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Reference Document 2006

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An adventure of enterprise

PPR

PPR
Société Anonyme (commercial company) with a share capital of €513,649,096
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An adventure of enterprise

Above all, PPR is the incarnation of a state of mind: the desire and willingness to display entrepreneurship. With boldness and a sense of risk, PPR invests and commits itself to its various businesses, always directed at the same goal: to grow its activities and become the leader. It imposes on each of its brands and companies its own demanding culture of growth and performance. With revenues of nearly €18 billion in 2006, PPR is a world leader in two different, but complementary universes: Luxury Goods and Retail. The diversity of its brands and businesses drives its success.



Its specific balance in terms of products, sales formats, brands, and geographical locations has generated a growth profile surpassing the average in its markets. Open to the world and backed by the skills and talents of its 78,000 employees, PPR makes expertise the core of its development and values and promotes an entrepreneurial spirit. It is a group with cutting-edge talents ahead of its time. As a responsible corporate citizen, it guarantees the conduct of its brands and places human values at the centre of its commitments.

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1 PPR in 2006

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History

Established in 1963 by François Pinault in the timber and building material businesses, the PPR group positioned itself in the middle of the 1990s in the Retail sector, in which it soon became a major player. The purchase 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 development of the Group.

PPR continues to expand its two activities in high-growth markets through powerful and recognised brands.

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

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

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

1991
- With the acquisition of Conforama, the Group enters the Retail activity.

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

1994
- Merger of La Redoute with the Group, which is renamed Pinault-Printemps-Redoute.
- Takeover of Fnac.

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

1996
- Acquisition by CFAO of SCOA, the leading pharmaceutical distributor in West Africa through its subsidiary Eurapharma.
- Creation of Orcanta, a women's lingerie chain.
- Launch of fnac.com, the Fnac website.

1997
- Takeover by Redcats (PPR home shopping activity) of Ellos, the leader in the Scandinavian mail-order market.
- Creation of Fnac Junior, a store concept 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 United States.
- 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 building up a multi-brand luxury goods group, with the acquisition by Gucci Group of Yves Saint Laurent, YSL Beauté and Sergio Rossi.

2000
- Acquisition of Surcouf, a specialised PC retailer.
- Acquisition by Gucci Group of Boucheron and BEDAT & Co.
- 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.
- Conforama enters the Italian market with the purchase of the Emmetza group, one of the leaders in the home furnishings market in Italy.
- 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 Guilbert mail order activity to Staples Inc.
- Sale of part of the Credit and Financial Services activity in France and Scandinavia to Crédit Agricole SA (61% of Finaref) and to BNP Paribas (90% of Facet).

2003

- The Group raises its stake in Gucci Group to 67.6%.
- Sale of Pinault Bois & Matériaux to the Wolesley group in the UK.
- Sale of the Guilbert "contract" activity to the American group Office Depot.
- Further sale of 14.5% of Finaref.

2004

- The Group raises its stake in Gucci Group to 99.4% following tender offer launched in April-May.
- Sale of Rexel.
- Divestment of the Group's remaining 24.5% stake in Finaref.

2005

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

2006

- Sale in two stages of France Printemps to RREEF and the Borletti group, 51% in 2006 and 49% in 2007.
- Sale of Orcanta to the Chantelle group.
- Sale of the Bernay industrial site (YSL Beauté Recherche et Industrie).
- Termination of Fnac Service activities.
- Conforama acquires majority control of Sodice Expansion.
- Redcats Group acquires The Sportsman's Guide, Inc.

Key consolidated figures

(in € million)	2005	2006	Change
Revenue	16,937.9	17,930.9	+5.9%
Revenue earned outside France (as a % of revenue)	*53.8%*	*55.2%*	*+1.4 pt*
Gross margin	7,339.1	7,855.7	+7.0%
Recurring operating income	**1,062.6**	**1,274.5**	**+19.9%**
Operating margin (as a % of revenue)	*6.3%*	*7.1%*	*+0.8 pt*
Income before taxes	**758.3**	**984.4**	**+29.8%**
Net income from continuing operations attributable to equity holders of the parent	536.4	679.7	+26.7%
Free cash flow from operations (1)	**917.2**	**1,069.6**	**+16.6%**
Debt-to-equity ratio at 12/31 *(net financial debt as a percentage of shareholders' equity for the consolidated entity)*	**56.4%**	**37.9%**	**-18.5 pts**

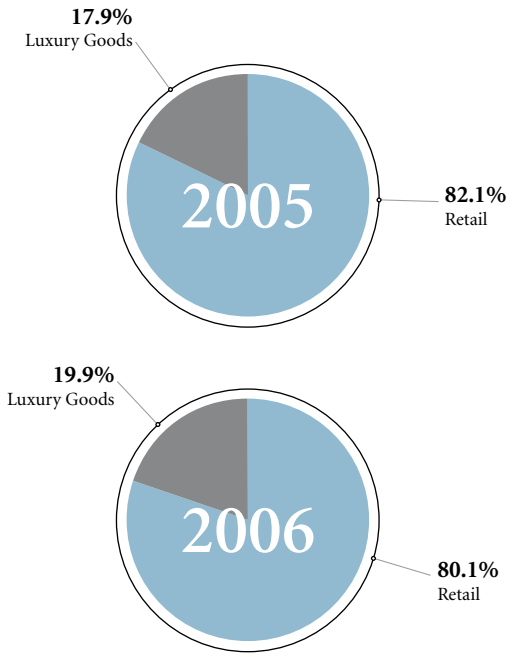
Per share data *(in €)*	2005	2006	Change
Net income per share from continuing operations attributable to equity holders of the parent	4.52	5.60	23.9%
Net dividend per share	2.72	3,00(2)	10.3%

Excluding non-recurring operating items, the change in net income from continuing operations attributable to equity holders of the parent was as follows:

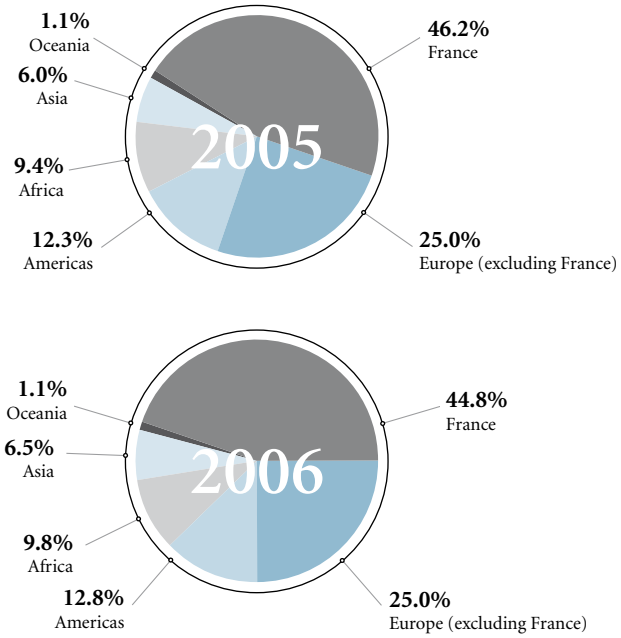
	2005	2006	Change
Net income from continuing operations attributable to equity holders of the parent	531.0	698.0	31.5%
Net income per share from continuing operations attributable to equity holders of the parent (in €)	4.47	5.75	28.6%

(1) Net cash from operating activities-net aquisitions of intangible assets and property, plant and equipment.
(2) Submitted to the approval of the Shareholders' Meeting of May 14, 2007.

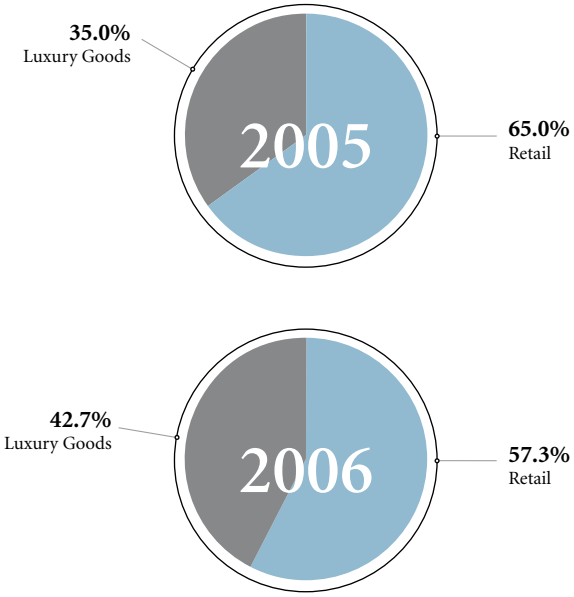
BREAKDOWN OF REVENUE BY ACTIVITY



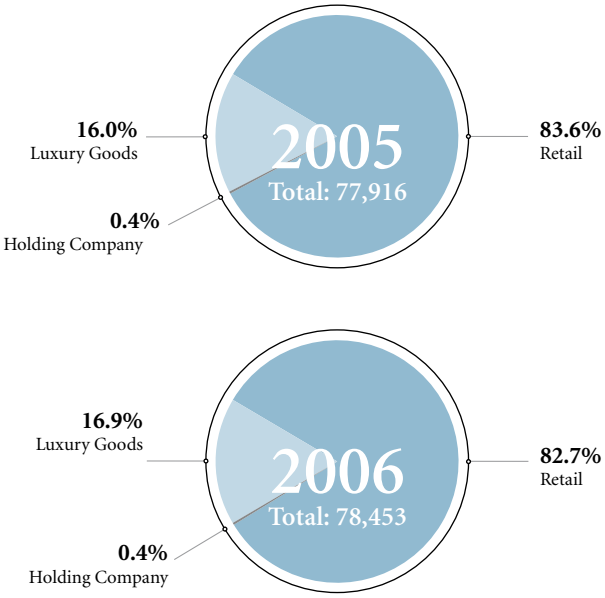
BREAKDOWN OF REVENUE BY GEOGRAPHICAL AREA



BREAKDOWN OF RECURRING OPERATING INCOME BY ACTIVITY (1)



BREAKDOWN OF EMPLOYEES AT DECEDMBER 31 BY ACTIVITY



[1] Excluding holding company and others.

The PPR Group

A LEADING PLAYER

PPR is driven by its goal of sustainable growth and continues to expand internationally in a spirit of achievement and creativity.

The Group is a leader in each of its Luxury Goods and Retail activities, through both the power of its brands and the skills of its teams.

The Group's specific balance in terms of products, sales formats and geographical locations has been the engine for its above-market growth.

The size of the Group, which recorded nearly €18 billion in revenues in 2006, is also a major competitive advantage.

Because of the size and diversity of its activities, there is no single competitor on the scale of PPR. Each brand is developing in its own competitive environment, as described in the section on the Group's activities.

POSITIONING AND STRATEGY

PPR is a global leader in two universes: Luxury Goods and Retail. This unique positioning reflects the Group's strategic choices and its entrepreneurial spirit.

A strong entrepreneurial culture

Since its inception in 1963, the PPR Group has constantly been on the move, guided by a strong entrepreneurial culture. At each stage in its history, PPR has acted boldly and imposed its performance-driven culture, developing each of its businesses and offering them strong prospects for growth. The entrepreneurial spirit lies at the heart of the Group's fundamental identity and has made PPR a global player in Luxury Goods and Retail.

An efficient combination of two businesses

PPR combines Luxury Goods and Retail, two universes of different yet complementary products, since their success is closely tied to brand management, customer service quality, and control of distribution. Luxury Goods and Retail are among the most profitable sectors, acting as the main contributors to PPR's particularly attractive profile. Gucci Group, with its prestigious brands, gives PPR a global presence in high-growth markets. The Retail companies are major players in stable and mature consumer markets. By combining both universes, PPR achieves a special balance in terms of products, sales formats, brands and geographic locations, driving higher-than-average growth in its markets.

A strategy of growth, with an emphasis on international activities

PPR is growing mostly through organic growth, generating strong cash flow, and emphasis on international activities.

In the Luxury Goods activity, Gucci Group combines leading brands with a differentiated positioning, the complementary features of which form one of the greatest assets. These prestigious brands are on the rise thanks to the growing success of their designers' collections and their craftsmens' expertise. The relevance of their positioning and their development in global markets offer the most promising momentum for growth.

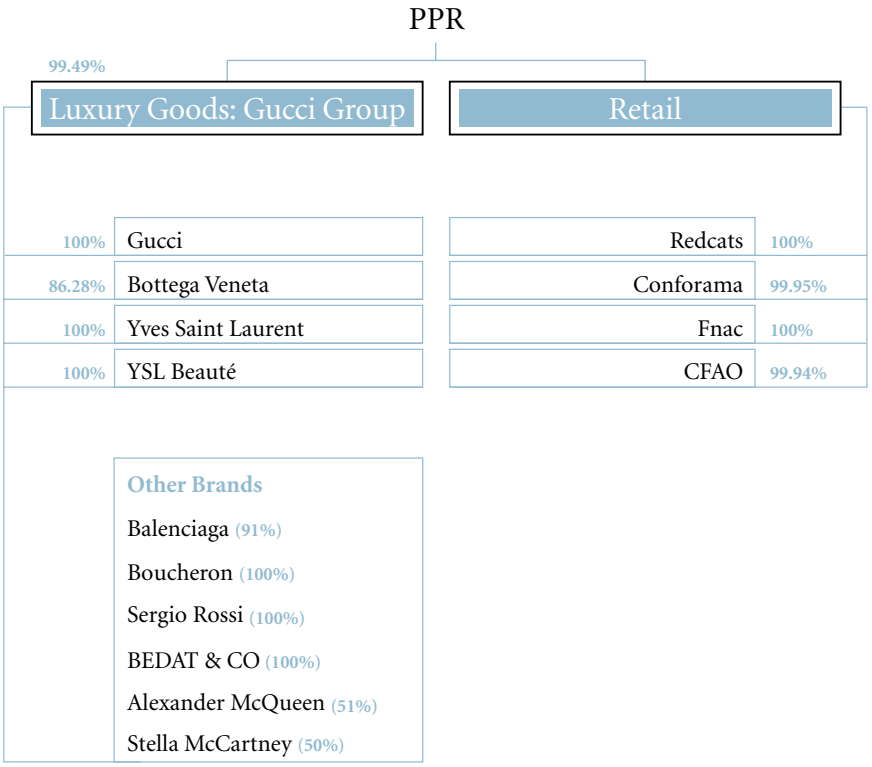
The Retail companies provide steady organic growth in promising markets because of their constant expansion and renewal of the product and service offering, the deployment of e-commerce, the launch of innovative store concepts, and the expansion of the retail network, particularly abroad, both in traditional countries and in high-potential new markets.

A decentralised operational management combined with pooled resources and skills

The organisational style of PPR has long favoured operational decentralisation and proximity to the market and the customer, factors that guarantee responsiveness and speed of adaptation. Resources are pooled to improve performance.

Knowledge-sharing among the various brands and companies is systematically encouraged to exploit the specific expertise of each company and brand in order to promote group-wide creativity and innovation. This organisation is a key factor in the performance of the Group's activities.

GROUP ORGANISATIONAL CHART AS OF 12/31/2006



% STAKE AS OF DECEMBER 31, 2006

LUXURY GOODS

GUCCI GROUP

GUCCI

BOTTEGA VENETA

YVES SAINT LAURENT

YSL BEAUTE

BALENCIAGA

BOUCHERON

sergio rossi

BEDAT & Co
GENEVE

ALEXANDER
McQUEEN

STELLA McCARTNEY

RETAIL

REDCATS Group

fnac.com

Conforama

CFAO
cfaogroup.com

2 The Group's activities

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CFAO 50

Presentation of the Luxury Goods activity: Gucci Group

- A worldwide player in Luxury Goods
- A portfolio of leading brands: Gucci, Bottega Veneta, Yves Saint Laurent, YSL Beauté, Balenciaga, Boucheron, Sergio Rossi, BEDAT & CO, Alexander McQueen and Stella McCartney
- 19.9% of PPR's total revenue
- 42.7% of PPR's recurring operating income (excl. holding company)

€3,568
million in revenue in 2006

€565
million recurring operating income

13,261
employees at the end of 2006

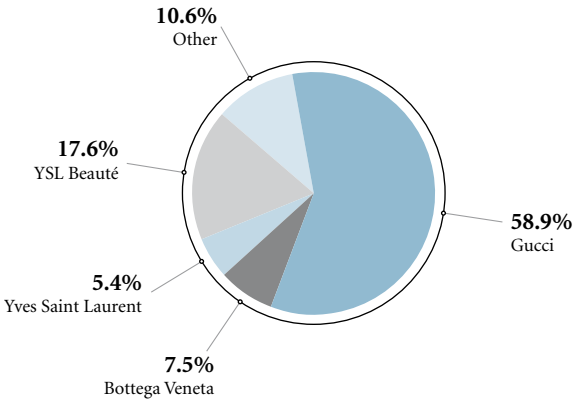
454
directly-operated stores at the end of 2006

A LEADING PLAYER IN THE LUXURY GOODS INDUSTRY

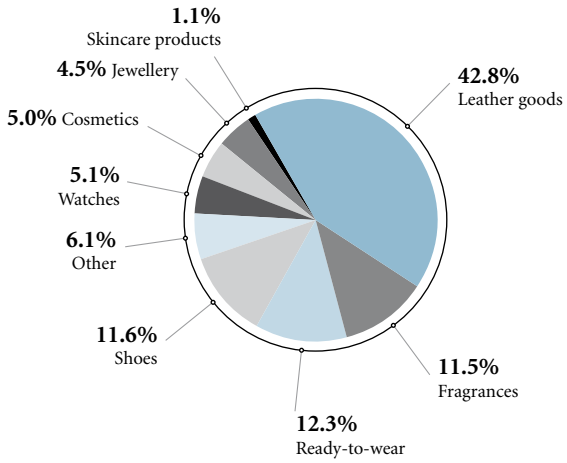
Gucci Group is one of the world's leading multi-brand luxury companies with a portfolio of premier brands. Gucci, Bottega Veneta and Yves Saint Laurent are the Group's flagship brands. YSL Beauté, Gucci Timepieces, Boucheron, BEDAT & CO and Sergio Rossi have opened up new market segments and complementary expertise in fragrances, cosmetics, beauty care products, watches, jewellery and shoes. Finally, Balenciaga, Alexander McQueen and Stella McCartney show promising growth potential.

Gucci Group's competitors in the Luxury Goods market include multi-brands and multi-products groups, high-end luxury goods and ready-to-wear companies, along with fragances and cosmetics groups, jewellery and watch companies as well as groups which have their origins in fine leather goods and shoes manufacturers.

BREAKDOWN OF 2006 REVENUE BY BRAND



BREAKDOWN OF 2006 REVENUE BY PRODUCT CATEGORY



GLOBAL PRESENCE

Gucci Group is present in all of the world's major luxury goods markets. The Group has consolidated its positions and developed in all regions where its brands are present. It has strengthened its presence in those regions where the growth potential shows the most promise, namely in China, India and Russia. All of the Gucci Group brands are developing a significant local client base, while continuing to exploit the opportunities offered by the global tourist market.

Europe, the Group's core market, generated revenues of €1,501 million in 2006, up 19.5%.

North America, a high-potential region for the luxury goods industry given its importance in the global economy, posted revenues of €712 million in 2006, an increase of 19.8% on 2005.

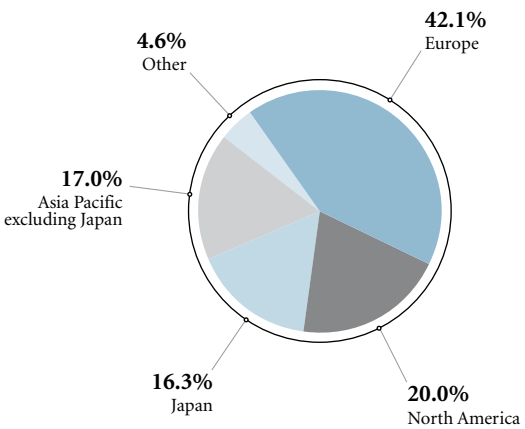
Gucci Group has significantly strengthened its positions in Asia, a key market for the luxury goods industry. In fact, at the end of 2006, of the 454 directly-operated stores, 235 were located in this region, which will account for two-thirds of the 2007 openings.

A RICH AND BALANCED PORTFOLIO OF BRANDS

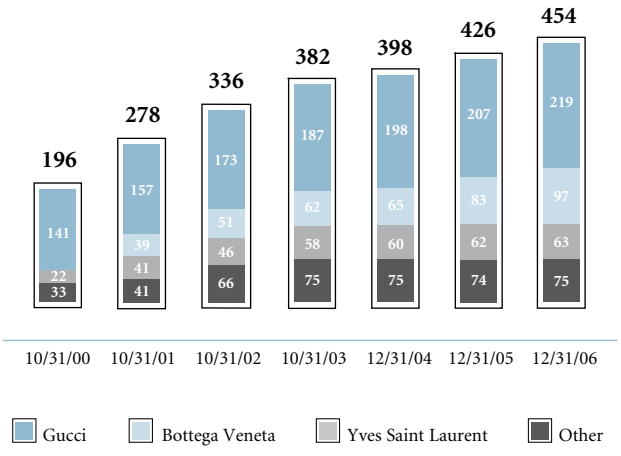
Gucci Group designs, manufactures and markets high-end luxury goods products, including, leather goods, shoes, ready-to-wear, watches, jewellery, fragrances, cosmetics and beauty care products. The extensive product range is one of the Group's greatest strengths, the source of its organic growth and one of the keystones to the acquisition policy conducted between 1999 and 2001.

As a multi-brand group, Gucci Group has promoted the sharing of knowledge among its various brands, capitalising on the specific expertise of each brand.

BREAKDOWN OF 2006 REVENUE BY GEOGRAPHICAL AREA



NUMBER OF DIRECTLY-OPERATED STORES



A HIGHLY CONTROLLED DISTRIBUTION NETWORK

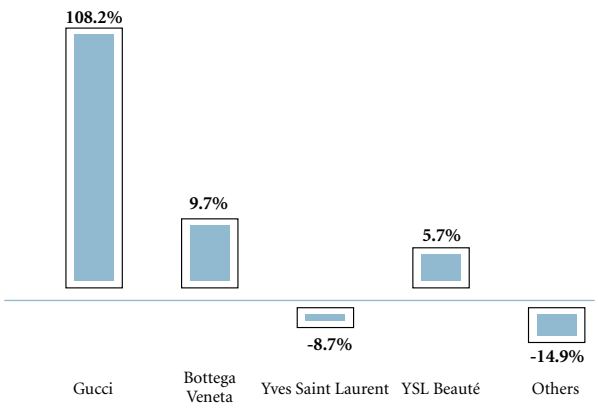
Management of brands and brand image is tightly controlled through the distribution network.
The carefully controlled development of an integrated distribution network with a sound geographical basis has been a key strategic focus for Gucci Group. Fashion goods and accessories are primarily sold in directly-operated stores, which are designed according to a specific concept for each brand, ensuring consistency in terms of product display and service quality around the world. In 2006, the 454 directly-operated stores generated 55% of Gucci Group revenue.

Gucci Group's products are also distributed through selected exclusive franchise stores, duty-free boutiques, department and specialty stores. YSL Beauté focuses on sales outlets that best reflect the prestigious image of its products. Distribution is provided through subsidiaries in upscale perfume shops, department stores and duty-free boutiques.

A RIGOROUS COMMUNICATION POLICY

Through rigorous management of brand image, a tight communication policy, outstanding product quality and a carefully controlled distribution network, Gucci Group has reinforced its brand reputation and positioning over the past few years. Through the presentation of collections, advertising campaigns, public relations, special events, interior decoration and window displays, the Gucci Group communication strategy seeks to preserve brand exclusivity, while ensuring a high-end image and reinforcing international, national and local positioning.

CONTRIBUTION OF EACH BRAND TO 2006 RECURRING OPERATING INCOME
(as a % of recurring operating income)



EXCEPTIONAL QUALITY

Gucci Group takes care, regarding the managment of its supply chain, to guarantee exceptional product quality. To achieve this, the Group selects the very best materials and exercises very strict controls over production, whether in-house or by scrupulously selected and controlled outside partners. Prototype development and the entire manufacturing process are monitored constantly for quality control. In addition, Gucci Group is making its supply chain more flexible in order to rotate its collections and replenish stocks faster during the season. Permanent market intelligence ensures the highest level of performance in terms of its supply network.

STRATEGY

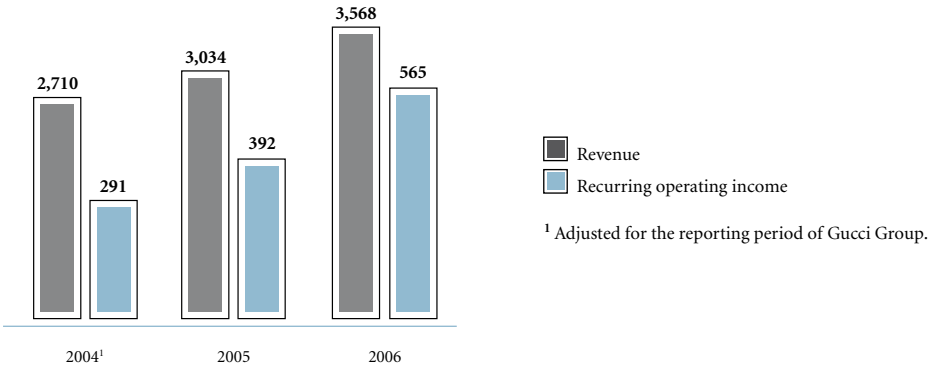
Gucci Group's strategy is based on two main objectives: ensuring revenue growth and profitability at Gucci Group, and assigning a specific role to each brand within the Group, so as to maintain the consistency of their positioning in terms of market segment and product category.

