorporated under French law, whose registered office is located at 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.

	2016				
(in € millions)	Carrying amount	Cash flow	Less than one year	One to five years	More than five years
Non-derivative financial instruments					
Bonds	4,180.9	(4,184.6)	(350.0)	(2,284.6)	(1,550.0)
Commercial paper	350.1	(350.1)	(350.1)		
Other borrowings	889.3	(1,228.7)	(554.2)	(525.3)	(149.2)
Trade payables	1,098.5	(1,098.5)	(1,098.5)		
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)**

	2015				
(in € millions)	Carrying amount	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.

3. 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

4. extracts of the parent company financial statements

The annual financial statements are prepared in accordance with the provisions of the French accounting standards authority (*Autorité des normes comptables* – ANC) regulation no. 2014-03.

4.1. balance sheet – assets as of december 31, 2016 and 2015

(in € millions)	2016	2015
Investments	9,321.7	8,766.1
Other long-term investments[1]	304.6	319.3
Property, plant and equipment and intangible assets	79.2	483.1
NON-CURRENT ASSETS	**9,705.5**	**9,568.5**
Receivables[2] [3]	94.3	70.7
Marketable securities	0.0	61.9
Cash	1,779.2	1,733.7
CURRENT ASSETS	**1,873.5**	**1,866.3**
TOTAL ASSETS	**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*	
(3) o/w concerning associates:	*1,812.6*	*1,615.9*

4.2. balance sheet – shareholders' equity and liabilities as of december 31, 2016 and 2015

(in € millions)	2016	2015
Share capital	505.1	505.2
Additional paid-in capital	2,052.4	2,052.3
Reserves	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	**95.6**	**611.4**
Bonds[1]	4,184.6	3,675.6
Other borrowings[1] [3]	46.1	41.8
Other liabilities[2] [3]	305.7	336.2
Liabilities	**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*

4.3. income statement for the years ended december 31, 2016 and 2015

(in € millions)	2016	2015
Net operating loss	**(32.5)**	**(35.5)**
Dividends	863.3	657.4
Other financial income and expenses	(97.0)	(97.6)
Net financial income	**766.3**	**559.8**
Recurring income before tax	**733.8**	**524.3**
Net non-recurring expense	(75.5)	(18.3)
Employee profit-sharing	(2.8)	(2.1)
Income tax	27.4	23.5
Net income for the year	**682.9**	**527.4**

4.4. 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**

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

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Design and Production: Agence Marc Praquin

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