Gucci Group has overhauled its organisational structure. The Group has granted substantial autonomy, within specific guidelines, to the CEOs of the various brands who are now in charge of design, merchandising and all aspects of the operating and financial results of their respective brands.

OUTSTANDING FINANCIAL PERFORMANCE

In 2006, Gucci Group posted revenue of €3,568 million, representing 19.9% of the PPR Group's total revenue, an increase of 17.6%. It also generated recurring operating income of €565 million, representing 42.7% of Group recurring operating income (excl. holding company).

REVENUE AND RECURRING OPERATING INCOME
(in € million)



[1] Adjusted for the reporting period of Gucci Group.

GUCCI

Brand established in
1921

€2,101
million in revenue in 2006

€612
million in recurring operating income in 2006

6,059
employees at the end of 2006

219
directly-operated stores at the end of 2006

BUSINESS CONCEPT

Founded in 1921, Gucci celebrated its 85th year anniversary during 2006, further enhancing its reputation as a world leader in fashion and luxury goods. As Gucci Group's flagship brand, Gucci is one of the most prominent and profitable brands in the luxury sector. Gucci manufactures and markets leather goods (handbags, small leather goods, and luggage), shoes, ready-to-wear, ties and scarves, timepieces and jewellery. Moreover, Gucci grants licenses for the production and distribution of eyewear and fragrances by global industry leaders for these categories.The products are sold exclusively through directly-operated stores and exclusive Gucci franchise stores, department stores and specialty stores around the world. The online boutique which guarantees a high quality luxury driven service of the brand reputation has become a complementary distribution channel in the USA, UK, Germany and France.

POSITIONING

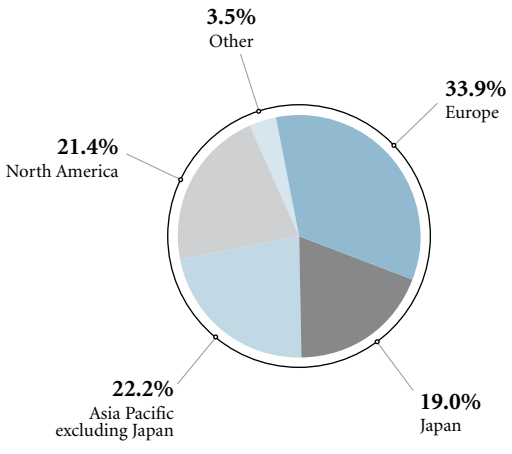
Gucci's heritage, unique in the world, is built on solid foundations: outstanding quality, uncompromised craftsmanship and absolute *made in Italy*.
Spurred by Frida Giannini, the creative teams are drawing greater inspiration from the iconic brand symbols (Horsebit, Bamboo, Green/Red/Green web, Flora), reinventing them in a more modern and luxurious way. Their understanding and appraisal of the brand's heritage – together with their fresh and modern interpretation – drove Gucci to the excellent results achieved in 2006.

Through a creative and innovative offering, underscored by an enhanced communication policy and the development of exclusive, luxurious and desirable products, Gucci has thus confirmed its outstanding growth potential in its main product categories and regions worldwide.

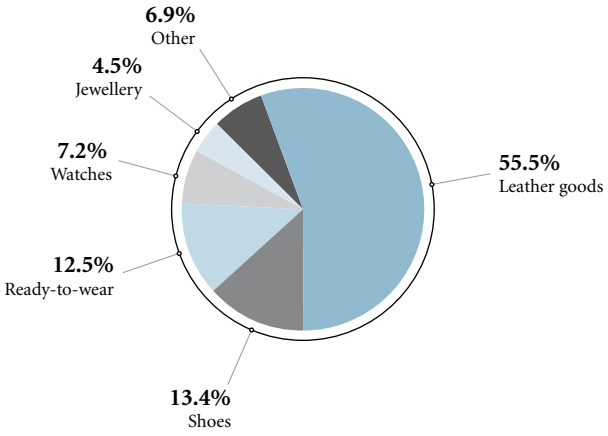
STRATEGY

Gucci's growth strategy emphasises three main areas of action. The brand is capitalising on its lead positioning in luxury fashion, innovation and product quality. It is maintaining the momentum achieved in leather goods and shoes, based on Gucci's historical core business.

BREAKDOWN OF 2006 REVENUE BY GEOGRAPHICAL AREA



BREAKDOWN OF 2006 REVENUE BY PRODUCT CATEGORY



Moreover, the brand exploits new opportunities in ready-to-wear while investing in long-term opportunities such as jewellery and watches and in complementary and innovative networks like e-commerce.

Gucci operates in 60 countries all over Europe, United States and Asia. Thanks to its global recognition, the brand has an exceptional appeal in the main geographical areas. A successful path has been developed in fast growing emerging markets such as China – where Gucci has been present for 10 years, with 10 stores at the end of 2006.

FINANCIAL RESULTS

In 2006, Gucci revenue amounted to €2,101 million, an increase of 16.3%. Directly-operated stores represented 70% of 2006 revenue and recorded a 16.1% increase.

Gucci posted a double-digit growth rate in each of the major geographical areas (excl. Japan) and has also posted substantial growth in all product categories. Leather Goods – cornerstone to the Gucci heritage – continues to represent more than 56% of revenue, an increase of 18.8%.

Gucci recorded a significant increase in recurring operating income, which rose by 26.0% to €612 million, with operating margin at 29.1%, compared to 26.9% in 2005.

HIGHLIGHTS OF 2006 AND OUTLOOK FOR 2007

In February 2006, Frida Giannini – who was already responsible for Accessories and Women's Ready-to-Wear – became the sole Gucci Creative Director, and also assumed responsibility for Men's Ready-to-Wear. In her first Spring-Summer men's collection in 2007 she exploited the coordination of Gucci woman and Gucci man.

The Gucci brand celebrated its 85th anniversary in 2006. Frida Giannini marked the occasion by presenting a new limited edition handbags collection which pays homage to the brand icons, to be sold exclusively from July to December.

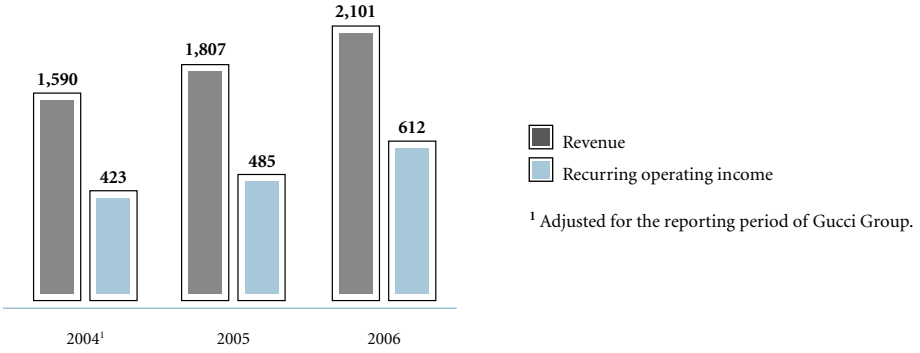
In June, the Gucci timepieces activity, managed by the Gucci Group, was directly integrated into the Gucci brand. This integration will combine under a unified strategy the proven watch-making expertise of the Swiss with the brand's management skills.

In the same period, Gucci signed a new global long-term exclusive licensing agreement with Procter & Gamble Beauty for the production, sale and distribution of luxury fine fragrances, with the aim of developing the untapped potential of the fragrance industry for the brand.

In the fourth quarter of 2006, Gucci notably opened two new flagships in its key markets. The brand inaugurated an eight-story glass tower in Ginza Tokyo, representing the most striking and luxurious Gucci retail destination. At Hong Kong Landmark, Gucci has opened a two-level boutique in the Central District of Hong Kong. In 2006, Gucci opened 12 new stores, increasing the number from 207 at the end of 2005 to 219 as at December 31, 2006.

In 2007, Gucci will continue to bolster its strategic markets and develop emerging markets. The brand will continue to develop its network of directly-operated stores and will pursue the renovation of boutiques on strategic sites. In December 2006, a lease was signed for the new flagship store New York, expected to open in 2008 and become the largest Gucci store in the world.

REVENUE AND RECURRING OPERATING INCOME
(in € million)



[1] Adjusted for the reporting period of Gucci Group.

BOTTEGA VENETA

Brand established in
1966

€267
million in revenue in 2006

€55
million in recurring operating income in 2006

926
employees at the end of 2006

97
directly-operated stores at the end of 2006

BUSINESS CONCEPT

Bottega Veneta – meaning "Venetian atelier" – creates luxury goods based on its core values of quality, craftsmanship, exclusivity and discreet luxury. The brand began as a leather goods house made famous through its signature *intrecciato*, a unique leather weaving technique created by the Bottega Veneta craftsmen, and it now has a full product range of leather goods (handbags, small leather goods and a complete luggage collection), men and women's ready-to-wear, shoes, and other accessories. The brand recently launched fine jewellery, new home furniture collections and decoration accessories.

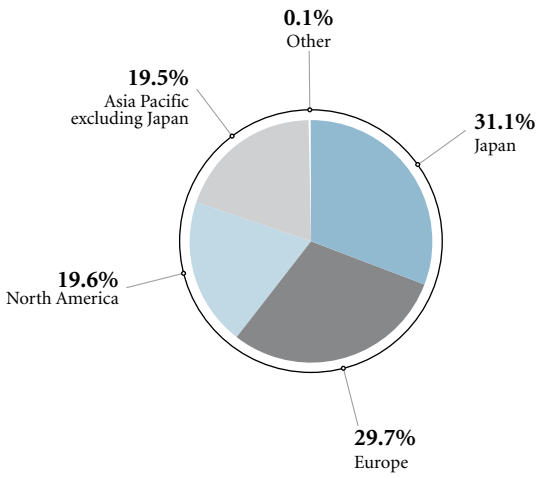
Bottega Veneta products are sold exclusively through a tightly controlled distribution network of directly-operated stores, exclusive franchise stores and carefully selected department and specialty stores around the world.

POSITIONING

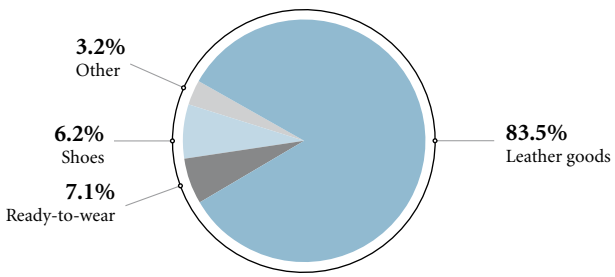
From its inception, Bottega Veneta has been synonymous with the highest craftsmanship, the choice of finest materials, and a design style that is innovative yet sober. It was the first brand to introduce the deconstructed bag as opposed to the usual rigid construction of handbags coming from the French school.

Under the creative impetus of Tomas Maier and a new management team, Bottega Veneta has re-established its high-end luxury positioning with products that satisfy the most demanding clients. By combining traditional luxury values – exclusivity, craftsmanship and the highest quality – with innovation, Bottega Veneta products present both modernity and timeless elegance. Bottega Veneta owes its exceptional product quality to the work of its meticulous craftsmen based in its Venice workshop. The brand's slogan, "When your own initials are enough", and the Bottega Veneta signature found solely inside its products are testament to the brand's understated elegance.

BREAKDOWN OF 2006 REVENUE BY GEOGRAPHICAL AREA



BREAKDOWN OF 2006 REVENUE BY PRODUCT CATEGORY



STRATEGY

Bottega Veneta is determined to reinforce its positioning as a luxury lifestyle brand. This is reflected through innovation and the preservation of exclusivity for its flagship leather goods and its most successful activities, namely ready-to-wear, shoes, jewellery and home furniture. In addition, all product launches are part of a well-planned and carefully executed strategy.
Bottega Veneta is and will remain an exclusive niche market luxury brand.

FINANCIAL RESULTS

Bottega Veneta posted record performances in 2006. Revenue grew to €267 million from €160 million in 2005, an increase of 67.2%. This performance is primarily due to the remarkable success of the collections, in both existing and newly opened directly-operated stores (84% of the brand revenues), as well as in the wholesale distribution networks.

In 2006, Bottega Veneta posted recurring operating income of €55 million, up 298.5%.

HIGHLIGHTS OF 2006 AND OUTLOOK FOR 2007

In 2006, Bottega Veneta was voted the "Most prestigious luxury brand" in the United States, based on a study conducted by the Luxury Institute with American customers. In the UK, the brand was awarded the esteemed "Walpole Award of International Luxury Brand". This is awarded to the international luxury brand that has had the greatest international impact in terms of sales, services and exposure in 2006.

The brand's best sellers continue to be the iconic Veneta and the exclusive limited edition *Cabat* handbag, which continues to fill the waiting lists in many stores. In February, the brand honoured its first special order for a crocodile *Cabat* with a sale price of €60,000 and sold five others during the year.

Sure to be a top seller for the brand, there is already a strong demand for the new line of *intrecciato* (seamless) handbags presented during the 2006 Fall-Winter collection.

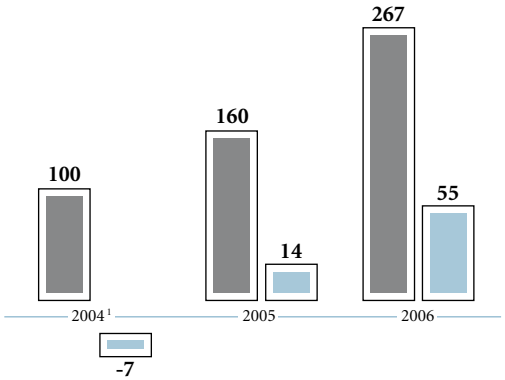
Using this expertise, in May 2006 Bottega Veneta patented its *intrecciato* weaving technique in Italy. To preserve the excellence and exclusivity of its leather goods, Bottega Veneta opened a school for leather craftsmen in October. The school will select and train the students in the know-how and painstaking work required to produce Bottega Veneta handbags.

In April, the Bottega Veneta product range was enhanced by a unique jewellery line whose first collection is inspired, once again, by the *intrecciato* technique and a new ensemble of interior furniture and decoration accessories that respect the brand's tradition of craftsmanship. Bottega Veneta also expanded its offering into timepieces with the launch of two clocks during the 2007 Spring-Summer show.
Backed by the success of the first women's ready-to-wear fashion show in 2005, Tomas Maier presented the brand's first men's fashion show in June 2006 for the 2007 Spring-Summer collection.

Bottega Veneta continued to open stores in 2006, increasing the number from 83 at the end of 2005 to 97 at the end of 2006. Two new flagship stores were opened on Avenue Montaigne in Paris (300 square metres) and Tokyo's Omotesando district (270 square meters). The year 2006 was also marked by the launch of the first e-commerce channel in the US, which is already a tremendous success.

In 2007, the brand plans to open several additional stores including a new flagship store in Tokyo's Ginza area. The store will be the brand's largest store (603 square meters). Bottega Veneta will also enter the Chinese market during the year with its first two stores in Shanghai and Beijing.

REVENUE AND RECURRING OPERATING INCOME
(in € million)



Revenue
Recurring operating income

[1] Adjusted for the reporting period of Gucci Group.

YVES SAINT LAURENT

Brand established in
1961

€194
million in revenue in 2006

€-49
million in recurring operating income in 2006

924
employees at the end of 2006

63
directly-operated stores at the end of 2006

BUSINESS CONCEPT

Founded in 1961, Yves Saint Laurent is one of the greatest fashion names of the late 20th century and a brand whose history is unique. With an aura of magic that has crossed the barriers of time and borders, Yves Saint Laurent embodies fashion and creativity.

The brand creates and markets a full product range of women and men's ready-to-wear, leather goods including small articles, shoes and jewellery. Yves Saint Laurent women's ready-to-wear are manufactured in its own French workshops.

The Yves Saint Laurent network currently has 63 directly-operated stores, including flagship stores in Paris, New York, London, Milan and Hong Kong. Those directly-operated stores generated more than two thirds of Yves Saint Laurent revenues in 2006. The brand is also present in the most prestigious boutiques and multi-brand department stores in the world.

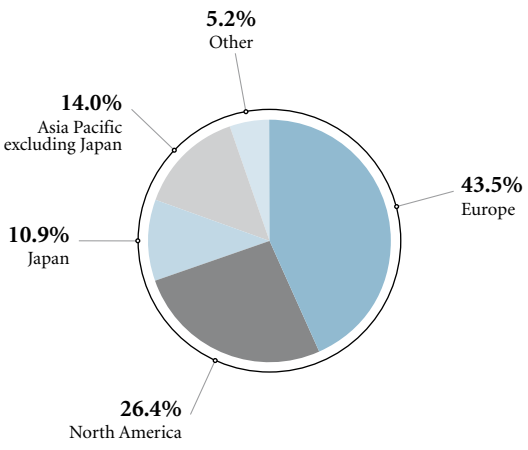
POSITIONING

Since its creation in 1961, Yves Saint Laurent has indelibly marked the fashion industry and enjoyed global success. Its founder, the couturier Yves Saint Laurent, has built a reputation as one of the 20th century's most innovative and provocative designers. He instigated the move toward ready-to-wear collections, which represented the first step in making designer labels accessible to a wider public.

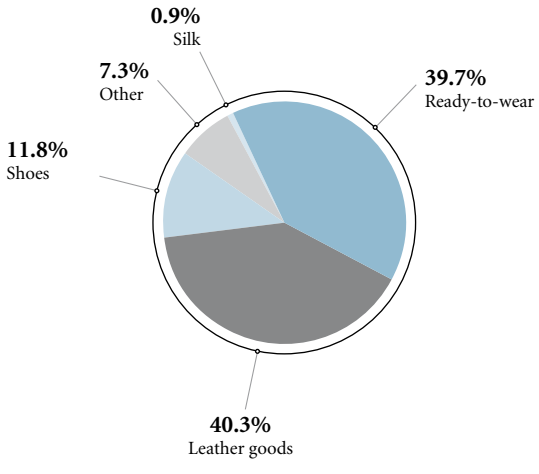
Yves Saint Laurent was acquired by Gucci Group in 1999 and since then the brand has been repositioned at the top end of the luxury goods market. Under the management of Valérie Hermann, appointed CEO in 2005, and Stefano Pilati, Creative Director since 2004, the brand has renewed the exceptional legacy of its founder while bringing a contemporary approach to its men and women's ready-to-wear collections, leather goods, shoes and jewellery. Around the world, Yves Saint Laurent is synonymous with perfection for both men and women's ready-to-wear, combining elegance, discreet but recognisable lines, refined details and top-quality fabrics.

The brand has expanded its model product lines for leather goods and small leather goods, thus developing iconic products like the *Muse* bag.

BREAKDOWN OF 2006 REVENUE BY GEOGRAPHICAL AREA



BREAKDOWN OF 2006 REVENUE BY PRODUCT CATEGORY



STRATEGY

Yves Saint Laurent is currently implementing a plan to improve its financial performance by developing revenue, increasing its gross margin and controlling operating costs.

Within the framework of the brand's repositioning, the company's prime objective is to continue creating highly desirable products, reflecting the very essence of the brand, leverage its historical presence in ready-to-wear, broaden the product range and expand into the strong-growth categories represented by leather goods and accessories.

FINANCIAL RESULTS

Yves Saint Laurent's revenue totalled €194 million in 2006, an increase of 19.5%.

The directly-operated stores generated 68% of revenue in 2006, an increase of 20.9%. All product categories posted a positive growth rate, with a special mention for the leather goods category, which grew by more than 50%, thus representing approximately 40% of the brand turnover.

Recurring operating losses were significantly reduced to €49 million, compared to €66 million in 2005.

HIGHLIGHTS OF 2006 AND OUTLOOK FOR 2007

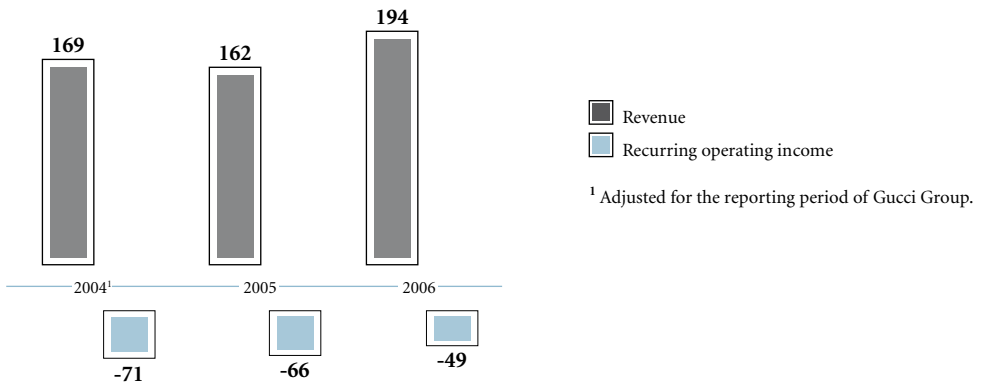
2006 repeated the favourable trends of the prior year-end. This year was a turning point for Yves Saint Laurent, which renewed with commercial success and revenue growth.

The ready-to-wear fashion shows were acclaimed by the press and the celebrities. Yves Saint Laurent has thus consolidated its place among the top luxury brands in its main markets.

The brand also enjoyed several major commercial successes with its newest handbags, notably the *Muse*. Launched at the end of 2005, the *Muse* is already a flagship product. This success was followed by the launch of the *Double* and *Rive Gauche* handbags in the second half of 2006. Moreover, by the end of the year, the brand started to market a new and promising handbag, the *Downtown*. Small leather goods, belts, jewellery and shoes also posted impressive growth rates.

The brand relocated its flagship Tokyo store to the Omotesanto Hill area. A directly-operated store was inaugurated at the Breeze Center in Taiwan, as were new points of sale around the world in department stores and under franchise agreements. Certain stores whose performance was poor were closed or transferred, bringing the number of network units to 63 at the end of 2006.

REVENUE AND RECURRING OPERATING INCOME
(in € million)



[1] Adjusted for the reporting period of Gucci Group.

YSL BEAUTE

€626
million in revenue in 2006

€32
million in recurring operating income in 2006

3,517
employees at the end of 2006

BUSINESS CONCEPT

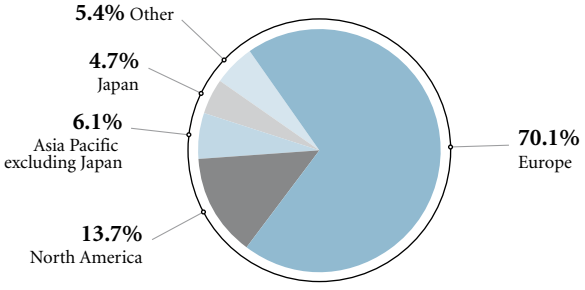
YSL Beauté creates, produces and distributes fragrances and cosmetics under the Yves Saint Laurent and Roger & Gallet brands, as well as fragrances for Gucci Group Brands such as Stella McCartney, Boucheron and Alexander McQueen. The company also produces fragrances under license for Oscar de la Renta and Ermenegildo Zegna. YSL Beauté's operations are fully integrated in a single production plant in France and marketed through 17 retail subsidiaries. The Division sells its products through leading department stores, prestige specialty stores and duty-free shops. The brand uses distributors and agents, overseen by its regional offices, to reach the markets not covered by its subsidiaries.

STRATEGY

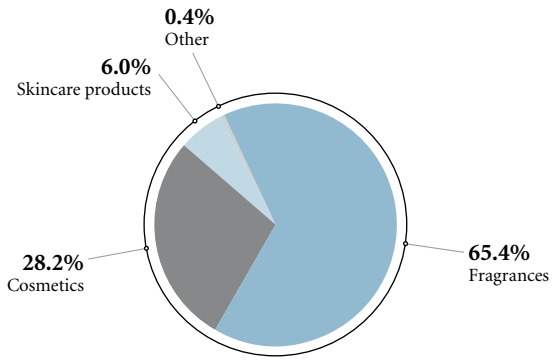
YSL Beauté is a major player in the fragrance and luxury cosmetics market. As a multi-brand company, it develops and expands each one on the basis of the brand's distinctive features. Its products represent the state of the art in terms of quality, creativity and technology. YSL Beauté's business is international in scope, and the company ensures that its products and brands are present on its key markets in order to develop new growth drivers. YSL Beauté's flexibility and reactivity enable it to respond promptly to changing market trends. The company strives constantly to be cost-competitive and focuses on investments generating the greatest return.

YSL Beauté contributes to the global awareness of the Yves Saint Laurent brand as well as of Roger & Gallet, Boucheron and Stella McCartney, and provides Gucci Group with privileged access to the luxury fragrances and cosmetics sector.

BREAKDOWN OF 2006 REVENUE BY GEOGRAPHICAL AREA



BREAKDOWN OF 2006 REVENUE BY PRODUCT CATEGORY



FINANCIAL RESULTS

In 2006, YSL Beauté's revenue totalled €626 million, an increase of 2.4%. Sales were driven by the success of the YSL brand products, and particularly make-up and fragrances. Recurring operating income was up considerably at 5.2% compared to 2.9% in 2005.

HIGHLIGHTS OF 2006 AND OUTLOOK FOR 2007

The year 2006 was characterised by the reorganisation of the YSL Beauté head office and industrial activities and the set-up of a new strategy focusing on priority brands and key markets. The Bernay factory was sold in early July 2006.

The activity of YSL Beauté is especially driven by Yves Saint Laurent make-up, a strategic pillar of the brand and the group. In 2006, several new products contributed to its success: *Golden Gloss* (lipstick), *Mascara Infinity Curl*, *New Summer Look* and the *Perfect Touch* make-up line. YSL Beauté is also planning the launch of two new products, *Everlong Mascara* and *Lip Twins* under the Yves Saint Laurent brand.

In fragrances, the brands of creators such as Stella McCartney will continue to develop. Two new perfumes were launched in the second half, *Stella In Two* by Stella McCartney and a new men's fragrance under the Yves Saint Laurent brand, *L'Homme Yves Saint Laurent*. This new fragrance, which combines creativity with loyalty to the brand's fundamental identity, is one of the world's best selling men's fragrances.

In skin care, the focus has been on the *Hydra feel* beauty care product *Temps Majeur*, a high-end line, which represents the core of YSL Beauté's skin care business.

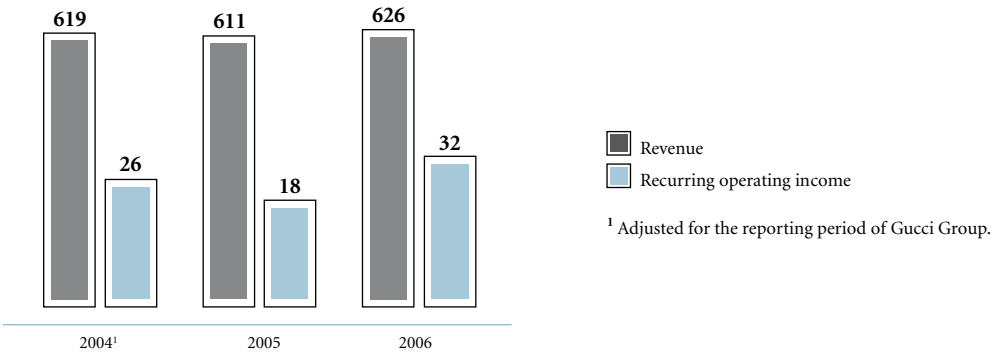
In early 2007, Anglo-Saxon countries will see the inauguration of a 100% bio beauty care product, called *Care*, under the Stella McCartney brand.

Among the other brands, Roger & Gallet celebrated the bicentenary of *Eau de Cologne Jean Marie Farina* with an exceptional collection announcing the new brand positioning from 2007.

In October 2006, YSL Beauté signed an agreement with Van Cleef & Arpels for the early termination of their fragrance and by-product licence under the Van Cleef & Arpels brand. The agreement will be effective early 2007.

REVENUE AND RECURRING OPERATING INCOME

(in € million)



[1] Adjusted for the reporting period of Gucci Group.

€381
million in revenue in 2006

1,660
employees at the end of 2006

75
directly-operated stores at the end of 2006

Other brands

The following section covers Balenciaga, Boucheron, Sergio Rossi, BEDAT & CO, Alexander McQueen and Stella McCartney. Since joining Gucci Group, all of these brands have seen their sales increase significantly, thanks to the individual creative vision of their designers and the Group's financial support.

Gucci Group's support involved substantial investments to fund the development of collections, the opening of exclusive stores in various fashion capitals, the development of the wholesale network for department stores and specialty stores on a worldwide scale, and the implementation of the infrastructure needed to manage the growth.

BALENCIAGA

The House of Balenciaga is one of the most influential forces in fashion. Founded in 1919 by Cristóbal Balenciaga and established in Paris from 1936, it defined many of the greatest movements in fashion from the 1930's to the 1960's. The provocation of its design and vision, the mastery of techniques and cut, and the constant innovation in fabrics marked out a special place for Balenciaga in the hearts and minds of its privileged clients and followers.

In 1995, Nicolas Ghesquière joined Balenciaga and presented his first collection two years later, at the age of 26. The numerous distinctions awarded this young designer, who was able to capture the attention of both the media and clients, have largely contributed to the brand's commercial success.

While the brand's identity is firmly anchored and evoked in its highly symbolic ready-to-wear collections, the bag and shoe ranges have also enjoyed phenomenal success worldwide. The women's ready-to-wear collection spans a wide price range, from the most emblematic items to the more "universal" products, thus opening Balenciaga's style to a wider public.

In the early years of its modern renaissance, Balenciaga deliberately prioritised the exclusivity of its distribution. With a solid product portfolio and strong demand for the brand's bags, clothes and shoes, Balenciaga is looking at selective international growth for its distribution network. The priority now is to ensure that the brand is represented in an environment that respects the brand's spirit, not only in directly-operated stores but also via franchisees and points of sale in the leading multi-brand stores.

Additional openings are planned for 2007 in Italy and the US, and in Japan, through the *Balenciaga Japan* joint venture set up in 2006.

Franchise and exclusive distribution arrangements were also concluded with leading partners in key franchise markets such as Hong Kong, Taiwan, Singapore, South Korea, Russia, Turkey and the Middle East.

The house of Balenciaga paid a sumptuous homage to its founder through an exhibition at the *Musée de la Mode et du Textile de Paris* from July 2006 to January 2007. This initiative will be renewed in 2007 during a retrospective at New York's *Metropolitan Museum of Art* honouring Paul Poiret, one of the 20th century's great couturiers.

BOUCHERON

Boucheron is the French jewellery "par excellence". Established in 1858, Boucheron was the first to establish a jewellery store on the famous Place Vendôme in 1893. It was also the first to use new materials in its jewellery and launch innovative products, such as interchangeable watch straps. For nearly 150 years, Boucheron has been a trend-setter in the exclusive world of luxury jewellery, acquiring an international reputation.

A Gucci Group subsidiary since 2000, Boucheron manufactures and markets jewellery, watches and luxury fragrances through directly-operated stores, including its Place Vendôme flagship store in Paris, franchise stores, department stores and exclusive multi-brand boutiques. Three new franchise boutiques were inaugurated in Hong Kong, Kuala Lumpur and Baku in Azerbaijan. Boucheron continued its sales development for department stores and multi-brand stores in new markets, such as Spain and the Middle East.

In July 2006, Boucheron launched a new luxury jewellery collection called *Trouble Désir II*, following the resounding success of the *Trouble Désir* collection, and a new jewellery line *Exquises Confidences*, as well as a new women's watch *Reflet*. These new items were all very well received and contributed to the positive results posted in 2006.

Furthermore, Boucheron has diversified its offer in cooperation with other Luxury brands. The jewellery has thus decorated the famous Alexander McQueen python *Novak* handbag and adorned two *Vertu* mobile telephones.
Boucheron's fragrance business has been managed by YSL Beauté since 2003.

sergio rossi

Since its creation as a *calzaturificio* or shoemaker in the late Sixties in Italy, Sergio Rossi has relied on its undeniable expertise to promote a very specific vision of the shoe as a "beauty product" for the feminine silhouette. The brand also articulates its vision through accessories in leather goods and small leather goods as well as men's shoes.

Following an acquisition process that began in 1999, Gucci Group assumed full control of Sergio Rossi in 2006, a turning point in the shoemaker's history.

The creations of Edmundo Castillo, appointed as the brand's Creative Director last year, were very well received and contributed to the remarkable revenue growth in 2006. A new team was also appointed to provide fresh impetus to the development of leather goods.

Sergio Rossi products are sold in 43 directly-operated boutiques, and through 19 franchises as well as an exceptional department and specialty store sales network. Renewed interest in the brand contributed to the opening of new stores, including the flagship New York store and several franchised boutiques, particularly in China where Sergio Rossi pioneered the women's luxury shoe industry and now operates 4 stores.

BEDAT & Co
GENEVE

Founded in 1996 by Simone and Christian Bédat, BEDAT & CO is an exclusive and contemporary watch brand which combines quality with timeless value. BEDAT & CO watches are distributed primarily in the United States, Italy and Japan. BEDAT & CO offers a limited number of models, whose quality and Swiss origin are guaranteed by the AOSC® certificate.

In June 2006, when Gucci Group Watches was integrated into the Gucci brand, BEDAT & Co was aligned with Boucheron.

The new management's goal for the coming years is to continue to encourage the brand's growth by extending product offerings and expanding distribution, in order to realise its full potential.

ALEXANDER McQUEEN

Known for his audacity and creativity, Alexander McQueen has an impressive reputation in the world of fashion.

A subsidiary of Gucci Group since 2001, Alexander McQueen primarily markets women's accessories and ready-to-wear. New categories of men's ready-to-wear, shoes and small leather goods have been added to the brand portfolio, enabling a broader global offer. In view of the success of the handbag line created for the 2005 Fall-Winter collection, it was developed further in the 2006 Spring-Summer collection. It represents a promising base for the Alexander McQueen accessories collections.

In addition, the company has entered into several strategic licensing agreements that will enable the international marketing of its creations to a wider public. Initiated in June 2005, the exclusive three-year licensing agreement with Puma AG involves a co-branded line of high-end sport shoes for men and women The agreement signed with SINV SpA in November 2005 enabled the launch of a ready-to-wear jean denim line marketed under the *McQ* label. Bolstered by a worldwide advertising campaign, the first two collections, 2006 Fall-Winter and 2007 Spring-Summer, were particularly well received by the press and buyers.

In July 2006, the brand announced a partnership with Samsonite to develop a capsule luggage collection *Samsonite Black label by Alexander McQueen* that will be marketed in the first quarter of 2007.

Alexander McQueen products are distributed in directly-operated stores, department stores and high-end specialty stores. The brand has three directly-operated stores in London, Milan and New York. In the last two years, Alexander McQueen has opened several shop-in shops with leading store chains in the UK (Harvey Nichols and Selfridges), France (Le Printemps), Asia (Joyce in Hong Kong and Via Bus Stop in Tokyo) and in the US (Saks 5th Avenue).

The first franchise for the brand was inaugurated in Istanbul in September 2006, with an additional opening planned for a prime location in Moscow by April 2007.

STELLA McCARTNEY

Created in partnership with Gucci Group, the Stella McCartney brand unveiled its first collection of ready-to-wear to the media and leading clients from around the world in October 2001. Since then, the brand's operations have developed at a steady rate, and collections of shoes, bags and other accessories have been added to the core ready-to-wear activity.

The Stella McCartney brand is distributed through three directly-operated stores in New York, London and Los Angeles. Its products are also available through a worldwide distribution network, where the brand's collections are presented in in-store environments that feature the brand's emblems.

The strength and breadth of appeal of the Stella McCartney brand name has also been demonstrated by the success of its licenses. They are carefully managed and granted to major international partners capable of respecting and promoting the brand's identity and values.

YSL Beauté accompanied the launch of the *Stella* fragrances in 2003 and *Stella In Two* in 2006, both of which were highly successful.

Licensed Stella McCartney eyewear has also been distributed since 2003.

In early 2005, a major partnership agreement was signed with Adidas for a women's sportswear line. *Adidas by Stella McCartney* products are now distributed throughout the world thus enabling the successful launch of new lines, including *Tennis* and *Wintersports* in 2006.
In December 2006, Stella McCartney announced a distribution deal with Unit & Guest in Japan and the opening of its first flagship store in this country by 2008.

Presentation of the Retail activity

- Leading companies in France and worldwide
- 80.1% of PPR's total revenue
- 46.0% of revenue generated outside of France
- 11.3% of revenue over the Internet
- 57.3% of PPR's recurring operating income (excl. holding company)

€14,365
million in revenue in 2006

€759
million in recurring operating income

64,891
employees at the end of 2006

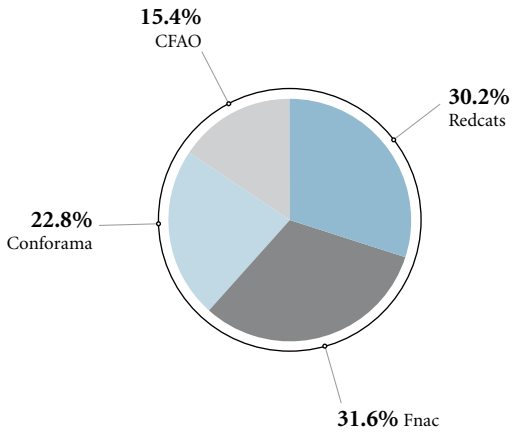
527
company stores at the end of 2006
(directly-operated and affiliated)

A PORTFOLIO OF LEADING AND INNOVATING BRANDS

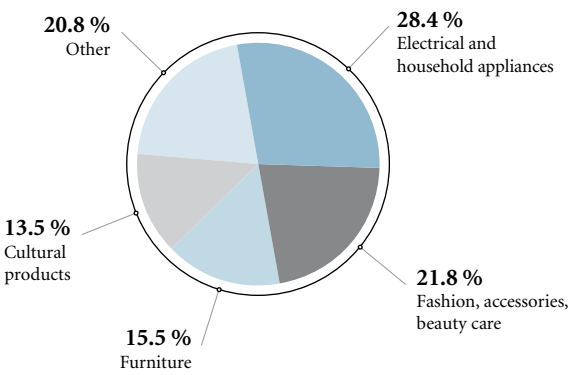
PPR is a European market leader in the promising retail markets of electronic goods and household appliances, apparel, furniture and cultural products. As a result of CFAO presence, PPR is also active in Africa, where the Group leads in automotive and pharmaceutical distribution.

The reputable companies of PPR have strong growth potential and combine all sales formats: specialist stores in city centres or suburbs and home shopping by catalogue and e-commerce, a segment in which PPR is now a leading player.
The companies' innovation capacity is also a key development asset. In fact, they are constantly adjusting and reinventing themselves, depending on customers and consumers' desires and the evolution of products and services. To achieve this, the companies launch new differentiating concepts which give them a major competitive advantage.

BREAKDOWN OF 2006 REVENUE BY COMPANY



BREAKDOWN OF 2006 REVENUE BY PRODUCT CATEGORY



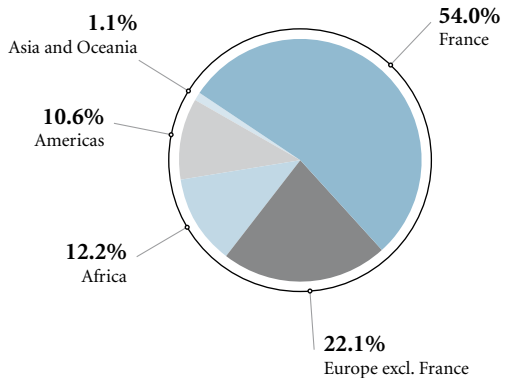
Companies	Classification	Positioning
Redcats	No. 1 in B-to-C* home shopping in France, Scandinavia and Portugal No. 3 worldwide in home shopping, fashion and home decoration	Leading fashion brand, a multi-channel operator, specialist catalogue concepts
Fnac	No. 1 retailer of cultural and technological products in France, Belgium, Spain and Portugal	Historical pioneer in new technologies, unequalled range of books and publications
Conforama	No. 1 in furniture in France No. 2 worldwide in household equipment	Positioned as a discounter with a multi-style and multi-product offering and immediate availability of products
CFAO	No. 1 in automotive and pharmaceutical distribution in Africa and the French overseas departments and territories	Over a hundred years of experience on the African continent, dedicated professional teams, exclusive agreements with the major global brands

* B-to-C: Business-to-Consumer

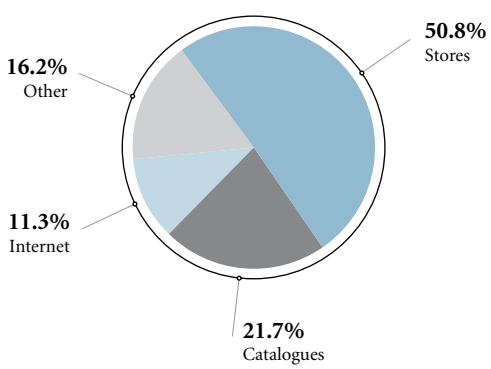
INTERNATIONAL PRESENCE, A MAJOR GROWTH DRIVER

PPR focuses particular attention on developing its companies abroad, which is an important growth driver. In 2006, the international segment accounted for 46.0% of total Retail revenue and 46.6% of recurring operating income. Thanks to their relevant concepts and team expertise, the Group's companies have successfully gained a solid foothold abroad. They focus on two strategic growth objectives: consolidating their presence on traditional markets and setting up in new countries offering high potential.

BREAKDOWN OF 2006 REVENUE BY GEOGRAPHICAL AREA



BREAKDOWN OF 2006 REVENUE BY SALES FORMAT



INCREASE IN INTERNET SALES

PPR has become one of the leading players in e-commerce thanks to its brands' reputation and their expertise in logistics and customer relations. In 2006, the Group recorded revenue totalling €1,629 million, an increase of 23.1%.

Increasing use of the Internet has generated substantial momentum for PPR sales, boosted sales performance and generated new synergies thanks to the complementary nature of the various PPR sales formats.

The Internet is a supplementary sales channel that attracts new customers to the Group's companies which extends and diversifies the offering, particularly through on-line sales, and transforms customer relations through more personalised ranges. The company's web activity proved the strongest growing sales channel, recording exceptional growth rates in some product categories such as white goods (home appliances), brown goods (retail electronics) and grey goods (computers and mobile phones).

CUSTOMER SATISFACTION: A TOP PRIORITY

The optimisation and personalisation of customer relations are among the constant challenges faced by the PPR Group, the focal points being customer knowledge, satisfaction and loyalty.

The Retail companies have placed a great emphasis on in-store reception and service. Customer satisfaction, and consequently the performance of the sales outlets, depends on the quality and skill of the sales teams in their day-to-day work.

Most of the Group companies have launched loyalty card schemes as a way of stimulating customer relations, thus providing another element of support for customer service. Cardholders are entitled to savings and special services.

Finally, PPR also offers an after-sales service as another means of optimising customer service. Since 2002, the Group has combined the expertise of its companies to offer an effective, permanent after-sales service.

A STRONG STORE NETWORK DESIGNED TO MAKE SHOPPING A PLEASURE

There is a growing need among consumers for shopping to be a pleasant, novel and appealing experience. The PPR companies have responded by adapting their sales areas, thus encouraging customers to consider new products in an aesthetically pleasing, welcoming and human environment. While ensuring that the fundamentals of an identity are maintained, the Group companies have also focused on what makes them stand out by setting up new store layouts and upgrading the commercial architecture of their stores and product displays. The sales areas bear the individual stamp of each company, recognisable internationally.

CONSTANT PURCHASING OPTIMISATION

PPR has set up many Group-wide structures and tools to optimise its purchasing. This entails the sharing of expertise common to all its companies, the pooling of resources, bulk purchasing and rationalisation and the industrialisation of methods.

If the Group companies specialise in managing sales and marketing the product range, formulating their requirements based on sales policy and customer characteristics, it is PPR Purchasing that negotiates with suppliers. **PPR Purchasing** is the Group's central buying unit for white goods (household appliances), brown goods (retail electronics), grey goods (computers and phones) and consumables (batteries, printer cartridges, and CD-ROMs).

For brand products, PPR Purchasing negotiates annual framework contracts with all suppliers, and the purchase prices for all products whether or not they are common to several companies. As far as in-house brand products such as Grandin/Höher or exclusive brands like Saba, the involvement of PPR Purchasing makes it possible to set up a flexible organisation based on the Group's expertise. Quality tests are conducted in the laboratories of La Redoute and Fnac.

In 2006, PPR Purchasing negotiated more than €2.2 billion worth of direct purchases, generating savings of €18 million.

Buyco is the Group's shared platform which centralises purchases of non-commercial goods and services used by the companies, including till bags, point-of-sale advertising support, transportation, photocopiers or advisory services. In 2006, Buyco negotiated more than €1.1 billion worth of indirect purchases, improving purchasing terms and conditions by €18.8 million.

Two cross-functional purchasing tools, namely e-sourcing, which enables the organisation of on-line auctions involving several suppliers, and e-procurement (on-line procurement for indirect purchases), have been added to reinforce the structures used to improve and streamline Group procurement management.

In 2006, PPR negotiated €341 million worth of purchases using Agentrics, with savings of more than 10% on the recommended price.

LOGISTICS, THE STRONG LINK IN DISTRIBUTION

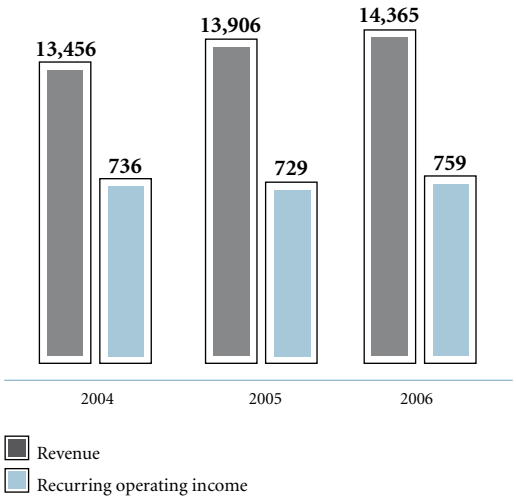
PPR endeavours to supply top-quality products on time, at the right place and at the lowest cost.

The adaptation of logistics to changing markets and ever-distant sourcing locations is a Group priority. For the 2004-2008 period, PPR is pursuing three main objectives: optimisation of territorial coverage, greater centralisation thanks to increased storage capacity, and lower transport and rental costs.

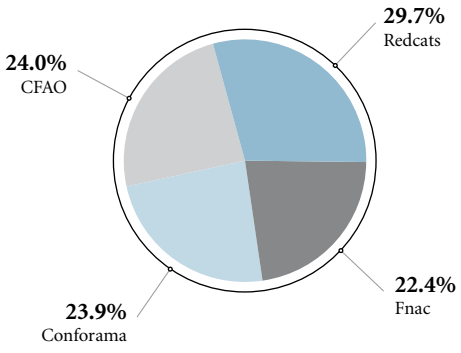
FINANCIAL RESULTS

In 2006, sales by the Retail activity remained steady, increasing by 3.3% to €14,365 million, against a backdrop of lower consumer spending. Recurring operating income stood at €759 million.

REVENUE AND RECURRING OPERATING INCOME
(in € million)



BREAKDOWN OF 2006 RECURRING OPERATING INCOME BY COMPANY



REDCATS Group

- No. 1 in B-to-C[1] home shopping in France, Scandinavia and Portugal
- No. 3 worldwide for home shopping in fashion and home decoration
- Active in 28 countries through 17 brands
- 3 distribution channels:
  - over 60 e-commerce sites
  - over 30 catalogues
  - over 100 stores in France and internationally
- 30.4 million active customers in the world
- 24 million individual visitors per month on all the global sites
- Over 100 million parcels distributed per year

€4,332
million in revenue in 2006

€225
million in recurring operating income in 2006

19,959
employees at the end of 2006

More than **60** e-commerce sites

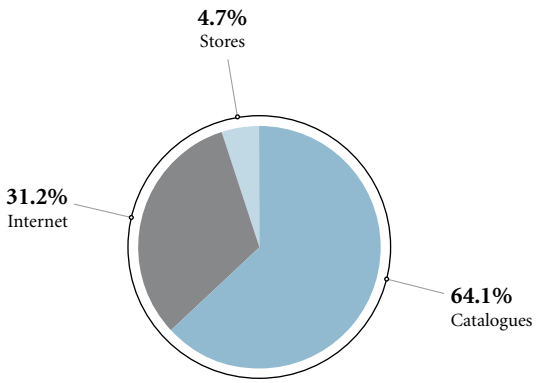
BUSINESS CONCEPT

Redcats represents a common business line, home shopping, drawing together established, easily identifiable brands that are leaders in their respective markets. Redcats primarily retails products in the areas of apparel and home furnishings and appliances. The company is active in 28 countries, including 11 through partnership, and uses a multi-channel retail approach combining catalogues, Internet sites and specialty stores.

A PORTFOLIO OF LEADING BRANDS

Redcats has a portfolio of prestigious brands. Whether specialists in a specific segment or multi-specialists serving a wider audience, they develop new products and services. The brands constantly seek to be at the cutting edge in terms of innovation and creativity in order to better anticipate customers' expectations and meet their wishes.

BREAKDOWN OF 2006 REVENUE BY SALES FORMAT



1. *Business-To-Customer: sale by the distributor to a particular customer.*

FRENCH BRANDS

La Redoute, the leading home shopping and women's ready-to-wear company in France, offers its "French touch" in 22 countries. The apparel offering is retailed through its specialist and multi-specialist catalogues such as Anne Weyburn (for older women) or Taillissime (for men and women's outsizes). The brand also includes home furnishings and decoration, with specialised catalogues such as *AM.PM., Solutions Maison* or *So'Home.* On the Internet, La Redoute is the top home shopping company for fashion and home decoration, with an average of 14 million hits per month in the second half of 2006, the laredoute.fr website now accounts for 40.2% of total revenue. La Redoute has confirmed its role as a "style trendsetter", adding more and more designers and brands. Despite an unusually fierce competitive environment in 2006, La Redoute continued to gain market share over its direct competitors.

La maison de Valérie specialises in household equipment (mainly furniture and home decoration)**.** In 2006, it completely revamped its offering based on the lifestyles and needs of its customers, while maintaining a positioning based on credit accessibility and attractive prices. The new slogan, *Accomplice to your desires*, reflects this change.

The Redcats Children and Family activity consists of the **Vertbaudet, Somewhere** and **Cyrillus** brands.

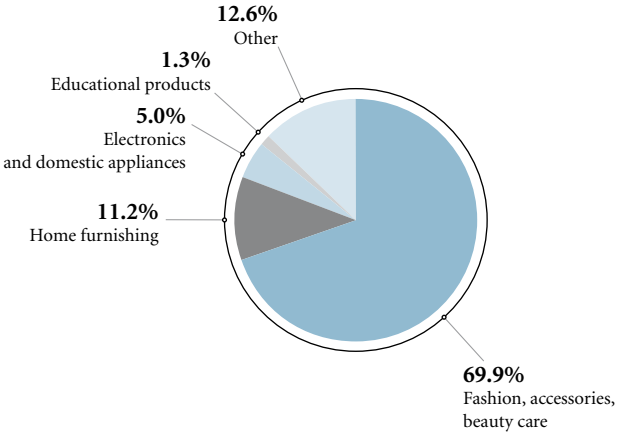
Specialising in children, **Vertbaudet** develops such concepts as "children's stories" for ready-to-wear, "bedroom stories" for decoration and bed linen, and "VB2U", which is exclusively devoted to 10-15 year-olds. Vertbaudet continues to demonstrate its mastery of on-line distribution, particularly with the development of new categories for its e-commerce site, named the site most visited by mothers in 2006, and the launch of a site designed for young and future parents: planet.vertbaudet.com. The brand now has a direct presence in Spain, Portugal, the United Kingdom and Switzerland, and in Saudi Arabia it operates via a partnership.

Specialising in casual wear, the **Somewhere** brand has expanded its biological line, called b.i.o. (believe in origins), which was successfully launched last year.

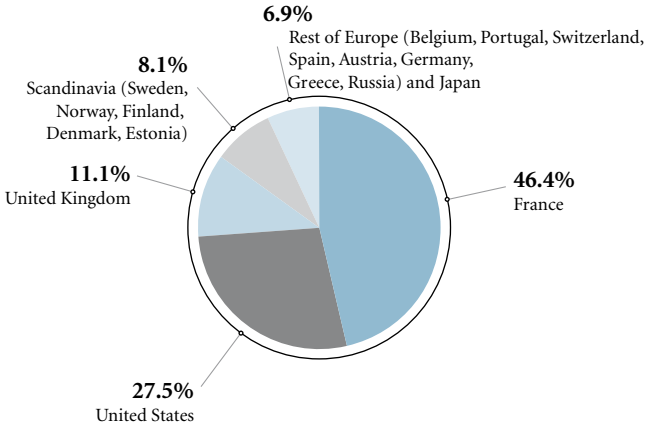
Cyrillus confirmed the success of its "classic, modern and chic" positioning and welcomed, for the first time, designer Eric Bergère for a Fall-Winter 2006 mini-collection. A multi-channel brand, Cyrillus publishes nine catalogues in four languages (French, English, Japanese and German) and has a network of 42 boutiques around the world in addition to its websites. In 2006, Cyrillus launched a new trendy community fashion site called "chezcyrillus.fr".

The Redcats "Senior" activity is based on the **Daxon** brand (fashions in well-being and home furnishings), which now has specialised product ranges from **Edmée** (positioned in the accessible *casual wear* sector) and **Celaia** (collection for active women over the age of 45). Daxon is active in France, Belgium and Great Britain.

BREAKDOWN OF 2006 REVENUE BY PRODUCT CATEGORY



BREAKDOWN OF 2006 REVENUE BY GEOGRAPHICAL AREA



ENGLISH BRANDS

Empire Stores offers two multi-specialist collections per year focused on fashion for the entire family and household equipment products. In 2006, EmpireStores repositioned itself based by converting the agent fee to a fidelity programme called "Shop'n'Save". The programme will be applied to all product listings in 2007. At the same time, EmpireStores opened its selection to other Redcats brands, including Vertbaudet, Ellos and Daxon. EmpireStores confirmed the partnership forged with English designer Tracey Boyd, who created a women's wear collection. This move was very well received by the press and customers alike. In 2006, EmpireStores pursued its Internet initiatives by launching its first e-catalogue for shoes.

SCANDINAVIAN BRANDS

Ellos, a leading brand in Scandinavia, features affordable contemporary products for the entire family based on in-house brands such as: "Sara Kelly", for active women, "Casual Woman" for women seeking the authentic look, "Joelle", trendy and original, and "Broadcast", a men's line of daywear. **Jotex,** a brand specialising in home textiles, completes the textile product lines. At the end of 2006, Ellos renewed its Internet site to develop an on-line department store that includes, in addition to the complete Ellos range, other Redcats Scandinavian apparel brands: **Josefssons**, which focuses on the modern young woman, Enjoy and Catalog Mail Outlet.

The Scandinavian brands are active in Denmark, Estonia, Finland, Norway and Sweden and, since 2006, Iceland, via a partner. On the Internet, their performance continues to improve sharply, with 40.9% of their home shopping revenue generated by this channel in 2006.

AMERICAN BRANDS

The "Misses" women's ready-to-wear division in the United States features two brands: **Chadwick's** (contemporary casual fashion for active women) and **Metrostyle** (formerly Lerner, for low-priced urban fashion).

The outsize segment remains the main growth driver for Redcats in the US, and still leads in home shopping. Thus, the **Jessica London, Woman Within** (formerly Lane Bryant Catalog) and **Roaman's** brands performed extremely well in 2006, thanks to a more appealing product offering and a better targeting of Internet strategies. Among the new products, the *Very Veranesi* lingerie collection and a Jessica London accessory/shoe line were launched. **KingSize,** an outsize men's brand, also posted an improvement in activity, mainly driven by on-line sales. The *active wear* offering was particularly attractive to the brand's customers. The end of 2006 saw the successful launch of OneStopPlus.com, the community site that unites the outsize offering of Redcats USA.

In the "Home & Lifestyles" activity, devoted to home furnishings and decoration, the **BrylaneHome** brand is being repositioned to centre on a more selective offering with greater added value. The offering was completed by a specialised concept, "BrylaneHome Kitchen", which posted significant growth in 2006.

At the end of August, Redcats finalised the acquisition of ***The Sportman's Guide*** and its subsidiary ***The Golf Warehouse,*** one of the leaders in on-line and catalogue sales of sports and leisure articles in the United States. The acquisition marks a reinforcement of Redcats international presence in a promising sector with significant on-line activity, particularly for The Golf Warehouse, a subsidiary specialising in home shopping for golf equipment. These two brands now represent the Sports and Leisure activity of Redcats USA.

In 2006, the American brands earned 38.3% of their home shopping revenue through the Internet.

COMPETITIVE ENVIRONMENT

Redcats is the third largest home shopping company in the world in the apparel and decoration sectors. Redcats is also developing in the furniture market and, more recently, sports and leisure in the United States.

The international home shopping market mainly comprises mail order companies, which in the past have focused on apparel. The development of e-commerce and the substantial growth in retail network selling areas has expanded the market and the competition to department stores, specialist store chains and Internet companies.

The quality of its fashion and home decoration offering, the positioning of its specialised brands, the strength of its multi-specialist brands and its dynamism on the Web, make Redcats a major player in its markets. Thus Redcats is a leader in France, Scandinavia and Portugal in the B-to-C home shopping market for apparel and fine decoration, as well as in the United States in the home shopping apparel market for women's outsizes.

STRATEGY

In 2006, Redcats pursued its comprehensive transformation from a national group of mail-order companies driven by credit and services to a multi-channel distribution group of international brands.

Innovative brands that offer a renewed product range

Creativity is a major strategic focus for Redcats, which has bolstered its product development teams (stylists, pattern designers, graphic artists, etc.) and broadened the appeal of its in-house brands, which represent 80% of its apparel revenue. Each season, the brands also invite designers to visit their collections. In its Fall/Winter 2006 collection, La Redoute presented a Sonia Rykiel children's line and Sophia Kokosalaki women's fashion products. At Cyrillus, Eric Bergère created a mini-collection for the entire family. Tracey Boyd continued to collaborate with Empire Stores, as did Ralph Kemp with Daxon.

Thanks to the Web, the product offering can be **updated** more rapidly and frequently at an ever-increasing rate. Accordingly, the *Pronto moda* categogy on the Ellos website and the *laminutemode* space on the La Redoute site present new product trends to their customers every month.

A multi-channel approach: a mail-order leadership also conquered on the Internet

Redcats operates via three sales channels, providing the customer with easy access and greater responsiveness. In addition to traditional catalogue sales, there is a network of some one hundred stores. Lastly, the Internet is proving to be an increasingly powerful channel for all brands and geographical areas. Backed by proven know-how in home shopping management and customer relations, and a logistics infrastructure for parcel deliveries at competitive prices, Redcats has developed a vast Internet network of over 60 e-commerce sites. Through new offerings and innovative services, e-commerce has renewed and enhanced the relation forged with customers.

The increased use of the **Internet** as a sales channel at Redcats Group was confirmed by several successfully launched innovations. In France, *Cuisine & Co* was launched by La Redoute. Accessible only via the Web, the concept is designed "for all those who like to cook and receive". La Redoute has also entered the mobile Internet era by offering a complete order taking service on mobile phone.

In the United States, the outsize activity has launched *Onestopplus.com*, considered the leading *retail centre* of this kind. In the same community spirit, Vertbaudet has inaugurated *planet.vertbaudet.com* for young and future parents. In France, Shopoon.fr, has been the leading Web shopping guide since May and was awarded an Oscar from LSA (trade magazine) for innovation in the home shopping and E-commerce category. Lastly, Rushcollection.com, the website fashion brand specialist, unveiled a new visual image and reworked ergonomics to welcome new brands. The site should soon have an English version.

In 2006, Internet revenue amounted to €1,353 million for the Redcats Group, up 23% from 2005. This channel represents 33.8% of home shopping revenue, compared to 27.1% in 2005.

In addition to its catalogues and websites, Redcats has demonstrated its know-how with respect to the management and coordination of store networks, as shown by the performances of the *Cyrillus, Somewhere* and *Vertbaudet* brands. For its part, La Redoute announced the roll-out of its new store concept in 2006. The store, *So'Redoute,* is entirely devoted to women's fashion and accessories.

Dynamic international development

Redcats earns 53.6% of its revenue outside France. This significant international presence allows Redcats to balance its growth drivers and illustrates the company's ability to regionalise and extend the French brands in its portfolio. In 2006, Redcats Group continued to expand internationally either via a direct presence, or by capitalising on infrastructures and resources already in place such as in Norway, or by opening outlets in new countries with a limited start-up investment as in Greece and Russia. Redcats is also forging partnerships with national home shopping leaders (such as Postal Market in Italy or Neckermann in Germany), and agents (Croatia, Iceland, etc.), while also entering into retail partnerships (Cyrillus in Japan with Yamoto or Vertbaudet in Saudi Arabia with Al Hokair). Finally, the international development of Redcats was also solidified through the acquisition of *The Sportman's Guide* in the United States.

An organisation at the service of greater customer satisfaction

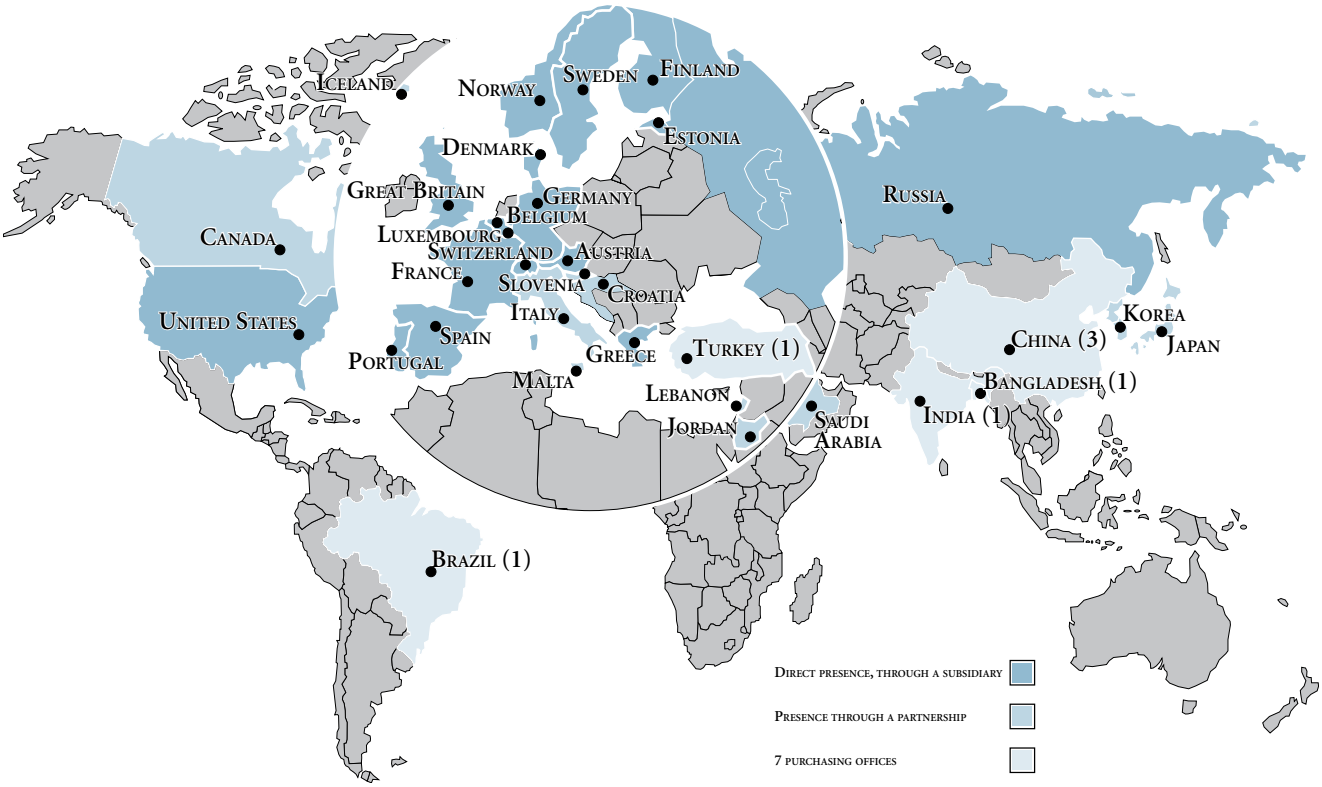
In support of its Internet efforts, Redcats has also developed the pooling of IT resources so as to cut costs and improve team efficiency. Accordingly, the **Millena** platform has mobilised a team of 82 persons (10 nationalities), which means it can concentrate significant research and development resources to all the group's brands throughout the world. This strength allows it to forge partnerships among equals with quality subcontractors, which means that the latest technological innovations are always within its reach. A major technological advance benefiting customers, the Millena platform provides Redcats with a true competitive advantage in terms of site functionalities and flexibility.

The **sourcing** integration, based on a network of seven purchasing offices located in Bangladesh, Brazil, China, India and Turkey, means that Redcats Group is able to import 61% of its offering without an intermediary and benefit from the best procurement conditions at an excellent quality-price ratio.

These integrated **purchasing offices** will reduce the length of time needed to bring products to market and secure the process, so that Redcats can offer its customers multiple and renewed collections, while improving the product availability rate.

In France, La Redoute has been offering 24-hour delivery for more than 10 years, and has added "48-hour delivery", as well as a convenience delivery system, allowing the customer to set the delivery date when the order is placed. In 2005, a *Livraison groupée* (bulk delivery) service was introduced to process home furnishing orders more efficiently. In the United States, Redcats USA has entered into an exclusive agreement with UPS with respect to the *Easy Return Label Program*, which guarantees better parcel traceability for customers, enhances delivery back-up and any management of returns.

THE REDCATS PRESENCE WORLDWIDE



FINANCIAL RESULTS

In 2006, Redcats Group generated revenue of €4,332 million, down by 1.0%. Recurring operating income stood at €225 million, with a recurring operating profit of 5.2%, which demonstrates the company's ability to withstand an extremely competitive environment exhibiting deflationary tendencies.

2006 HIGHLIGHTS AND OUTLOOK FOR 2007

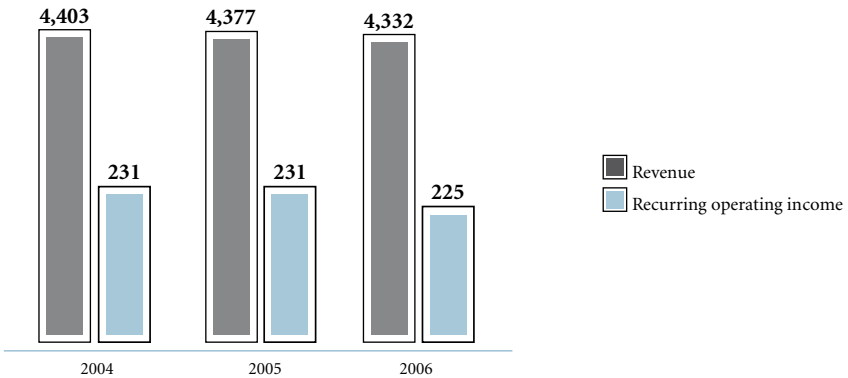
In 2006, Redcats successfully continued the overhaul of its activities, with an improved positioning of brands and their globalisation, and the development of the Web channel. In a difficult market context, Redcats pursued its comprehensive transformation from a national group of mail-order companies driven by credit and services to a multi-channel distribution group of international brands. The group also has adopted a new logo, new colours and a slogan *(In line with you, Online for you)* thus affirming an Internet-driven strategy and an increasingly customer-oriented strategy.

The year was particularly marked by the efforts made in terms of product creation in women's apparel, a category in which Redcats Group has posted solid financial performances for the majority of its brands. Redcats Group has also strengthened its Internet leadership in apparel and fine decoration. This momentum was driven by numerous technological and commercial innovations.

The market share of the Redcats leading brands has also been significantly reinforced: La Redoute, the Children and Family activity (Vertbaudet, Cyrillus, Somewhere), the Outsize activity, and the Sports and Leisure activity in the United States (*The Sportman's Guide* and *The Golf Warehouse*). At the same time, the Redcats Group has repositioned Daxon, Ellos, EmpireStores and its *Misses* brands in the United States. These measures initiated in 2006 will cut revenue in the short term but prepare the way for the future.

In 2007, Redcats Group will pursue the reinforcement of its leading brands, the development of its brand portfolio, the consolidation of its Internet leadership in fashion and fine decoration, and a greater brand exposure through the development of its store networks and sustained international development.

REVENUE AND RECURRING OPERATING INCOME
(in € million)



- No. 1 retailer of cultural and technological products in France, Belgium, Spain and Portugal
- Active in eight countries:[1] France, Belgium, Brazil, Spain, Italy, Portugal, Greece and Switzerland
- Leading bookstore in France with 500,000 references
- Leading music store in France with 165,000 items in stores
- Leading retailer for personal computers in France
- 20,000 references in personal computers, photography, hi-fi, TV/video, software/games, office equipment/telephony
- Fnac.com, leader of retail websites in terms of audience[2]
- 150 million visitors to stores and 15 million customers a year in France
- 1.8 million members

€4,538
million in revenue in 2006

€170
million in recurring operating income in 2006

19,395
employees at the end of 2006

116
directly-operated stores at the end of 2006 (excluding Fnac Éveil & Jeux and Surcouf)[3]

BUSINESS CONCEPT

The preferred retailer of the French[4], Fnac concepts' ambition is based on universal accessibility to all cultural and technological products. Fnac is the only retail company offering an unrivalled selection of books, CDs, DVDs, video games and technological products under one roof. This product range is supported by its independent, innovative positioning as an "impartial advisor" based on the independence of its buyers and sales force in relation to its suppliers and the work of its test laboratories. Fnac also has a unique consumer information policy, the main vehicles of which are the technological files distributed in stores and its "Contact" magazine sent to members' homes. Its physical and on-line multi-specialist stores are not only used for purchases: they provide a cultural, social and exchange forum. They enable literary, musical, and audiovisual arts as well as technological innovations to reach a broader audience. Fnac has enhanced its status as a cultural and technological player and a corporate citizen through the various annual events it produces in its stores and externally, its publications, its support for cultural diversity of expression and its commitment to preventing illiteracy.

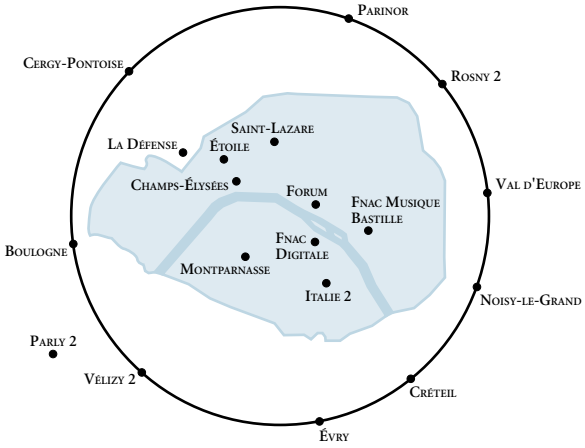
Fnac is present in eight countries, namely France, Belgium, Switzerland, Italy, Spain, Portugal, Greece (joint-venture) and Brazil, and has 116 stores, including 46 at the international level[3], with a selling area of more than 270,000 square metres. Its 70 French stores receive over 150 million visitors and 15 million customers each year.

1. *Excluding 1 country held on a joint-venture basis.*
2. *Source: Panel Nielsen/NetRatings (December 2006).*
3. *Excluding 1 store held on a joint-venture basis.*
4. *Source: IFOP/Expansion.*

MAP OF FNAC SITES IN FRANCE



MAP OF FNAC SITES IN THE PARIS REGION



COMPETITIVE ENVIRONMENT

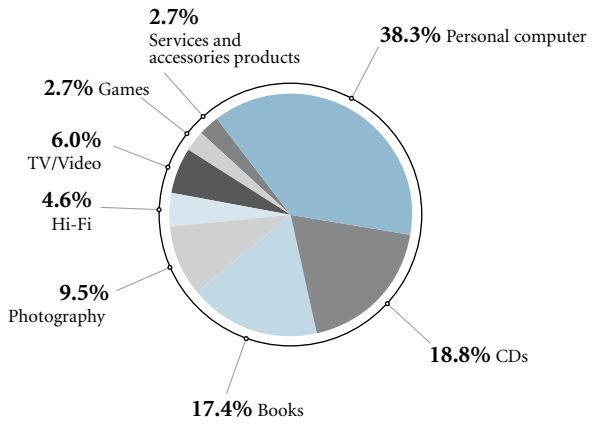
Fnac is the leading retailer of cultural and technological products in most of the countries in which it has a presence. In France, Fnac is the leading bookstore (500,000 references and 45 million units sold), and the largest music store (with 165,000 CDs in stock, 37 million units sold). It is also the leading retailer of personal computers (with a volume growth of nearly 10% in 2006 compared to last year), of photography, camcorder, MP3 player, PDA and GPS products.

2006 MARKET SHARE IN FRANCE

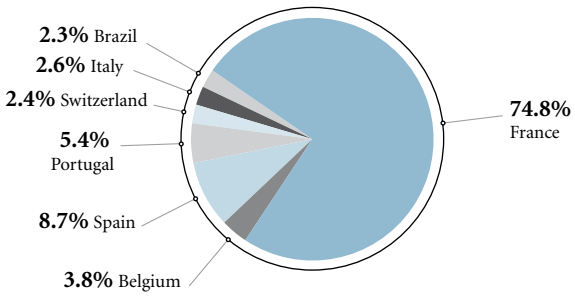
	Books	CDs	Video	Technical products
France[(1)]	14.5%	27.2%	21.3%	12.4%

December 2006 (source GFK) (1) Stores + fnac.com

BREAKDOWN OF 2006 REVENUE BY PRODUCT CATEGORY



BREAKDOWN OF 2006 REVENUE BY GEOGRAPHICAL AREA[1]



[1] Excluding Greece which is owned on a joint-venture basis.

STRATEGY

Significant and profitable growth

"Click and brick": the multi-channel strategy

In 2006, e-commerce represented a business volume of €364 million for Fnac, including download and on-line ticketing activities.

Its main website, fnac.com, is France's leading private-sector retail website in terms of audience, with 7 million individual visitors[1] – an audience rate of 29.4% for 700,000 internet connections a day. With over a million product references, fnac.com is the only website offering music downloads, video, software and games, ticketing, and cultural, technological and travel-related products. Customers benefit from high-quality service, with 100,000 products available for delivery in under 24 hours, and home delivery through a network of 3,500 Relais-Colis (parcel delivery outlets).

Fnac.com is France's best example of the "click and brick" concept, whereby Internet sales complement the Fnac stores. At present, 66% of customers who buy in stores have previously visited the website. Conversely 46% of Internet users who buy on-line have previously visited a store.[2] In 2006, the site deployed a product reservation and purchase service with pick-up in a store of the customer's choice. On-line purchasers are also able to benefit from the after-sales service offered in the stores. Customers will soon be able to order any book or publication on the site that was unavailable in the store and have it delivered directly to their home.

In the second half of 2006, Fnac.com rolled out a new order preparation tool for books and publications (reception, packaging and shipping). The site also initiated a complete information system overhaul, in order to integrate technological developments and improve the purchasing experience for customers.

Launched at the end of 2004, the Fnacmusic download site offers music lovers a service combining proximity, discovery and advice, thanks to a catalogue of over 1,200,000 titles, an original theme-based classification system and prices that are both attractive and easy to understand. In order to provide a product range that is constantly attuned to clients consumption patterns, Fnacmusic added a streaming subscription service in November and launched the first titles in MP3 format without DRM* in October 2006.

A software and video game download was also added to the offering in the first half, as well as a new video on-demand service, launched in partnership with the Glowria site in November and offering more than 1,300 titles accessible directly on-line.

** Digital Rights Management: technical copyright and copy protection in the digital domain.*

Growth in France

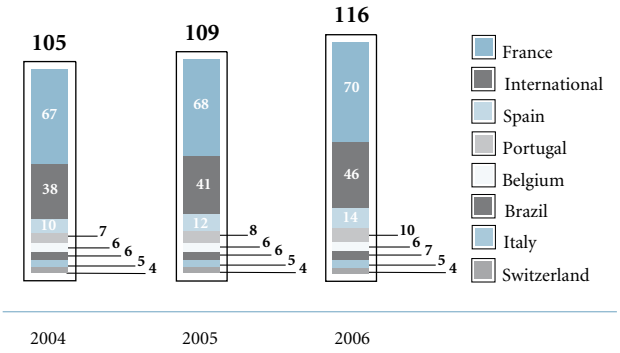
Expansion in France remains at the heart of Fnac's strategy. In 2006, the company inaugurated a store in Valenciennes and opened a second store in Marseille in the La Valentine commercial zone.

The year was also marked by the arrival of Fnac in peri-urban zones with the opening of a store in the Bordeaux-Lac commercial zone. The new format extends the Fnac network out of town to bring stores closer to customers and respond to new consumption patterns.

This new format is already performing well commercially, exceeding expectations, and will open significant organic growth opportunities in France in the coming years. Fnac plans to open on average 4 stores of this type annually.

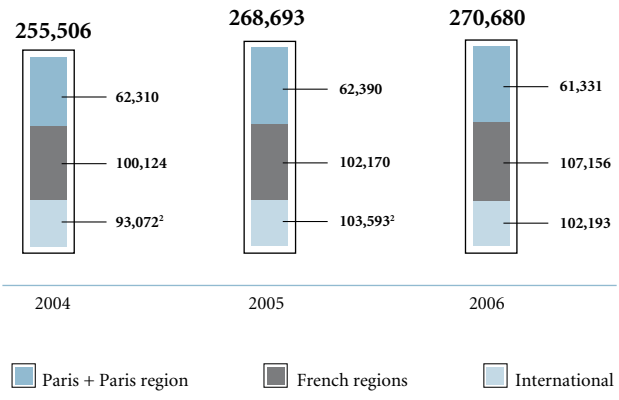
To meet changes in markets and consumer purchasing behaviour, Fnac strives for the constant improvement of its stores. In this regard, Fnac started in 2006, a project which will continue in 2007 to adapt and rationalise surface areas.

FNAC STORES EXCLUDING SUBSIDIARIES[1]
NUMBER OF STORES



[1] Excluding Fnac Eveil & Jeux and Surcouf.
Excluding 1 store owned on a joint-venture basis.

FNAC STORES EXCLUDING SUBSIDIARIES[1]
SELLING SPACE (SQ.M.)



[1] Excluding Fnac Eveil & Jeux and Surcouf.
[2] Excluding 7 stores in Taiwan owned on a joint-venture basis (sold in 2006).

1. *Source: Panel Nielsen/NetRatings (December 2006).*
2. *Source: Baromètre Fevad/PanelDirect (December 2005).*

Fnac also successfully tested a dedicated new specialised in-store video game environment for video game specialists. This environment in the Bordeaux-Lac store and at La Défense store will be deployed throughout the network in 2007.

Launch of new services

A new range of services and solutions was launched in 2006 to better meet the growing customer need for information due to the increasing complexity of technological products. In October, Fnac offered its customers home assistance services via its subsidiary Form@home. Fnac plans to develop a wide range of services assistance (installation, assessment, catch in hand and breakdown service) and to be marketed through several channels (stores, phone, Internet). The creation of a brand that embodies service, backed up by an ambitious communication plan, will enable Fnac to position itself as leader in this new market, aided by its substantial technological clout.

Step-up in international expansion

Fnac generated 25.2% of its revenue outside of France in 2006, representing growth of 10.9%. Of those countries in which the company is well established, the strongest performances were recorded in Spain (+12.4%), where two new stores were opened (Murcia and Bilbao), and Portugal (+11.6%), where two stores were opened in Coimbra and Madeira. In addition, Belgium is again profitable with significant growth of 3.4%.

Countries in which the company has more recently commenced operations confirmed their commercial momentum. Brazil posted growth of 29.3%, while 11.5% in Italy, and had a 1.1% increase in sales in Switzerland, even though it faced a fiercely competitive market.

In 2007, the company will add to its network outside of France. Fnac thus plans to open three new stores in Spain, specifically in Seville and La Corogne, two in Portugal in Braga and Lisbon, two in Italy (Turin and Rome), one in Belgium (Louvain-la-Neuve), one in German Switzerland (Basle) and one in Greece (Athens).

International expansion is one of the key pillars of Fnac's development strategy. The company's goal is to double the number of its stores outside France within five years.

Fnac's specialist companies

In addition to its historical offering in computers and software, **Surcouf** has successfully developed a wide range of digital products sold at competitive prices through its five French stores. The site offers 20,000 references, and availability and prices are updated three times a day. In 2006, the company posted revenue of €271 million.

Fnac Éveil & Jeux offers a range of educational games and toys, books and multimedia products, nursery accessories and decoration for children up to the age of 12. The company uses three different distribution channels – catalogues, Internet and stores – enabling it to increase its recognition and offer each customer a tailor-made purchasing method. Fnac Éveil & Jeux is market leader in the on-line and home shopping sale of games and toys thanks to the originality and selective approach of its product offering. In 2006, the company posted revenue of €128 million.

In 2006, Fnac Éveil & Jeux inaugurated four stores raising to 34 its number of stores.

An increasingly customer-focused company

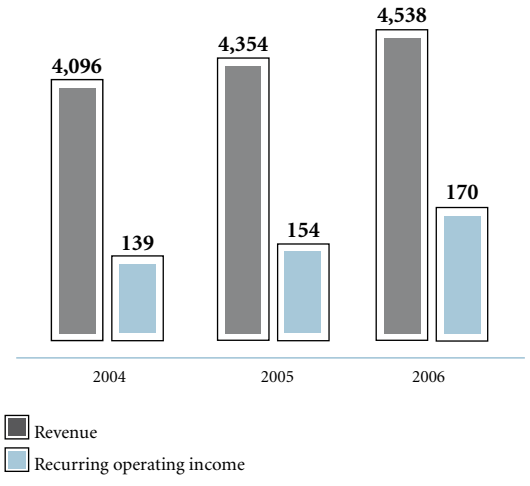
Customer satisfaction

Fnac's goal is to become an increasingly customer-focused company. In order to improve the availability of its salespeople – one of the company's major assets – Fnac has launched a long-term programme with three main areas of focus: reducing subsidiary tasks, increasing the number of staff on hand at peak times and developing skills. Fnac customers expressed an 86% satisfaction rate with the quality of service received at their last visit to a store.[3]

FNAC SUBSIDIARIES - NUMBER OF STORES



REVENUE AND RECURRING OPERATING INCOME
(in € million)



3. 2006 Défi Survey.

New membership system

Fnac is pursuing its customer loyalty policy with its membership card. The membership programme now offers benefits that are more basic and attuned to consumer behaviour.

At the end of 2006, the company had 1.8 million members who make store purchases approximately 3 times more often than other customers, which represents an average annual spending of almost €1,000 per member.

Fnac logistics and after-sales centre

To take better care of the excellence of its service quality, Fnac continues to set up its own telephone helpline to inform, advise and assist customers on the functioning and set-up of their equipment (Attitude), and its own PC repair centre (MSS).
In 2006, Attitude and MSS processed 600,000 customer calls and nearly 75,000 PC repairs, with constantly rising customer satisfaction rates.

Lastly, Fnac continued to develop Fnac Logistique. In addition to the Massy site (56,000 square metres), there was a step-up in activity for the new Wissous site (20,000 square metres), which handles the installation of technical products for customers in the Paris region. In 2006, Fnac Logistique processed 90% of store purchases in France, translating into 115 million products.

In 2007, Fnac Logistique will welcome Fnac.com entire preparation of orders activity, which will extend product availability in under 24 hours.

A company where the energy and talent of employees is unfettered

In 2006, Fnac initiated an ambitious and volunteer programme for the forward management of jobs and competencies. The challenge is to provide opportunities in high-growth Fnac subsidiaries to employees with precarious jobs thanks to a training programme that will qualify them.

The company also pursued its professional experience validation programme. Accordingly, 80 employees were able to have their technical degrees and professional baccalaureate degrees in 2006, compared to 50 in 2005 and 20 in 2004.

There was also an emphasis on development tools so as to ensure the company's international growth in terms of human resources.

A leading player in culture and technology

In addition to its retail activities, Fnac has always defined itself as a key cultural and technological player, as well as a corporate citizen, through long-standing events. In 2006, Fnac coordinated more than 6,000 cultural and technological events in store forums, where ideas are shared and discovered.

Fnac defends books and reading

Nineteen years ago, Fnac launched the Goncourt Prize for Lycéens (secondary school pupils) in association with the Ministry of National Education and with the support of the Académie Goncourt. This prize is designed to introduce secondary school pupils to the pleasures of reading through contemporary literature. In 2006, more than 2,000 pupils from 58 classes participated. The prize is now an essential part of the French literary scene. The fifth annual Fnac Novel Prize, as selected independently by 600 members and libraries, was also awarded.

Fnac supports young musical talent

Fnac has associated itself with the *Printemps de Bourges* music festival since 1998, to create a talent discovery programme, *Découvertes du Printemps de Bourges et de la Fnac*. This year 3,600 artists participated in the selections for the regional and then national auditions.

For the third consecutive year, the Fnac Festival honoured new talent as part of the *Paris Plage* festivities, extending the eight annual "*Interdé-tendances*" compilations. More than 55,000 spectators attended the festival in 2006.

Photography for the public at large

Fnac is introducing the public to the breadth of the photographic image. Photography is another key plank of Fnac's identity, which the company has been pioneering since the 1960s. Fnac holds exhibitions in its 30 store galleries, while its photographic collection of more than 1,600 images is being archived, digitised and appraised.

Cinema initiative reaching the public

Fnac has become a media force of its own right for the promotion of films and cinema. The stores hold master classes in which meetings with leading directors are filmed and released as a DVD. The company also organises meeting tours and multiple previews for film and DVD releases.

Working closely with artists, Fnac awards the annual "Short Film Talent" award at the Clermont-Ferrand festival, and supports the film by releasing it as a DVD.

Fnac and the pioneering of innovation

Far beyond its role in retailing, Fnac has traditionally defined itself as a pioneer of new technologies and is an undisputed leader in terms of innovation. As a result of this positioning, it was able to benefit from the momentum of markets created by the most recent technological advances. The year 2006 was marked by the development of video game events, with player tournaments, event previews such as *Wii* and *World of Warcraft* or meetings with leading creators, as well as conferences on the latest technologies such as TNT or HD.

In 2007, Fnac will pay homage to artists working in comic books, video games, cinema and animated film, with several exhibitions and the sale of exclusive limited editions. Technology will be front and centre early in the year with the launch of Windows Vista.

A socially responsible company

In 2006, Fnac reaffirmed its role as a responsible social and environmental player.

A partner with the *Association to encourage efficient schools* since 2003, Fnac wished to join forces with 687 reading clubs to provide support for the after-school preparatory course in reading, involving 3,500 children in need. In 2007, young readers will award the "Fnac prize for first-time reading", as their grade four elders have done since 2005 with the "Fnac prize for young readers."

In another medium, the CD series "We love, we help" is a Fnac exclusivity in the fight against illiteracy.

In its commitment to freedom of expression, Fnac has forged a partnership with *"Reporters without borders"* over the past 13 years. This year, the two albums *100 football photos for press freedom* and *100 star photos for press freedom*, published in association with *Agence France Presse* and *studios Harcourt* respectively, were put on sale in the Fnac stores, accompanied by eleven photo exhibitions.

Since June 2005, Fnac has also collected printer ink cartridges in all its stores in order to encourage recycling. In 2006, 27.3 tonnes of cartridges were collected.

Likewise, Fnac and Emmaüs started the collection of used mobile telephones.

Finally, biodegradable bags are now distributed in all the Fnac Belgium stores and are currently being tested in the Limoges Fnac store.

FINANCIAL RESULTS

In 2006, Fnac generated revenue of €4,538 million, up 4.2% compared to 2005. In France despite a general decline in the CD's and the photo printing markets and in a overall difficult economic context, sales rose 2.2%, buoyed by the outstanding performance of technical products and the momentum of Fnac.com. Revenue outside France surged 10.9%. International revenue now accounts for more than one quarter of Fnac's total sales.

Recurring operating income rose by 10.5% and stood at €170.2 million in 2006, or 3.8% of revenue, particularly due to the international subsidiaries solid performances.

2006 HIGHLIGHTS AND OUTLOOK FOR 2007

In 2006, Fnac pursued its development both in France and internationally. In France, it opened three stores in a peri-urban zone, and transferred its Pau store. At the international level, the number of stores in Spain climbed to 14, with openings in Murcia and Bilbao. Two stores were opened in Portugal bringing the total number to 10. A seventh store was opened in Brazil.

In 2006, Fnac also structured and initiated its corporate plan for the next five years. This "100% customer" plan focuses on three strategic directions: pursuing strong and profitable growth, ensuring the company is customer-driven, and releasing the talents and energies of employees in order to maintain and develop the company's leadership.

The year 2007 marks the first year of the new company project and will again herald growth for Fnac. Fourteen store openings are planned, a Fnac record: 4 in France (three based on the new peri-urban zone format and 1 in the city centre), 3 in Spain, 2 in Portugal, 2 in Italy, 1 in Belgium, 1 in Greece (joint-venture) and a first store in German Switzerland.

In addition, services to assist customers in the use of their technical products will be broadened.

Development of the complementarity between the stores and the Web will be pursued, as well as the sale of on-line products.

- No. 1 in household goods and No. 2 in domestic appliances in France
- No. 2 retailer in home furnishings worldwide
- A multi-product, multi-style discount offering
- Selling space of 894,718 square metres in directly-operated stores
- Active in 8 countries

€3,275
million in revenue in 2006

€182
million in recurring operating income

15,543
employees at the end of 2006

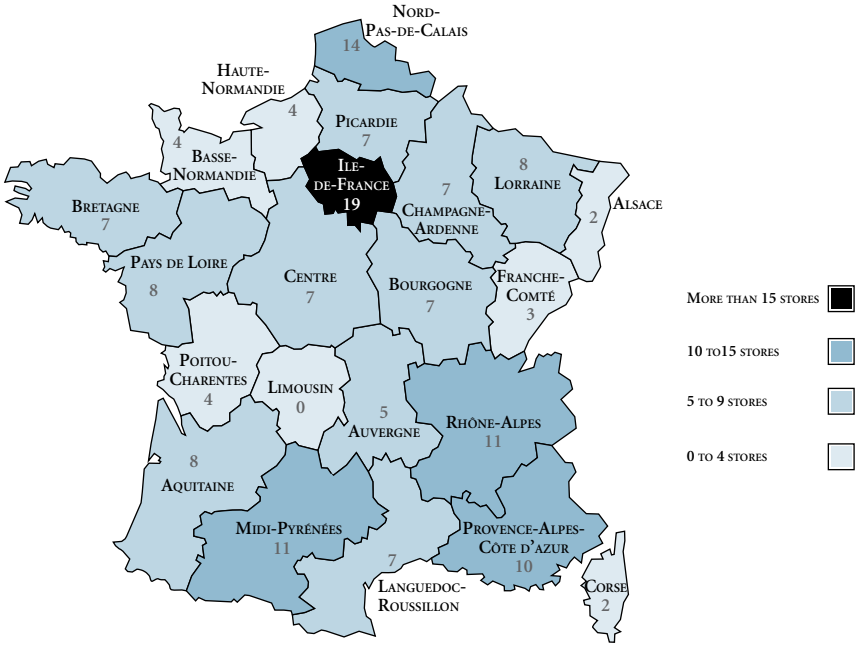
213
directly-operated stores at the end of 2006 (excluding 33 affiliate stores)

BUSINESS CONCEPT

Leader in household goods in France and second in home furnishings worldwide, Conforama's development is centred on a mission: "Allow as many people as possible to obtain well-being in the home, in line with their particular tastes and at the best price". Faithful to its discounter concept, Conforama is a multi-specialist in home furnishings, offering its customers one-stop shopping for furniture, electrical appliances, consumer electronics and decorative items in an extensive array of styles, with immediate availability.

Conforama operates 246 stores worldwide, including 213 that are directly-operated. In France, the company has 155 directly-operated department stores and 33 franchises. Internationally, the company operates 58 stores in seven countries (Spain, Switzerland, Portugal, Poland, Luxembourg, Italy and Croatia).

MAP OF CONFORAMA STORES IN FRANCE
NUMBER OF DIRECTLY-OPERATED STORES



In Italy and Croatia, Conforama operates 21 stores, including 19 under the Emmezeta trade name, the average size of which is 8,000 square metres. The offering comprises textiles and general products in addition to Conforama's usual range.

With over 20,000 listed products in-store, of which 80% are available immediately, the product offering is enhanced by specific signage over an average selling area of 3,500 square metres and underpinned by major advertising campaigns, 12 to 25 times a year, depending on the format.

COMPETITIVE ENVIRONMENT

The leader in Europe, Conforama is developing its concept in a highly fragmented home furnishings and appliances market and facing a densification of certain competing companies.

Its main competitors, depending on the country concerned, are specialist retail chains, department stores and hypermarkets.

Conforama tailors its product offering according to the country concerned and has a unique positioning enabling it to maintain its position as market leader.

STRATEGY

Conforama's strategy is based on six inextricably linked points that are the key factors to the company's success.

Reaffirming its discounter positioning

The Conforama slogan "Comfort at home at an affordable price" is true to its strategy and its positioning. To reinforce its image as a discounter, the company has set up new pricing signage in all of its stores and, at the same time, successfully launched a "lowest price" range in all the countries where its is established. In addition, the company has added the Saba range, a directly-operated domestic appliance and leisure electronics brand, which will stimulate revenues for these product families.

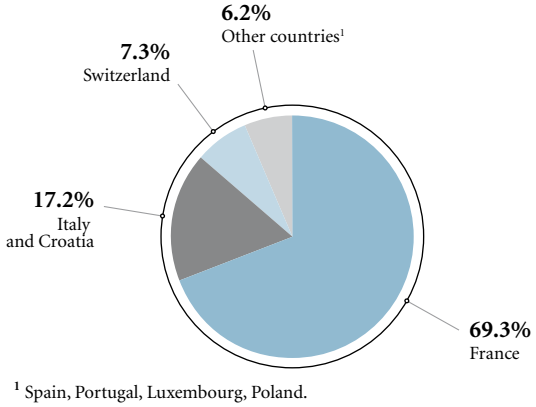
Accelerating the company's modernisation

Conforama has substantially accelerated the modernisation of its store network. Two types of transformation have been implemented: complete remodelling for stores that were transferred or stores with increased selling areas, and basic renovations for the other stores.

A greater number of renovations were conducted with lower investment required. 18 stores were modernised in 2006 compared to 10 in 2005. Today, there are 78 new-concept stores.

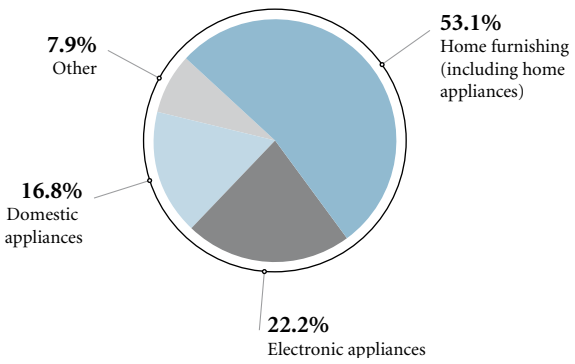
The company's modernisation also means an upgraded product range. For example, for the kitchen sector, one of the market's most buoyant segments, the product ranges were rethought, numerous new models were launched, a catalogue with a distribution of 1,300,000

BREAKDOWN OF 2006 REVENUE BY GEOGRAPHICAL AREA



[1] Spain, Portugal, Luxembourg, Poland.

BREAKDOWN OF REVENUE BY PRODUCT CATEGORY



was published in France, a dedicated Internet mini site was on-lined, and 19 stores renovated or modernised their kitchen space.

In addition, a new survey of trends in the furniture market was conducted so as to better adapt the Conforama offering to this segment. The initial results of this repositioning should be visible in 2007.

Strengthen the international development

At the international level, Conforama has adapted its development strategy according to the country of establishment.

Conforama has been present in Switzerland since 1974 and is heightening the development of its network. Hence, the company inaugurated 2 stores in Villeneuve and Berne in 2006 and now has 13 stores.

In Spain, Portugal and Poland, Conforama's market share is still modest but with one great ambition: To be the best local company. To reach this objective, efforts have been concentrated on the market segments where Conforama is the most legitimate player. The selling areas were thus reorganised to devote more space to furniture and decoration.

In Italy and Croatia, Conforama is present in two locations under the Emmezeta trade name. The gradual conversion of Emmezeta into Conforama was successfully continued at the Verona site in July. The Conforama development strategy for Italy consists in capitalising on the company's most dynamic and buoyant sectors to gain shares of a highly fragmented market. Therefore, Conforama will accelerate the conversion of its Emmezeta sales outlets to its own banner and open new Conforama stores in 2007.

Optimising sourcing and the supply chain

In 2006, Conforama continued to develop its remote sourcing activity and optimise merchandise purchases and flows. Its organisation now relies on 6 purchasing offices and 4 satellites, which cover the main production centres in the world. It has a total of 150 employees, compared to 40 in 2002.

At the same time, Conforama has stepped up the deployment of its logistical capacities. Warehouse surface areas have doubled since 2004, to reach 200,000 square metres spread over 5 major platforms in Europe. In addition, Conforama has developed river barge transportation, routing 90% of its containers using this method. The company is thus the top customer of Lyon's Edouard Herriot Port.

Accompanying men and women, organisations and systems

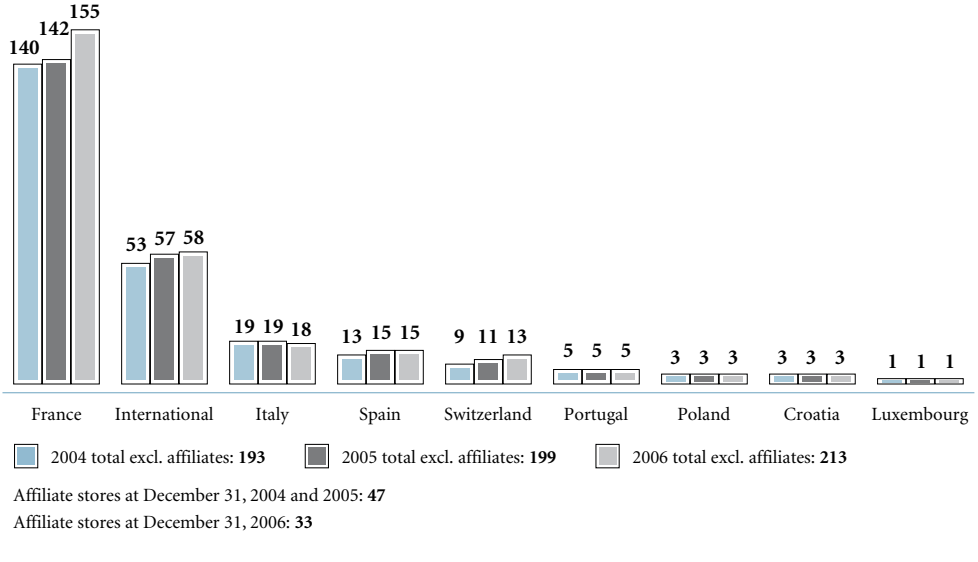
Conforama has intensified its training policy by implementing an internal "Proximity Manager" programme for store executives. More than 1,200 managers attended the training in a record time. Partnerships were signed with RMS (Reims Management School) to train future product managers, and with the Sénart-Fontainebleau and Saint Denis University of Technology Institutes and the CFA Sup 2000 (apprenticeship training centre) to create the first exclusive professional degree for future department managers.

Expanding the company's civic responsibility

In 2006, Conforama solidified its social responsibility commitment by entering into a partnership with *Secours Populaire Français*. In keeping with this mission, the company contributed to the aid of 400 destitute families throughout France by offering home furnishings (furniture, appliances, etc.).

Lastly, Conforama pursued its sustainable development strategy by implementing European Directive D3E (recycling of waste electrical and electronic equipment) within the prescribed deadline and in all the countries where it operates.

NUMBER OF STORES



Affiliate stores at December 31, 2004 and 2005: **47**
Affiliate stores at December 31, 2006: **33**

FINANCIAL RESULTS

In 2006, Conforama generated revenue of €3,275 million, up 4.3% compared to 2005.

In France, Conforama's primary market, activity increased by 6.8%. The surge is in part due to the March 2006 consolidation of Sodice Expansion, Conforama's main franchise holder with 14 stores based in northern France. The performance also reflects the positive results of Conforama's main markets, particularly in appliances, where the company continued to gain market shares, and television sales spurred by football's World Cup.

International activity excluding Italy rose 4.1%, underscoring solid performances in Spain, Croatia, and Poland. The Italian subsidiary, which represents nearly half of Conforama's activity outside of France, declined 5.8% primarily because of an adverse economic and competitive environment.

Recurring operating income, up 2.6% compared to 2005, stood at €181.7 million, for a profitability rate totalling 5.6% of revenue. The performance reflects the efforts of all teams to improve Group profitability through strict cost control, particularly for logistics, while continuing to invest in the modernisation of the store network, product ranges and information systems.

2006 HIGHLIGHTS AND OUTLOOK FOR 2007

Conforama continued to renovate its network of stores in 2006.

In France, Conforama stepped up its store renovation programme with, among others, the new Perpignan and Nice stores, which were relocated and expanded.

Conforama consolidated its international positions in its traditional markets. In Switzerland, the company now has 13 stores with the opening of two new outlets, including one in Berne with a selling area of 6,100 square metres, making it the country's largest Conforama.

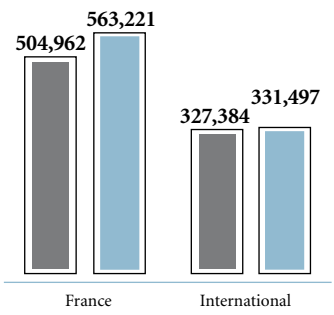
In Italy, Conforama inaugurated a second sales outlet in Affi near Verona. This involved the conversion of an Emmezeta store to the Conforama banner, thus validating the first successful initiative in Sassari, Sardinia.

Finally, as it pursues the reinforcement of its logistical capacities, Conforama inaugurated its fifth European platform in the Paris region with an area of 65,000 square metres.

In 2007, Conforama will continue to pursue the conversion strategy implemented two years ago. The main focuses will be: continuing modernisation of the concept and optimisation of the product offering, a faster pace for store renovation (20 stores are planned) and the strengthening of international positions with the opening of 5 new stores (2 in Spain in Saragossa and Murcia, 1 in Braga, Portugal and 2 in Italy in Naples and Rome) and the conversion of three Emmezeta stores in Pescara, Aprilia and Modena. Conforama will also pursue its investment efforts for the upgrading of its information systems.

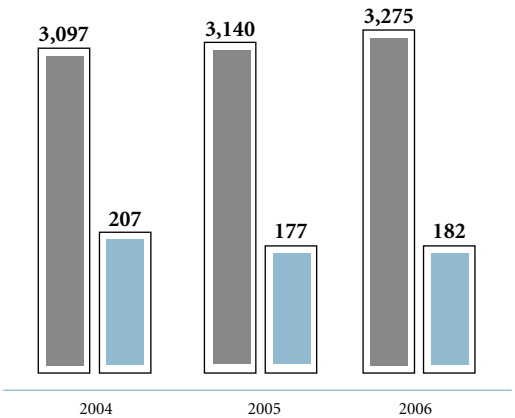
Conforama has launched its new Internet Institutional and Human Resources website *Canal Confo*, in order to strengthen the proximity and transparency the company has always provided its customers, employees and potential store candidates.

SELLING SPACE EXCL. AFFILIATES (in sq.m)



Total 2005 : 832,346 sq.m
Total 2006 : 894,718 sq.m

REVENUE AND RECURRING OPERATING INCOME
(in € million)



Revenue
Recurring Operation Income

CFAO
cfaogroup.com

- **4 Business Units:**
- **CFAO AUTOMOTIVE:** no. 1 automobile retailer in Africa
- **EURAPHARMA:** no. 1 pharmaceutical distributor in Africa and the French overseas departments and territories
- **CFAO TECHNOLOGIES:** distribution and integration of new technologies
- **CFAO INDUSTRIES AND TRADING:** production and distribution of consumer products
- Active in 31 African countries and 6 French overseas departments and territories
- 135 subsidiaries and 286 sites
- 48,300 new vehicles sold in 2006
- 5,300 medicinal products delivered daily (133 million packages yearly)

€2,219
million in revenue in 2006

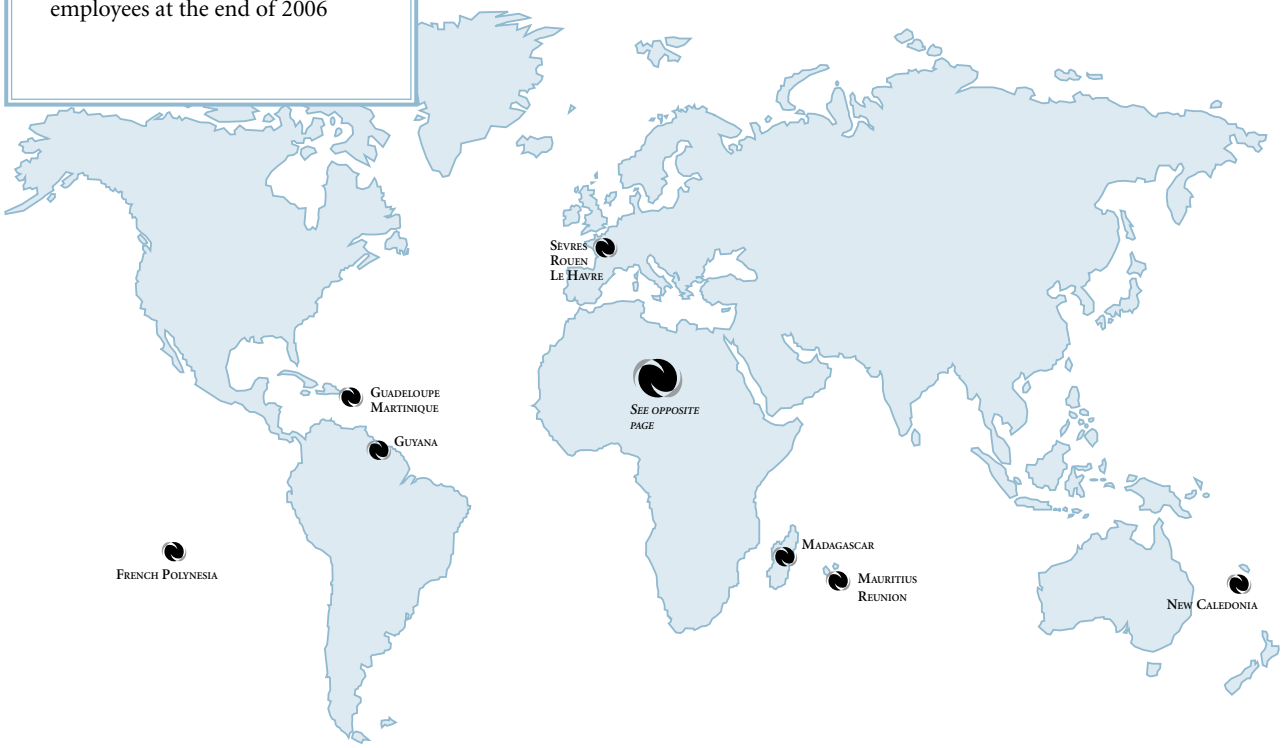
€182
million in recurring operating income in 2006

9,994
employees at the end of 2006

BUSINESS CONCEPT

CFAO distributes internationally recognised products in three core businesses: Automotive (53% of 2006 revenue), Healthcare (30%) and New Technologies (5%). The company is also active in the production and distribution of convenience goods, accounting for 12% of its activity. CFAO is backed by dedicated teams of professionals in each of its activities. Its 9,994 employees work in 135 subsidiaries at 286 sites. CFAO has been operating on the African continent for over a century, and is now active in 31 African countries (78.6% of revenue) and 6 French overseas departments and territories.

MAP OF CFAO OPERATIONS AROUND THE WORLD



COMPETITIVE ENVIRONMENT

With 48,300 new vehicles sold and €1,179 million in revenue in 2006, CFAO is the leading automotive retailer in Mediterranean and Sub-Saharan Africa.

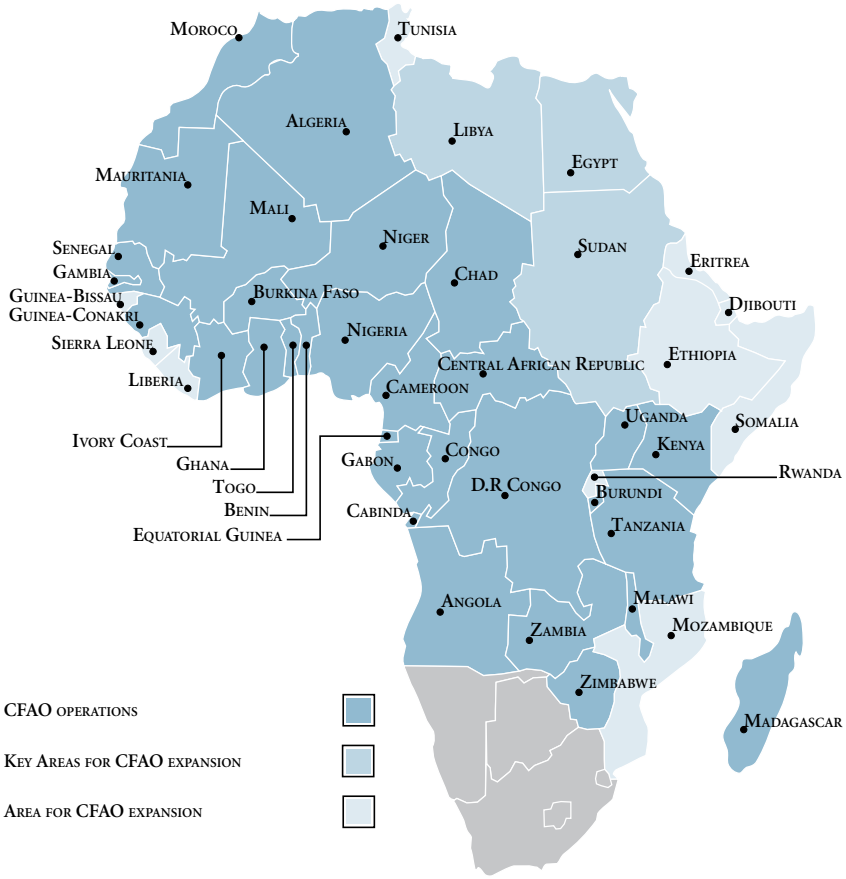
CFAO is the distributor for such major international carmakers as General Motors, Toyota, Renault/Nissan, Daimler Chrysler, PSA Peugeot Citroën, BMW or Ford.

The company is also the leading pharmaceutical distribution company on the African continent and in the French overseas departments and territories, with revenue of €662 million in 2006 and approximately 43% of the pharmaceutical distribution market in Sub-Saharan Africa.

CFAO is also a major player in new technologies in Africa. Its dedicated activity, CFAO Technologies, is carving out a market as a "solutions integrator" in information technology, telecommunications, networks and office automation. Accordingly, CFAO Technologies represents the world leaders in the sector: IBM, Lenovo, Cisco, Oracle, Siemens, Motorola, Sharp, and Otis. In 2006, CFAO Technologies generated revenue of €106 million.

With no real competitor of comparable stature on the African continent, CFAO offers professionalism and know-how combined with international quality standards to each of its customers in each of its businesses.

MAP OF CFAO OPERATIONS IN AFRICA



STRATEGY

Significant growth

Between 2000 and 2006, CFAO pursued an ambitious growth strategy, establishing new companies and acquiring exclusive import and distribution companies or labels. Over this period, CFAO moved into 14 new countries and saw revenue rise by 78%.

Over the past 10 years, CFAO has undergone a period of outstanding growth and profitability: revenue and recurring operating income have more than doubled. This performance underscores the success of its investment strategy, including countries which are deemed high risk. Such success is underpinned by solid control over the risk/ profitability matrix combined with diversification from both a geographical and a business standpoint.

Expanding market share in Mediterranean Africa and East Africa

One of the top priorities of the CFAO growth strategy in the medium-term is to focus on the markets of Mediterranean Africa, from Morocco to Egypt. In the automotive sector, CFAO has negotiated exclusive distribution agreements with General Motors and DAF in Morocco and Algeria for the Opel, Chevrolet, Isuzu, DAF and BMW brands. Activity increased by 23.5% for these two countries in 2006, and Eurapharma, the healthcare subsidiary of CFAO, has begun operations in Algeria.

CFAO also has a presence through CFAO Technologies in Algeria.

In the medium-term, CFAO hopes to generate a quarter of its revenue in the Mediterranean African countries, compared to the current 16.6%. At the same time, it plans to bolster its market share in English-speaking African countries, particularly East Africa.

CFAO: a trusted, quality brand in its markets

As a distributor of major global brands, CFAO stands out from its competitors with its efficient before and after-sales services, its constant emphasis on operating investments (as illustrated by its showrooms, stores, warehouses, workshops, equipment, information systems, etc.), and a supply chain able to swiftly supply markets that are far from production centres.

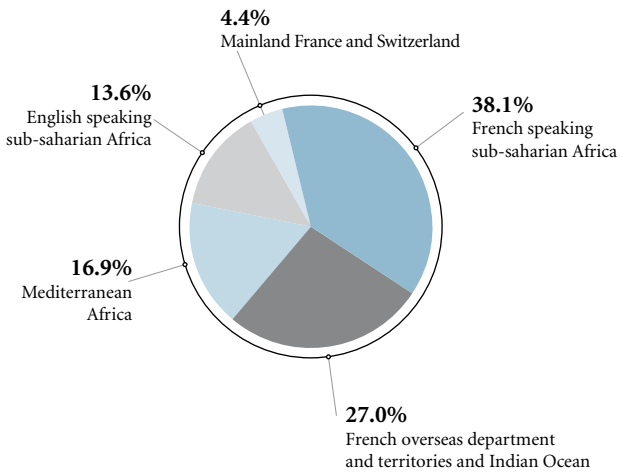
To project an image that sets it apart, CFAO launched a drive to improve customer service quality, and gradually introduced new tools and working methods. For example, CFAO has created an Automotive Quality Charter for use throughout its network of dealerships. Subsidiaries that have achieved the objectives set are "certified" by CFAO.

A socially responsible company

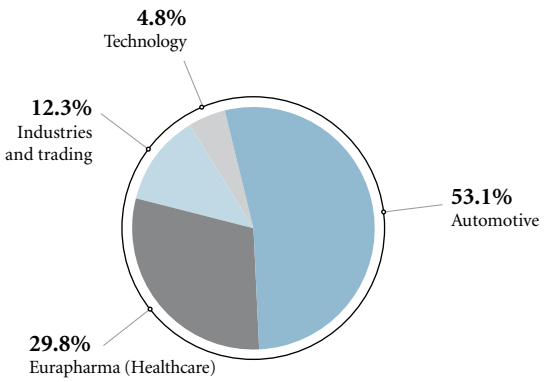
CFAO cannot conceive of its role as a player in the economy without adding a strong commitment to corporate social responsibility.

Thus, in October 2002, the company set up the association *CFAO Solidarité* to focus chiefly on education, professional training, health and hygiene (particularly the fight against AIDS).

BREAKDOWN OF 2006 ECONOMIC SALES REVENUE BY GEOGRAPHICAL AREA



BREAKDOWN OF 2006 REVENUE BY ACTIVITY



FINANCIAL RESULTS

CFAO generated revenue of €2,219 million in 2006, representing an increase of 9.1%. Automotive sales increased by 13.4%, and pharmaceuticals by 3.9%, despite the sale of a subsidiary in Egypt. Production and distribution of convenience goods rose 12.2%. CFAO Technologies, which was reorganised at the end of 2005, reported a 7.8% decline in revenue.

Recurring operating income rose by 9.2% to reach €182 million, driven by the company's excellent performance in Sub-Saharan Africa.

2006 HIGHLIGHTS AND OUTLOOK FOR 2007

The year 2006 was marked by reinforced positioning in the countries where the company is currently established and by successful inroads into new countries. Activity for the countries of Sub-Saharan Africa was particularly significant.

The automobile activity was strengthened in several countries: Toyota in Ivory Coast and Guinea-Conakry, Chevrolet in New Caledonia, and Nissan in Nigeria. The retailing of a BMW premium brand was launched in Algeria, and a new location has been finalised in Mauritania.

A number of dealerships designed in line with European standards and fully focused on customer satisfaction were refurbished, primarily in Morocco, Mauritius and Ivory Coast.

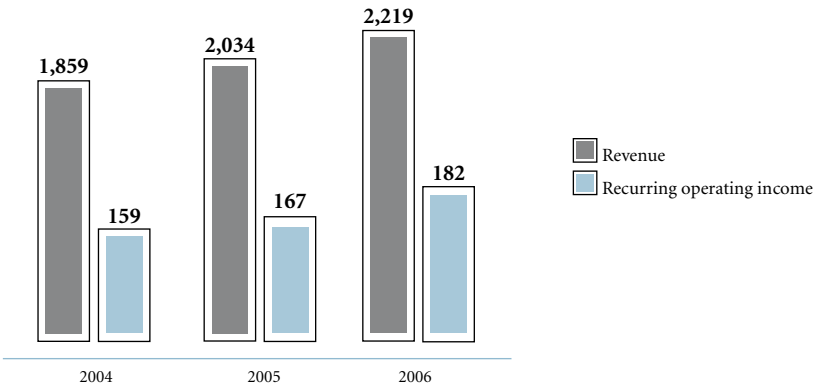
The healthcare division has developed its operations in Angola and Togo.

In addition, Eurapharma has made its debut in Algeria through a pharmaceutical import and distribution company and acquired expertise in medical promotion through the purchase of Cider Promotion International.

Meanwhile, CFAO Technologies has strengthened its presence in Senegal by buying ABM.

CFAO's goal for 2007 is to continue generating healthy revenue growth by expanding existing activities and adding to its international positions in high-growth markets.

REVENUE AND RECURRING OPERATING INCOME
(in € million)



3 PPR's Corporate Social Responsibility: A common undertaking

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PPR's Corporate Social Responsibility (CSR), five years of commitments under a policy of constant development

2001
- **Creation of the SolidarCité association;** financed by the Group and the companies, this association supports the solidarity and citizenship initiatives of its employees and adopts measures to promote social cohesion, in partnership with associations throughout France and local authorities.

2003
- **Set-up of a Sustainable Development department at the Group level;** coordination of the PPR approach and mobilisation of companies around a strong desire to be a responsible and committed player, while maintaining brand specificities and the Group's decentralised organisation.

2004
- **Signing by the PPR Chairman of the Diversity Charter;** aiming at the highest level to give everyone a chance in the integration of all strands of society, equal opportunities are a central theme of the Group's human resources policy.

2005
- **Deployment of the PPR Code of Business Practices and creation of the Ethics Committee for Corporate Social Responsibility (ECCSR);** reflecting the Group's convictions and the true basis for PPR's ethical principles, the Code is passed on to all employees using a top-down approach so that everyone carries and promotes PPR's commitments.
- **Creation of the Télémaque Foundation;** on the initiative of SolidarCité and under the aegis of the Fondation de France, it includes several companies, anxious to assert their commitment to the life of the Community and the reestablishment of the social ladder, by guiding and supporting talented and motivated students from underprivileged backgrounds in their academic career.

2006 was marked by the strengthening of the key developments and strategies initiated in previous years, the priority being the **continued deployment and monitoring of the correct application of the PPR Code of Business Practices**.

The real backbone of PPR's CSR policy, the Code formalises the Group's commitments vis-à-vis its main internal and external stakeholders (employees, customers, business partners, the environment, society and shareholders) and the ethical principles which shall guide the actions and conduct of employees. After an intensive phase of deployment to all employees as an operational management tool, it is now part of their daily "habits". The ECCSR continued its work in 2006: the advisory, monitoring and feedback structure that guarantees compliance with the Group's commitments ensures the enforcement of the Code principles and may be consulted by any employee at a specific and confidential address. It has 11 members (10 members from PPR and the companies and an external independent expert) and meets every 3 months depending on the matters submitted to it in order to analyse claims.

The committee includes business ethics representatives appointed and trained in the companies to respond to each request and fulfil their duties with complete confidentiality (in accordance with the Law no. 78-17).

In 2006, PPR also initiated a new phase: with the strong involvement of the companies, the Group has developed its strategy even further and formalised its commitments around 4 unifying themes to be deployed in company action plans.

These **4 themes, which provide the Group with a common operational framework, now structure PPR's CSR approach**:

- 1. Enhance the skills and talents of employees;
- 2. Establish lasting relationships with the Group's partners and local communities;
- 3. Support the Group's customers as responsible players; and
- 4. Reduce the Group's environmental impact.

Finally, 2006 was marked by the **harmonisation of the Group's social and environmental reporting**.

In 2006, PPR completely overhauled its environmental reporting framework to align it with the Group's social reporting framework which has since 2005 consolidated around one hundred indicators submitted by 160 contributors worldwide. By adopting the same reporting framework for social and environmental issues (number of reporting levels: business units, companies, sites, company validation levels, etc.), this overhaul has three objectives: facilitate data consolidation at both company and Group levels, allow for internal benchmarking between sites and enable the harmonisation of environmental indicators with the Group's social indicators.

Furthermore, historical data archiving and the consistency checks performed on submitted data will improve the quality of the reporting and reveal the trends specific to PPR.

The social data published in this document covers 99.7% of employees at December 31, 2006 within the Group's scope of consolidation. The 2005 and 2006 data has been recalculated excluding discontinued operations. Note that this year's publication has been improved as the data also covers the African scope of consolidation.

2006 highlights

A DECENTRALISED APPROACH FOR SKILLS DEVELOPMENT AND EMPLOYEE GUIDANCE

With respect to integration, appraisal, training and skills development, the Group favoured the decentralisation of tools, processes and methods. In 2006, the Group's Human Resources Department became a medium for the support and challenge of best practices, so as to propose additional solutions to the development of company expertise.

PROMOTING DIVERSITY, A MAJOR COMMITMENT EXCEEDING ITS OBJECTIVES

After 18 months of partnership with AGEFIPH, a French association promoting job placement and vocational training of the disabled, PPR hired 241 employees, thus surpassing the objective of 160 recruits in two years.

The theme of diversity became a topic of discussion for the PPR European Works Council (EWC), which analysed in 2006 the various national approaches and the tests carried out in France regarding the disabled in order to draw up common areas of improvement in 2007.

SOLIDARCITÉ CONTINUES ITS INITIATIVES, PROMOTING DIVERSITY AND EQUAL OPPORTUNITIES

By mobilising nearly 4,000 volunteer employees, SolidarCité has strengthened its relations with associations, local communities and government authorities.

In keeping with its commitments, the association elected at the end of 2006 to focus its actions on education and placement. The signing of the Corporate Commitment Charter for Equal Opportunities in education by PPR in December 2006 formalises the Group's commitment even further.

With respect to the Télémaque Foundation, 120 students will also be supported and guided in 2006 through partnerships with thirty schools.

WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT AND ECO-DESIGN: TWO KEY PROJECTS ILLUSTRATING PPR'S DESIRE TO ACT AS A RESPONSIBLE PLAYER

The commissioning of the waste electrical and electronic equipment (WEEE) collection and treatment facility on November 15, 2006 was the culmination of 2 years of mobilisation for PPR.

In association with Eco-Systèmes, the Group has since 2004 set up an operational management committee with members from all the relevant companies in order to guarantee in November 2006 the commissioning of the facility under optimal conditions, with particular focus on the training of 17,000 employees.

In the course of 2006, Conforama adopted a true eco-design approach in order to manufacture a child's bedroom that will be marketed in 2007.

A multilateral project coordinated by Conforama in close conjunction with its main supplier of children's bedrooms and assisted by the Wood and Furniture Technical Centre (CTBA), a consulting firm and the Agency for the Environment and Energy Management (ADEME), the aim is to manufacture a fully eco-designed child's bedroom, taking into account environmental criteria in order to reduce the product's environment impacts as much as possible.

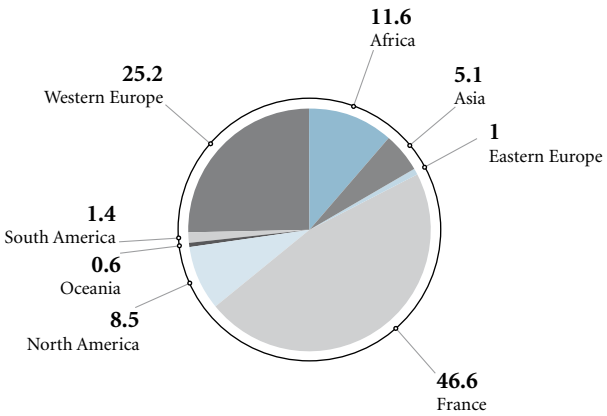
2006 KEY CSR INDICATORS

- 78,453 Group employees, of which 53% are women, compared to 52% in 2005;
- 999,561 annual training hours, up by more than 12% compared to 2005;
- 59,453 trained employees, up by 22% compared to 2005;
- 53.9% of recruits in 2006 were women;
- 47% of managers are women and they represent 52.3% of non-managers who became managers;
- 1,031 disabled employees, up by 12.1% compared to 2005;
- 19 employee projects backed by SolidarCité;
- 4,000 employees mobilised for SolidarCité projects in 2006;
- 434 social audits conducted with the Group's suppliers, up 22.6% compared to 2005;
- 65% of paper purchased directly from manufacturers comes from certified forests; and
- 17,000 employees trained in waste electronical and electronic equipment (WEEE) collection and treatment.

Enhance the skills and talents of employees

- 78,453 employees in the Group in 2006;
- As of December 31, 2006, 89% of employees worked under permanent contracts, compared to 88% in 2005;
- 11,026 or 15.8% of Group employees on permanent contracts worked on a part-time basis;
- 81.9% of part-time employees are women and 95.8% are non-managers;
- 3.4% of managers on permanent contracts and 19.1% of non-managers on permanent contracts work on a part-time basis;
- 37.2 years is the average age of employees on permanent contracts in 2006, compared to 37.1 years in 2005;
- 8.9 years is the average length of service of employees on permanent contracts in 2006, compared to 8.6 years in 2005.

BREAKDOWN OF EMPLOYEES FOR THE YEAR ENDED DECEMBER, 31, 2006 BY GEOGRAPHICAL AREA(1) (as %)



BREAKDOWN OF EMPLOYEES AS OF DECEMBER 31, 2006 (as %)

Male managers	Female managers	Male non-managers	Female non-managers
9.5	8.5	37.4	44.6

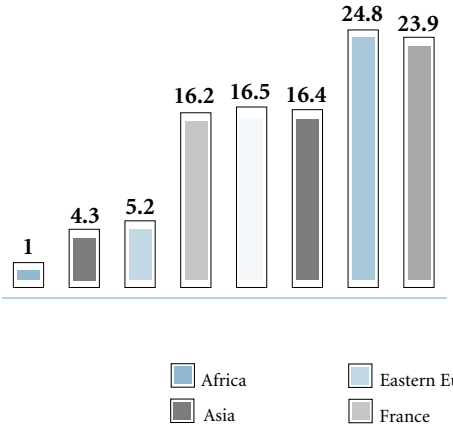
*(1) For all graphs, each geographical area includes the following countries: **Western Europe:** Germany, Austria, Belgium, Spain, Finland, France, Great Britain, Greece, Italy, Luxembourg, Monaco, Norway, Netherlands, Portugal, Sweden and Switzerland; **Eastern Europe:** Croatia, Estonia, Poland and Romania; **North America:** Canada and the United States; **South America:** Aruba, Brazil, Guadeloupe, Guyana, Martinique and Saint Martin; **Africa:** Algeria, Benin, Burkina Faso, Cameroon, Congo, Ivory Coast, Gabon, Gambia, Ghana, Guinea, Equatorial Guinea, Kenya, Madagascar, Malawi, Mali, Morocco, Mauritius, Niger, Nigeria, Uganda, Central African Republic, Democratic Republic of Congo, Reunion, Senegal, Tanzania, Chad, Togo and Zambia; **Oceania:** Australia, New Caledonia, New Zealand, and French Polynesia; **Asia:** Bangladesh, China, Korea, Dubai, Guam, Hong Kong, India, Japan, Singapore, Malaysia, Russia, Taiwan, Turkey and Vietnam.*

In 2006, all development tools were deployed in accordance with PPR's strategy – performance-driven culture, internationalisation and entrepreneurial spirit – with a constant concern for proximity in order to guide employees in their professional career as best as possible.

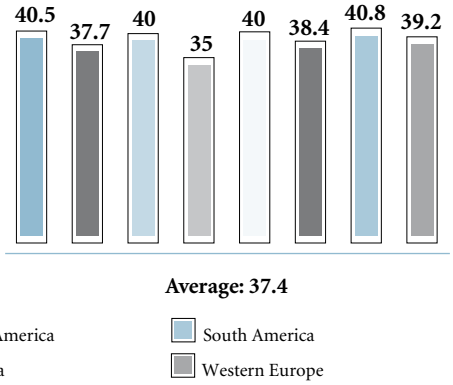
All the training measures, guaranteeing the development of employees' professional strengths, reflect the diversity and wealth of the companies' initiatives (intercultural training at CFAO, professional experience validation at Fnac or training of 1,200 local managers at Conforama).

There is also a desire to extend the annual appraisal interview, based on the high demand detected by the most recent internal opinion survey conducted in 2005 with all employees, in order to promote more exchanges and dialogue with management and the mapping of career paths within the Group.

BREAKDOWN OF EMPLOYEES ON PERMANENT CONTRACTS WHO WORKED ON A PART-TIME BASIS IN 2006 BY GEOGRAPHICAL AREA (as %)



USUAL WORKING WEEK IN 2006 BY GEOGRAPHICAL AREA (in hours)



AVERAGE AGE AND LENGTH OF SERVICE OF MANAGERS AND NON-MANAGERS ON PERMANENT CONTRACTS IN 2006

	Global PPR		Managers	Non-Managers
	2005	2006	2006	2006
Average age of employees on permanent contracts	37.1	37.2	39.63	36.63
Average length of service of employees on permanent contracts	8.63	8.89	9.96	8.63

DEVELOPING SKILLS AND TALENTS

Appraisal

Annual performance appraisal interviews

At the beginning of each year, PPR and its companies organise annual performance appraisal interviews, which are opportunities for managers and employees to discuss the past year's performance and the objectives for the forthcoming year.

In 2006, all executives and most employees in the Retail division companies based in France had this annual performance appraisal interview.

To promote exchanges, Redcats focused in 2006 on the annual performance interview by breaking it down into two key phases: the Performance review and the Development review.

By way of example, in 2006 the Human Resources Department for the PPR head office and shared services trained all its managers and non-managers, i.e. around 200 employees, for the annual performance appraisal interview and the implementation of the individual development plan, a major theme in the action plans of the 2005 internal opinion survey.

People reviews

In each company, the key issues arising from executive appraisal interviews (e.g. potential mobility) are (then) consolidated and analysed by Human Resources and managers during *People reviews*.

These feedback and monitoring processes are used to initiate training plans adapted to the needs of the company and employees and facilitate internal mobility.

360° feedback

Group executives benefit from an additional appraisal and development tool. Hence, every two years, PPR's 130 managers benefit from a *360° feedback* on the perception of their management. This feedback is provided by their hierarchy, peers and members of their teams.

Development of employee skills

This year, each company again deployed rich and varied training and development measures, particularly through the 941,201 hours of training provided (excluding safety training), enabling their employees to develop their level of expertise. CFAO set up intercultural training in order to facilitate the running of international teams. In 2006, Conforama developed its training measures around two main issues: bolster business expertise and improve management quality (1,200 local managers trained in France and abroad). Fnac consolidated its professional experience validation policy. Since 2004, Fnac has encouraged its employees to validate their professional experience, thus preparing and guiding them for their diploma: *Bac professionnel* or *Brevet de technicien supérieur* (standard or advanced vocational diploma). In 2006, the company assisted 72 employees, compared to 52 in 2005 and 21 in 2004.

The Redcats internal Speed university, Specific Education, celebrated its 3 year anniversary having trained more than 1,000 employees since its creation in September 2003.

In May 2006, the university expanded its offering by proposing a new seminar dedicated to "Marketing the Offer". The purpose of this seminar is to show how to build an effective and reactive multichannel product offer.

Marketing the product range, designing a collection and merchandising the offer are all part of the key training aspects of this most recent Speed seminar.

In 2006, nearly 59,500 PPR employees attended at least one training course (including safety training). Women represent more than 53% of trained staff in 2006, compared to 52% in 2005. In addition, the Group's training budget rose by 15.3% in 2006 to over €34 million or 1.85% of the Group's total payroll expenses.

The Group's Human Resources Department proposes supplementary training at head office level in addition to that conducted within each company. Young Group managers (proposed by each company) can therefore take part in the *Development center* programme, enabling them to identify their professional strengths and build with their human resources manager a personalised career development plan.

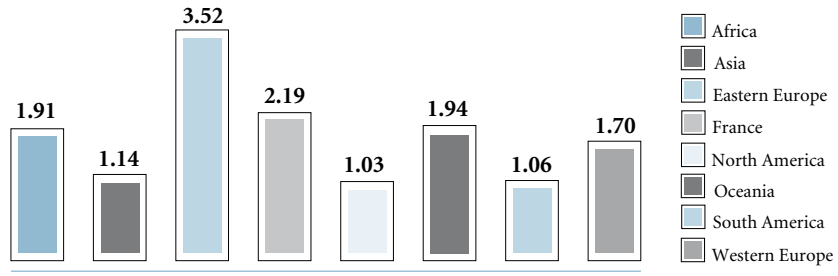
The Group's Human Resources Department also rolled out specific programmes, *Leadership programs,* for company executives to ensure their development around 4 major issues:

- develop a global vision;
- anticipate and manage change;
- mobilise the collective and individual commitment; and
- deliver performance.

In total, more than 220 persons participated in the training programmes developed by the Group's Human Resources Department in 2006.

In 2006, 5,397 employees on permanent contracts were promoted, i.e. 8.7% of Group employees on permanent contracts (excluding Africa). As in 2005, 50.8% of promoted employees were women and 78.4% were non-managers. In addition, 8.9% of managers and 8.1% of non-managers on permanent contracts received a promotion. With respect to these promotions, 577 non-managers became managers in 2006, compared to 523 in 2005.

BREAKDOWN OF TOTAL PAYROLL ALLOCATED TO TRAINING IN 2006 BY GEOGRAPHICAL AREA (as %)



Average: 1.85%

Remuneration and employee benefits

Remuneration policy

In 2006, total payroll expenses amounted to €1.8 billion. Due to the specificity of the businesses and the Group's decentralised operations, the remuneration policy is defined at company level according to the principles of fairness and external competitiveness defined by PPR.

Hence, all the Retail division companies regularly analyse the position of their remunerations compared to the market using data supplied by specialised firms. These market analyses are therefore used to define overall remuneration policies adapted to each company and the various business segments. CFAO has therefore undertaken for 2007 to analyse the competitiveness of its remunerations, particularly concerning seniors.

Likewise, at Fnac, the "business project" initiated in 2005 with regard to job mapping will continue in 2007. The 2007-2011 "100% Customer" business project places the individual performance of employees for customers at the heart of its internal promotion system.

Furthermore, the performance appraisal process set up in the Group helps strengthen the link between performance and remuneration; for example, Fnac, as part of its 2007-2011 business project, will extend the individual variable remuneration system to all vendors. The aim is to boost individual performance while maintaining the spirit of solidarity and total independence "vis-à-vis" suppliers.

Fnac also wished to provide greater visibility over all the elements comprising the remuneration of its employees in France, particularly through a new information media called "Orizon", in which the individual components of the year's direct and additional remuneration (basic salary, variable elements, incentives, profit-sharing, health cover, death and disability insurance, etc.) are broken down and explained. This individual wage assessment was given in 2006 to each French employee and a meeting will now be held annually for non-executive employees and every few years for executives.

The remuneration of the Group's top executives is monitored by the Group's Human Resources Department to ensure consistency and internal fairness at the Group level.

Supplementary health, death and disability and pension coverage

In 2006, 49,986 employees on permanent contracts benefited from additional employee protection over and above the legal obligation, i.e. 72.4% of employees on permanent contracts (81.7% of managers and 70.1% of non-managers), compared to 71.2% in 2005. Most of the other employees on permanent contracts benefited from additional cover included in the legal obligation of the countries where they work.

In order to deal with the structural trend toward higher healthcare costs over the past several years, supplementary health and accident coverage in France was subject in 2005 to a call for tender launched by PPR with brokerage firms. The process resulted in revised coverage and improved terms for the schemes in order to offer competitive and long-term coverage to PPR employees.

In 2006, the measures implemented to limit the losses of certain schemes and improve guarantees were continued. Thus, Redcats set up a disability/invalidity cover for those employees and workers not yet covered in all its companies. Likewise, CFAO amended its accident insurance contract in France so that all its employees may benefit from death insurance coverage with a spousal pension.

Incentive agreements and profit-sharing

Under the legal mechanisms prevailing in France, nearly 100% of PPR's French Retail division employees benefit from the redistribution of company profits through incentives and 69% through profit-sharing schemes. These mechanisms are governed by agreements specific to each legal entity.

Employee savings

Most of the Group's companies in France have Employee Saving Plans (Plans d'épargne entreprise - PEE) which are designed to collect profit-sharing and, depending on the company, incentives, voluntary contributions from employees and any employer's matching contributions. These plans benefit from tax and employee-related exemptions provided they comply with the statutory lock-in conditions.

Employee cards

The Luxury Goods division employee card offers the employees in this division preferential purchase conditions for all Gucci Group brand products.

Likewise, the Retail division employee card offers preferential purchase conditions to each PPR employee in the Retail division located in France and certain European countries.

SUPPORTING EMPLOYEES

School relations

In 2006, PPR and its companies pursued a dynamic school relations policy by increasing its targeted local measures for students within the schools in partnership with the companies and the Group. Overall, the Group participated transversally through its companies in over 40 forums, presented its activities to more than 5,500 students and organised more than 30 thematic conferences. Furthermore, PPR shared its expertise by preparing 17 case studies, thus contributing to the students' initial training.

The profiles of students and the schools are as varied as the Group's employees and businesses, which explains why the line managers and Human Resources Departments have put so much time and effort into sales, marketing, engineering and logistics training cycles.

Furthermore, and to facilitate dialogue and fruitful exchanges for both students and the Group's companies, Redcats, Fnac, Conforama, CFAO and more generally PPR sponsored 20 student teams in France in the *Global management challenge* in 2006. A national and international competition, the *Global management challenge* aims to develop the global vision of company management from both an economic and human standpoint based on the simulated management of a business and the decisions to be taken in light of the challenges it faces.

The entire French mainland was covered (engineering, business schools, etc.), thus preparing the Group's ability to recruit new talents. A first international partnership was set up between the *African business club*, an African students association in France, and CFAO.

To make the most of this opportunity, the Group strengthened its mentoring initiatives through motivation and supervisory measures implemented by line managers for students.

2007 will be the year for the European deployment of this initiative that is greatly appreciated by students as 96.3% (1) of participants said they were particularly satisfied with this approach.

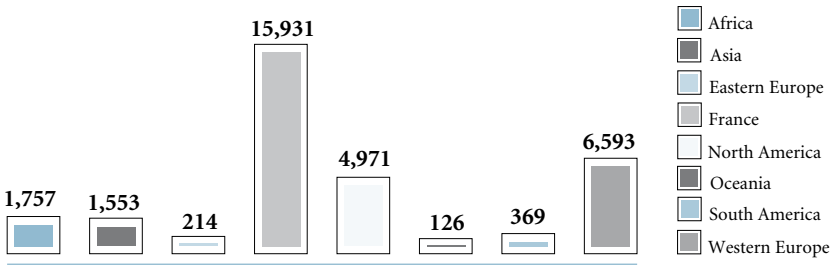
Integration of employees into the Group

In 2006, 31,514 employees, of which almost 40% on permanent contracts and 4,770 temporary employees (full-time equivalent), were recruited in the 75 countries where the Group is based. As in 2005, nearly 54% of recruited employees in 2006 were women and 93% non-managers. The Group's companies have few recruitment problems. The few difficulties encountered are primarily related to linguistic constraints (particularly in Belgium, Switzerland, Asia, and Eastern Europe), the search for technical expertise (particularly at Fnac) or experience in specific businesses (Luxury Goods or home shopping).

In addition, the fixed-term contracts of 2,077 employees were converted into permanent contracts, compared to 2,008 in 2005, representing a 11% conversion rate, compared to 10.5% in 2005.

For a better understanding of the Group's businesses and challenges, the companies have developed integration days for their new French and international employees. Each company outlines its projects and overall objectives and gives a general presentation to introduce the Group.

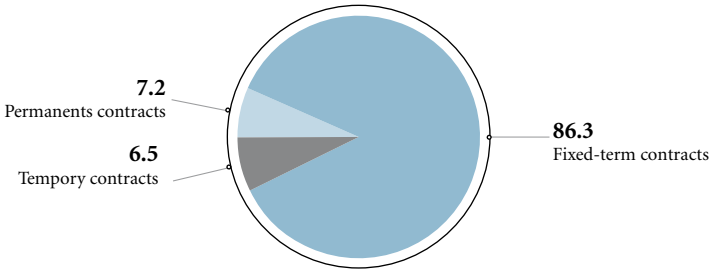
RECRUITMENTS IN 2006 BY GEOGRAPHICAL AREA (in number)



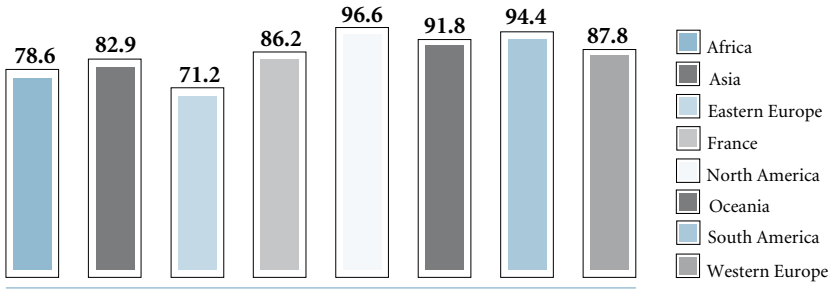
Total: 31,514

(1) Results of the internal satisfaction survey conducted in 2006 among 54 students.

BREAKDOWN OF AVERAGE FULL-TIME EQUIVALENTS BY CONTRACT IN 2006 (as %)



PERCENTAGE OF AVERAGE FULL-TIME EQUIVALENTS ON PERMANENT CONTRACTS IN 2006 BY GEOGRAPHICAL AREA (as %)



Average: 86.3%

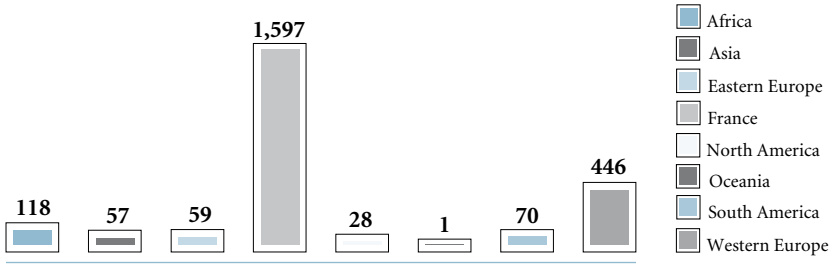
Mobility

Every year, the annual performance appraisal interviews help identify potential internal mobility candidates.

The Group's Intranet, "Moovenet", dedicated to mobility and accessible by PPR employees in France, Spain, the United States, Sweden, the United Kingdom and Portugal offers numerous professional development possibilities. By organising their own selection of criteria in complete confidentiality, the Group's employees have privileged access to job offers in France and abroad.

In 2006, 2,376 Group employees changed jobs, mainly within their company (97% of them).

BREAKDOWN OF TOTAL NUMBER OF CASES OF MOBILITY IN 2006 BY GEOGRAPHICAL AREA (in number)



Total: 2,376

PPR "Employment and Mobility" meetings

Created in 2002, the aim of this inter-company event in France is to promote the Group's commitments regarding mobility, relocation and equal opportunities among operational managers and human resources managers from the same employment region. These interactive meetings rely on key messages, testimony, exchanges and moments of conviviality. Organised and coordinated by the Human Resources Departments of PPR and the companies, they have united more than 300 managers since their creation, including 115 from the Ile de France and Lille regions in 2006.

Help with relocation

Since 1999, PPR has been committed to promoting the internal relocation of employees and boosting job solidarity within the Group.

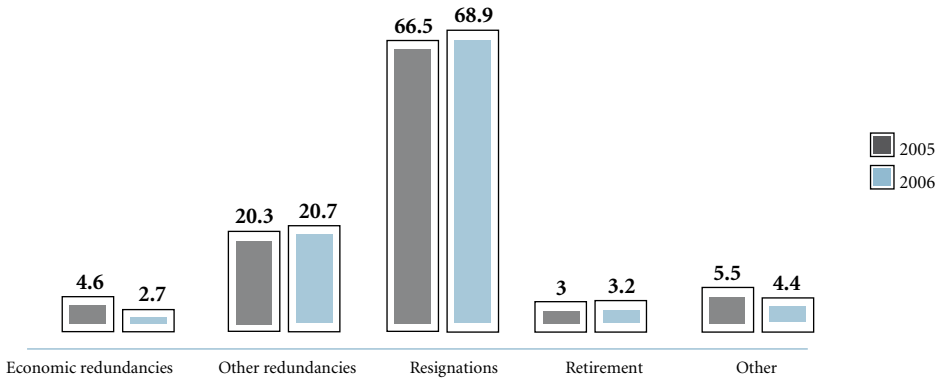
For the entire PPR Group structure in France, restructuring, site relocations, closures or non-suitability lead the companies to relocate some of their employees. To limit the individual consequences of these situations, PPR has adopted a relocation policy in France and set up a management committee: Job Coordination.

The Job Coordination task force is an internal network of representatives in the companies which circulates job vacancies, initiates personalised follow-up, organises reconnaissance trips and, if required, exercises a temporary, geographic freeze on outside hires.

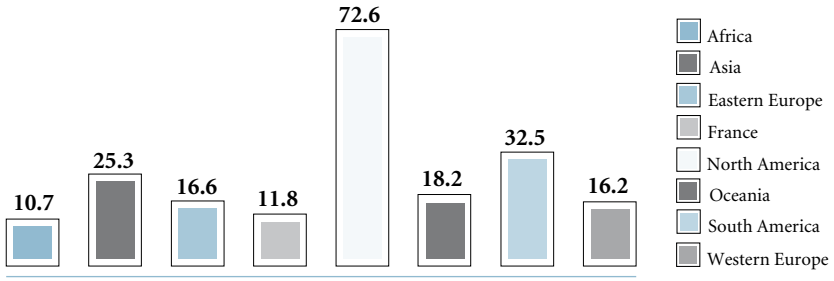
54.61% of the 943 employees affected by the economic transfers in 2006 found jobs with the assistance of the company within or outside the PPR Group. On average, almost one relocation offer was proposed to every employee.

In addition, PPR's employment policy for the disabled takes job extension into consideration. In 2006, 65% of employees declared incompatible were relocated within the Group. This percentage is up 10 points compared to 2005.

CHANGES IN BREAKDOWN OF DEPARTURES OF PERMANENT CONTRACT EMPLOYEES BY MOTIVE (as %)



OVERAL TURNOVER IN 2006 BY GEOGRAPHICAL AREA (as %)



Average: 19.7%

The global turnover of employees on permanent contracts amounted to 19.7% in 2006, compared to 20.6% in 2005, and 14% excluding the United States, where the contractual situation is different. The number of resignations also decreased to 13.5% in 2006 and 8.1% excluding the United States.

PROMOTING DIVERSITY

The PPR Group comprises a variety of customers and employees through its various companies, product brands and businesses. Conscious of this wealth, PPR undertakes to promote equal opportunities and treatment. This is an economic and competitive advantage, a factor of social cohesion and dialogue and a socially responsible commitment.

The Group's Human Resources Department has now given a framework to this commitment, initiated in 2001 by SolidarCité: promote equal opportunities and treatment for populations who could be subject to discrimination on account of their health, gender, age or ethnic background. This does not involve segregating employees or implementing positive discrimination measures. The focal points are the audit and review of current human resources and managerial processes (recruitment, training, career management, etc.), awareness raising and the development of skills and behaviours.

The Group's companies define their priorities and actions in accordance with the framework defined by PPR and share best practices. The measures and commitments undertaken mainly concern France.

A commitment undertaken at the highest level

François-Henri Pinault formalised the Group's commitment in France by concluding a partnership agreement with the AGEFIPH for the employment of disabled persons within the Retail division in March 2005 and by signing the Diversity Charter in May 2005 (already signed in 2004) and the Corporate Commitment Charter for Equal Opportunities in education in December 2006. This commitment is also included in the PPR Code of Business Practices, distributed to all employees since 2005.

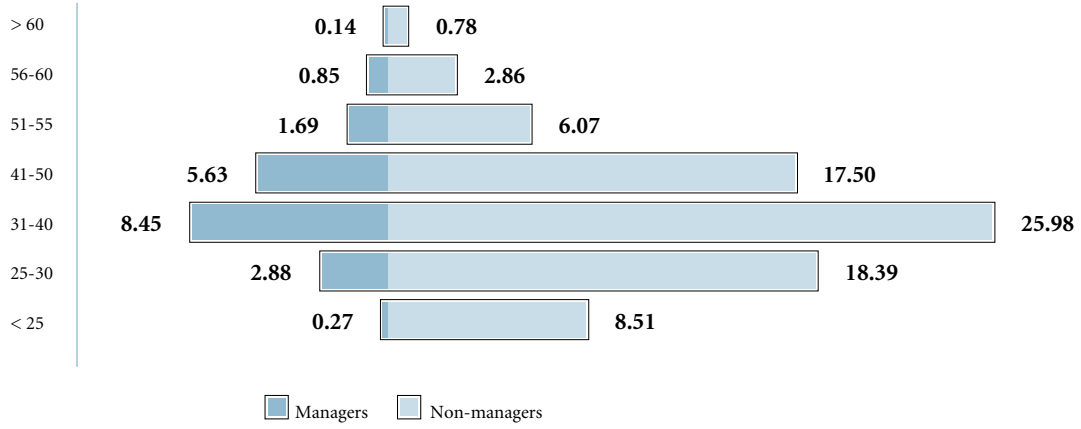
Inter-company management

One of PPR's specificities is its decentralised management organisation. The Group's role is therefore to determine and communicate a framework, promote the strategy within each company, encourage them and support them in this approach.

The Group's Human Resources Department coordinates, through the Diversity Committee, the commitment within the Retail division by relying on the managers of each company. This operating procedure enables PPR to provide a better response to the companies' specific problems in terms of culture, history and employment regions. It also promotes and guarantees an understanding of the matter by each entity within the Group.

The Diversity Committee has met every three months since November 2004 to monitor company developments, action plans and objectives, transfer best practices, define new measures and create tools. This committee was backed by Mission Handicap, or the Age Diversity Management Committee, whose purpose was to understand the issue surrounding the need to extend an employee's working life due to the ageing of the population and the pension reform. This intergenerational committee studied the issue with the held of experts such as Serge Volkoff, Director of CREAPT (Centre for research and studies on age and the working population) and Eléonore Marbot, an Associate Professor at CNAM (Centre National des Arts et Métiers). Once the conclusions were rendered, the matter was referred back to the Diversity Committee.

AGE PYRAMID OF PERMANENT CONTRACT EMPLOYEES IN 2006 (as %)



An approach based on analyses and performance monitoring

To build its policy with regard to diversity, PPR initiated three analyses in 2004 within the Retail division performed by external independent consulting firms. In addition to the conclusions and advice leading to the preparation of action plans, the analyses form part of the Group's commitment and represented the starting point for raising the awareness of the participating teams. This mechanism was completed with the supervision of the Group's external practices.

The results of the initiatives are measured using quantitative and qualitative assessments. In 2006, a full assessment was made of the employment policy for disabled persons within the Retail division, after one year of implementation. PPR had undertaken to recruit 160 disabled persons until February 28, 2007 under the partnership with AGEFIPH. 241 recruitments (57% on permanent contracts), and 225 placements (also including internships, temporary positions or fixed-term contracts of less than 6 months) were completed.

Awareness raising and training

In 2005, on the initiative of SolidarCité, PPR and its companies welcomed Yamina Benguigui for the production of the film "Les Défricheurs" and organised a conference on diversity.

A major awareness raising campaign with regard to employment for the disabled was also organised in 2005 (posters, distribution of brochures, educational CD-ROMs). With the understanding that these awareness raising initiatives are essential in order to support objectives and results, PPR and the Retail division companies developed new awareness raising measures in 2006 in favour of equal opportunities. The topic of diversity was covered in all the companies, either in specific meetings or as part of an agenda: at CFAO's executives' convention in October rallying 200 people, at the Management meetings of the Redcats Children-Family and Senior activities with 220 participants and in Conforama. It was also the subject of training for 6,800 La Redoute employees (managers and non-managers). Around fifteen internal newsletter articles complete these awareness raising initiatives.

The awareness raising with regard to the employment of the disabled also continued in 2006: around 44,000 employees of the Retail division in France, Conforama Spain, Conforama Croatia and Conforama Italy were rallied on November 14. This operation involved an outdoor campaign called "We didn't chose to be disabled, but we do choose to work together", followed by the distribution of a bracelet marked with the phrase, "Our difference is what binds us", to employees to be worn in support of the commitments undertaken by the Group for the disabled and for diversity. This initiative was completed with a newsletter featuring a one year's assessment of the measures taken and including an editorial by François-Henri Pinault. Nearly 200 photos were taken of the event at the various sites, demonstrating the involvement of the employees. A new outdoor campaign is scheduled for early 2007 in order to thank all the employees for their commitment.

Equal opportunities in the Human Resources process: from recruitment to career management

By paying apprenticeship tax, the Group's companies support around 450 training institutions. The Group's relations with Apprentice Training Centres, secondary schools, grammar schools, associations or business and engineering schools underline the PPR companies' operational commitment in favour of diversity for the initial training path.

In addition, and to promote diversity in applications, PPR and its companies use general or specialist job offer sites such as Handploi [(1)], and enter into partnerships with organisations that promote the placement of disabled or socially excluded persons, such as Cap Emploi [(2)], Arès Atelier [(3)] or Janus [(4)].

Finally, the Group takes part in recruitment forums intended for persons who have difficulty in finding employment.

Furthermore, equal treatment within the Group is also promoted through various processes to assess performance and the positions set up within the Group, including for PPR's 130 managers.

The involvement of labour and management

The PPR Group wished to associate its European Works Council with its equal opportunities policy. On November 30, 2006, the dialogue began with a presentation of the European laws and practices with regard to diversity followed by the illustration of a PPR best practice in France: management of the disabled. This approach, the starting point for future discussions, brought both labour and management to the same level of understanding and led to exchanges on perceptions and local actions. The dialogue will continue in 2007 and common work trails are already forecast. Furthermore, 2007 will also be the year for dialogue and negotiation in certain companies on the specific issue of employment for the disabled.

A warning procedure for Offside behaviour

The Group's Ethics Committee for Corporate Social Responsibility (ECCSR) is an advisory, monitoring and feedback structure that guarantees of compliance with PPR's commitments as set forth in the Code of Business Practices, including equal opportunities and treatment. It may be consulted by any PPR employee.

(1) Handploi: Internet site dedicated to the search for employment for the disabled. Finally, the Group takes part in recruitment forums intended for persons who have difficulty in finding employment.
(2) Cap Emploi: associations, partners of the AGEFIPH, which assist companies with their projects to recruit disabled persons and candidates in their integration process.
(3) Arès Atelier: French association whose purpose is the economic and social reintegration of persons no longer having a permanent address.
(4) Janus SA: a temporary job placement agency and subsidiary of the Vitamine T Group which takes into account in the same approach the economic and social characteristics of unemployment.

Establish lasting relationships with the Group's partners and local communities

PPR maintains steady relations and exchanges with its partners to anticipate and take into account the changes in their expectations. This participative approach enables PPR to develop in conjunction with them. Under this continued development strategy, the Group promotes freedom of expression for its employees and dialogue with employee representative bodies and shows a particular interest in the working conditions of its employees. At the same time, the Group has strengthened ties with its local environment. The actions of SolidarCité, PPR's brands and companies reflect the Group's desire to develop in and with society. Finally, PPR wished to intensify its relations with its suppliers by developing new partnerships and increasing the number of social audits.

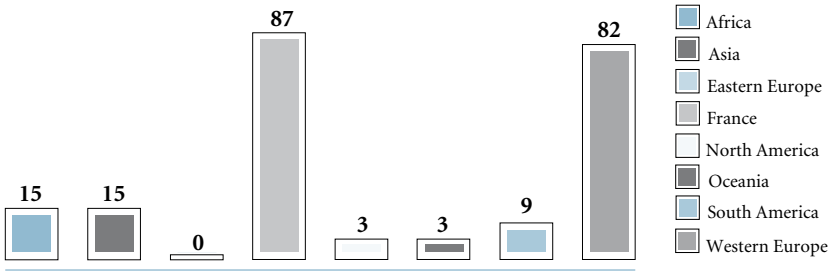
FREEDOM OF EXPRESSION AND EMPLOYEE RELATIONS

For PPR, establishing lasting relationships means promoting the freedom of expression of the Group's employees and dialogue with employee representatives. PPR has illustrated this desire with the in-house opinion survey and two forums for dialogue at Group level.

This commitment is also undertaken in each company. Thus, in 2006, 214 company-wide agreements were concluded within the Group, compared to 304 in 2005 and 275 in 2004. These agreements mainly focused on remuneration and employee benefits (wages, variable remuneration, incentives, profit-sharing, savings, death, disability and health insurance), employee representation, and the duration and organisation of working hours.

In 2006, the Group's companies also encountered some industrial strife. The number of strike hours in 2006 totalled nearly 24,000 or 0.017% of hours worked, mainly in France (97% of hours), compared to slightly over 50,000 in 2005 and 15,000 in 2004. Strikes outside France took place mainly in Italy and Belgium. These rallies mainly concerned restructuring, wage negotiations and national solidarity movements.

NUMBER OF COLLECTIVE AGREEMENTS SIGNED IN 2006 BY GEOGRAPHICAL AREA



Total: 214

In-house opinion survey: "What's the weather like?"

In 2005, PPR conducted its 3rd in-house opinion survey "What's the weather like?" within the Retail division. This survey, conducted every two years, measures employee satisfaction on the basis of 65 questions common to all companies and countries. These questions concern issues such as work relations, employee commitment, training and personal development, work conditions or even customer focus. This survey enables managers to gather solid quantitative data, define and implement improvements and measure the effectiveness of the action plans set up previously.

More than 60,000 questionnaires in 16 languages were distributed in 22 countries where Retail division companies are based. PPR's commitments are as follows: response confidentiality, performance reporting, implementation of action plans to improve satisfaction and the renewal of the survey every two years.

The change from 2003 shows that 72% of the questions reflect improvement, 14% remain unchanged and 14% are down.

In 2006, the results were transmitted to the employees in a format adapted to each structure. More often than not, this involved presenting the results of an entity in comparison with the results of the previous survey and those of the reference structure: e.g. the region for stores.

The survey is a genuine management tool for Group managers. Following the analysis of their results, the managers defined actions plans that were initially implemented in mid-2006 and this deployment will continue in 2007. The action plans are communicated to PPR which in turn transmits them to the Group companies for the purposes of an internal benchmark.

For example, certain action plans defined in the Group's entities in 2006 aimed to improve working conditions, training and personal development, and the perception of service quality or performance appraisal. By way of response, these entities set up actions such as:

- training of executives in time and stress management;
- distribution of mobility help devices for executives and non-executives on the Intranet and reissue of the information book on existing support measures;
- deployment of Excel training for sales assistants, accountants and administrative employees;
- work on an air-conditioning system and replacement of the carpet;
- information on new or exclusive technical products (through team meetings, speaker announcements prior to the store's opening, etc.), the showcasing of internal sales events or development of the after-sales service;
- organisation of a one-day training session for managers and non-managers concerning the annual appraisal interview and its objectives; and
- optimisation of workstation ergonomics and the quest for solutions to avoid difficult handling when modernising sites.

In October 2007, the fourth "What's the weather like?" survey will be conducted within the Retail division companies and the Luxury Goods division entities.

The Group's forums for dialogue

The PPR Group Works Council

Created in 1993, the PPR Group Works Council is now the employee representation body for all companies of the Luxury Goods and Retail divisions located in France.

Its 30 members, who meet in plenary sessions twice a year, are informed of the Group's strategies, economic and financial challenges and human resources management actions. The management teams of the Group and companies (Chairman and Chief Executive Officer, Chief Financial Officer, Human Resource Directors, etc.) work directly with the Group's Works Council.

In 2006, issues such as the strategy of the PPR Group and its companies, the presentation of the Gucci Group and CFAO, the review and analysis of the Group's accounts, integration by employing disabled workers, the restructuring undertaken within the Group or the optimisation of employee protection schemes were covered.

This forum will be renewed in 2007.

The PPR European Works Council (EWC)

Created in 2000, the PPR European Works Council is an interactive body at a European level. A real cross-border institution, the European Works Council supplements existing national employee representation bodies.

Comprising 21 members and one observer, the European Works Council covers 17 European countries in which the PPR Group Luxury Goods and Retail division companies are located. The countries represented are: Austria, Belgium, Estonia, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, the United Kingdom and with an observer.

Meeting twice a year in a three-day plenary session, the EWC is informed or consulted on any cross-border issues affecting the employees of the Group. It is also the opportunity for the EWC members to visit a Group site for a better understanding of the businesses. The EWC has a committee of four members, elected by their peers, who meet six times a year to prepare and analyse the two annual plenary meetings.

In 2006, the EWC covered topics such as the employee opinion survey, the Group's corporate social responsibility strategy, the review and analysis of the Group's accounts, analysis of the European social indicators and presentation of the activities and strategy of the three Redcats divisions (Children-Family, Senior and La Redoute).

It also launched a discussion on the themes of diversity and work protection. These discussions will continue during 2007 with the view to understanding the various national approaches to these two topics and determining common areas of improvement, particularly by relying on successful experiences.

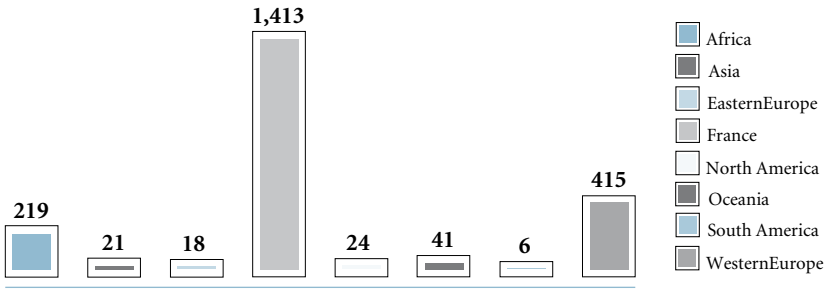
RISK PREVENTION

PPR and its companies consider guaranteeing the health and safety of their employees as a fundamental duty. In 2006, 12,287 employees attended a health/safety training course, representing a total of 58,360 hours of training.

PPR aims to use procedures and action plans within its companies to limit the predominant risks, which will vary depending on the company concerned. Each company pursues its own policy, which is geared to the scale of the potential risks involved. This policy may entail obtaining international certification, setting up specific bodies and/or drawing up a prevention policy, based on the identification and qualification of the risks involved combined with the implementation of action plans designed to protect people and property.

In 2006, 2,157 work-related accidents resulting in sick leave occurred either in the work place or on business assignments (no fatal accidents), compared to 2,464 in 2005, down 12.5%.

NUMBER OF WORK-RELATED ACCIDENTS IN 2006 BY GEOGRAPHICAL AREA (as %)



Total: 2,157

With respect to risk prevention, other indicators include the overall absenteeism rate and the sickness absenteeism rate.

CHANGES IN THE OVERALL AND SICKNESS ABSENTEEISM RATES BETWEEN 2005 AND 2006

	Overall absenteeism rate		Sickness absenteeism rate	
Geographical area	PPR 2005	PPR 2006	PPR 2005	PPR 2006
Africa	1.66%	1.75%	0.98%	0.90%
Asia	1.35%	2.21%	0.48%	0.70%
Eastern Europe	9.56%	9.25%	2.91%	3.80%
France	6.58%	6.16%	4.54%	4.35%
North America	2.30%	1.93%	2.26%	1.91%
Oceania	6.10%	4.30%	2.62%	3.14%
South America	2.76%	2.19%	1.57%	1.58%
Western Europe	5.34%	5.96%	3.83%	3.88%
EVERAGE	**5.27%**	**5.06%**	**3.63%**	**3.43%**

Obtaining international certifications

In keeping with the formal health and safety procedure commenced in 2001, Gucci formed in September 2004 a collective CSR Committee comprising an equal number of representatives from the main trade unions and the managers of the company. The committee is responsible for Gucci's double certification in social (SA 8000 (1)) and environmental (ISO 14001 (2)) management.

In 2006, Gucci keeped working on obtaining social certification (SA 8000) in 2007.

Risks to employees are assessed by a dedicated team each year.

In 2005, the YSL Beauté industrial site in Lassigny had set the target of obtaining the triple certification in 2006. The site, which was ISO 9001 (3) (quality) certified at the end of 2005, obtained the OHSAS 18001 (4) (safety) and ISO 14001 (environment) certifications in December 2006.

Each year, priority strategies and quantified, shared targets are set and then broken down into action plans. The 2005-2006 priorities of the site hygiene and safety policy were the reduction of risks associated with dangerous products, particularly by eliminating the use of carcinogenic, mutagenic or toxic agents, reduction of risks associated with industrial installations by supplementing preventive checks of industrial equipment, reduction of risks associated with movement of persons and vehicles by reducing the risk of falling from a height by 70% and the risks associated with vehicle/pedestrian collisions by 75%. In conjunction with the improvement of workstation ergonomics, the persons involved in handling were trained in the appropriate moves and postures.

Innovative prevention policies

Redcats

The Prevention Management System, first set up in 2003 in the shipping department of **La Redoute**'s "La Martinoire" site in northern France which prepares all parcels for dispatch to customers, continued in 2006. The system, extended to all divisions in 2005, regarding inventory and returns, is structured in two phases. The first phase involves alerting employees to the risks of work-related accidents, occupational diseases and absenteeism. The second stage focuses on encouraging employees to take a more proactive role in accident prevention by helping to identify risks in advance. In 2005, 2,000 employees helped to protect their own and their colleagues' safety. Briefing sessions and prevention visits were also extended to all departments.

Early results show a reduction in absenteeism and an increase in the number of suggestions for improvement put forward by employees: 1,070 in 2006 compared to 1,000 in 2005. 35% of these suggestions, mainly concerning problems with working conditions, were rewarded and implemented.

In addition, a review designed to prevent incapacity and occupational diseases was launched. Workstation ergonomics are in the process of being mapped, whilst career paths that limit future risks by managing adapted mobility are being defined. To strengthen this approach, a Work Health and Safety Prevention department that reports directly to the La Redoute Director of Operations has been set up. Previously, audit management, fire prevention and work health and safety prevention were entrusted to the same person. As from January 2007, a person will be responsible on a full-time basis for Work Health and Safety Prevention. His assignments include the coordination of the Hygiene and Safety Committees, the performance of analyses on the origin of occupational diseases and the implementation of action plans together with the advice in ergonomics from a design office for new sites.

At the Marquette industrial site of **Redcats Children-Family division**, an entity called Agora was set up to improve work safety. For nearly 3 years, this structure has comprised volunteer employees from the various production sectors, members of the Hygiene, Safety and Working Conditions Committee and the site audit and prevention manager. Each month, an in-depth site visit is organised in order to identify safety risk areas for employees in all sectors. An action plan, with deadlines according to the level of risk and the type of situation encountered, is subsequently defined. Each manager and the team of technical departments are responsible for its application. At the same time, each sector is awarded a rating based on the problems encountered during the visit, their severity and the recurrence of situations. The production sector with the best rating is rewarded by the Human Resources Department. The measures undertaken with Agora and the Hygiene, Safety and Working Conditions Committee's regular analyses of work-related accidents led to a decrease in the site accident frequency rate by around 20% and in the accident severity rate by more than 30%, compared to the year in which the structure was set up.

On-screen work is developing in the **Redcats** subsidiaries in the traditional customer relationship sectors such as order processing, e-mails or call centres and in all the businesses where the computer and, particularly the use of the e-mail system, has become a daily tool.

In 2006, with the Intercompany association of occupational health and medicine in Roubaix/Tourcoing, in the North of France, a brochure

(1) SA 8000: Social Accountability International standard governing corporate social responsibility and based on International Labour Organisation (ILO) conventions, the Universal Declaration of Human Rights and the UN Convention on the Rights of the Child.
(2) ISO 14001: technical standards drawn up by the International Organisation for Standardisation regarding environmental management.
(3) ISO 9001: technical standards drawn up by the International Organisation for Standardisation regarding quality management.
(4) OHSAS 18001: Occupational Health and Safety Assessment Series. International technical standards regarding occupational health and safety.

and posters on the theme "En forme face à l'écran" (stay healthy while working with a computer screen) were prepared. These documents, whose design was coordinated by the company medical officer of the Redcats Children-Family division with voluntary employees and members of the Hygiene, Safety and Working Conditions Committee, contain advice on how to reduce visual and back fatigue. This advice focuses on issues such as the organisation of workstations, respecting postures or ambient lighting and includes descriptions of exercises that can help loosen joints and relax the eyes.

In 2006, this approach was hailed by the Interprofessional occupational medical services as an example of a partnership set up between a company and occupational medical services to improve health.

In 2006, the **Redcats Senior division** consolidated its actions regarding risk prevention and the improvement of working conditions. Thus, at the end of 2006, the Leers logistics site in the North of France was fully mapped in terms of noise, with the aid of the Regional Health Insurance Fund, so that sound pollution is taken into account for each new project. In 2007, following the results, an action plan will be defined and then implemented on site.

The ergonomists of the Cité des entreprises, business assistance networks, analysed the "packaging" workstation. Recommendations were given with a view to improving workstation ergonomics. These mainly concern the arrangement of the different pieces of furniture around the employee to avoid the rotation of the torso and the sound of feet, the installation of an anti-fatigue mat under the feet, the arrangement of the bulkiest parcels and the most widely used adverts at the most suitable height and proximity for an easy reach, and the automatic discharge of bags by conveyor belt and not by cart. In addition to the recommendations, the company intends to enhance the workstation with IT assistance for sorting.

Besides its activity, the Leers site employees have a specific work organisation. Thus, for changes in working hours (double shifts from 5 a.m. to 7 p.m.), a "Well-being" work group made up of employees worked with the occupational medical services to recommend to the various teams best practices in terms of sleep patterns and food hygiene. This work was completed in 2006 with the creation and presentation of an advisory brochure to the relevant employees. In 2007, the awareness raising measures for the relevant employees will be followed by more individual advice from the site's nurse. The work group will also take part in a campaign to help quit smoking in 2007.

At the same time, on the Wasquehal site of Redcats Senior division, during the restoration of the call centre at the end of 2006, the emphasis was placed on acoustic comfort with the installation of specifically adapted ceilings and visual comfort with the installation of anti-glare lights.

Conforama continued its 5-year investment plan

In 2006, Conforama continued to implement its action plan set up in 2002 aimed at improving safety and working conditions. With an investment of more than €2.5 million, the company focused its action this year on the renovation of company premises (€900,000), fire protection at the company's sites (€947,000) and the development of employee and warehouse safety (€774,000). Conforama anticipated and identified the potential risks to which employees could be exposed, due to the application of the new decree no. 2005-829 relating to the composition of electronic and electrical equipment and the elimination of the waste arising from such equipment. As a retailer, Conforama is now required to take back an old product for the purchase of a product of the same type. Accordingly, as the end-of-life product return rate was likely to increase, the company set up a tailored protection and prevention system for employees responsible for handling in warehouses, particularly by providing them with specific protective gloves and glasses.

At the same time, the company finalised the work initiated in 2005 aimed at improving the accessibility of the head office premises for disabled persons. Conforama has invested €90,000 in this initiative in the past two years.

In order to improve customer safety, the company displayed on the Intranet for the attention of all store directors a "Customer safety in stores" manual prepared in partnership with the French federation for the trade of furniture and home furnishings (FNAEM).

Conforama had already invested €2.5 million in 2003 to prevent falls and back problems and to provide training in connection with electrical and fire risks, helping to reduce work-related accidents by more than 20% in France. The investments made in 2004 totalling €4.3 million focused on improving working conditions and renovating company premises and reduced work-related accidents by 4.8% in France. In 2005, all the initiatives taken helped reduce absenteeism relating to work-related accidents by 10%. An educational and amusing notebook, setting out the key risks existing in stores and warehouses and the safety actions to be taken, was drawn up and distributed to managers, and then displayed on the company's Intranet.

CFAO's industries develop their HSE policies initiated in 2002

The aim of CFAO's Hygiene, Safety and Environment (HSE) policy is to identify work-related accidents, categorise them according to their seriousness and set targets to monitor progress. Severity (the most serious being a fatal accident) is assessed primarily according to the number of days of absence from work. The average yearly rates corresponding to 1,000 employees are then calculated, enabling CFAO to set annual targets. In 2006, these targets mostly focused on reducing the number of work-related and car accidents (which are particularly serious and frequent in Africa) and on preventing such accidents via an assessment of the health and safety training provided (first aid, fire, awareness and audit). By way of example, in 2006, 12 DT DOBIE employees in Kenya were trained in environmental quality standards.

To enable it to continuously track the process internally and analyse the results, CFAO introduced a risk prevention and reduction tool in the shape of the Risk Identification Report (RIR), particularly at SIFA in Burkina Faso and DIMAC in Morocco where the RIR is used systematically. Each employee must complete a report on the risks that he and/or his entourage takes within the context of his professional activity. The data obtained in the form of indicators is used to generate a monthly report, and to monitor the action plans designed to reduce accident rates with respect to the specified targets. This exercise, which

raises collective awareness on the problems of safety, should give rise to a permanent and participative audit.

In this regard, ICRAFON, CFAO's plastics transformation subsidiary in Cameroon and DIMAC, the two-wheel vehicle distribution and assembly subsidiary in Morocco, drafted safety manuals designed to provide all employees with the instructions to follow with respect to protection, warnings and first aid. Following a work-related accident that required an emergency hospitalisation, Icafron in Cameroon decided to improve the operating procedures of its infirmary to ensure greater responsiveness.

DEVELOPING CORPORATE CITIZENSHIP AND PROMOTING EXCHANGES WITH ASSOCIATIONS, LOCAL COMMUNITIES AND GOVERNMENT AUTHORITIES

SolidarCité facilitated the commitment of the Group's employees by deploying cross-cutting measures in all companies and initiating and coordinating specific actions for each of them. At the same time, PPR's companies and brands set up partnerships with local associations based on social themes and issues often reflecting their businesses.

SolidarCité projects common to the entire Group

Employee projects

As part of a general interest initiative, any PPR Group employee involved in a general interest association can request material or financial assistance from SolidarCité in order to set up a bonafide project. A selection committee, composed of one representative from each company, examines the files every quarter and decides to allocate resources according to a list of criteria such as proven social utility, the longevity of the association and project, co-financing or the employee's involvement. In 2006, 19 projects were backed, including 9 regarding education, 4 regarding life in the Community and/or diversity, 4 regarding health and 2 regarding employment/placement for a total budget of €115,000.

The Sponsorship Committee

To meet the requests of other associations that do not have direct relations with employees, SolidarCité set up a Sponsorship Committee in 2006 which selects every quarter the projects promoting equal opportunities. The association contributed a total amount of €110,000 to the financing of 12 projects during the year such as the set-up of an organ donation awareness day at the Necker hospital in Paris, the purchase of vehicles to promote job placement in the provinces with the Tremplin insertion chantiers association, the opening of a bakery in Madras, India for dalits (1) with the Collectif India association, the creation of theatre plays using sign language for young disabled persons with the Ô Clair de lune association, or the development of a multi-purpose hall for widows who survived the Rwanda genocide with the Rwanda Avenir association.

Solidarity leave

In 2006, SolidarCité extended its partnership with the Planète urgence association to another French association, Coup de pouce. These two associations enable employees to carry out assignments in Southern countries during their paid holidays.

Individually or as a joint venture, Planète urgence offers adult training and educational or environmental support assignments. Coup de pouce comprises 8 to 10 volunteers which assist the local populations with heavy work such as the construction or renovation of schools, health centres, etc.

The cost of the assignment is financed by SolidarCité and the volunteer employee bears the cost of his plane ticket which is 66% tax deductible. In 2006, 10 Group employees completed 15-day assignments thanks to SolidarCité's financial support.

The ESSEC's "Why Not Me?" programme

Set up by ESSEC's Entrepreneurial Chair in 2002, this programme aims to increase the chances of young people from modest backgrounds, educated in districts falling under the French government's "Urban Policy" program (2) by guiding them during 3 years at school. Looked after during the school year by a pair of ESSEC students, the pupils are received by partner businesses for a day. SolidarCité also enabled around twenty pupils to follow company employees and find out about their activity in 2006.

Challenges that unite the companies

In association with SolidarCité and at the instigation of PPR's brands and companies, support measures for education, health and the local economic fabric intensified in 2006.

Education and access to culture

For several years now, **Redcats** has invested in education. In 2006, the company renewed for the 3rd year the "One student, one day, one

(1) Dalits: means "outcast" in Hindu. Also called "untouchable", they are considered as impure and do not belong to any of the castes which formerly structured Indian society.
(2) District falling under the French "Urban Policy": underprivileged district where the urban policy implements under a national project genuine economic, social and urban development measures.

job" initiative and welcomed on its premises 125 fourth-year pupils from the Anne Franck School in Roubaix in the north of France. Each pupil spent a day with a Redcats employee, acting as a voluntary mentor, to find out about the 35 businesses presented and to be in a better position to choose his or her professional career. In 2006, this operation was extended with the creation of a logo by the pupils.

Furthermore, Redcats continued to sponsor pupils in partnership with the Turgot School in Roubaix and the Baggio School in Lille and the business students association, Association d'aide humanitaire (AAH). Volunteer employees accompany the pupils in their final year at school to help them obtain their *baccalauréat*. With the AAH, they can follow an intensive revision course during the Easter holidays. 70% of pupils obtained their *baccalauréat* in 2006 and maintained close relations with their mentors.

Other initiatives were also implemented to promote education: academic support at the Centre Social de l'Alma in Roubaix by a dozen of La Redoute employees, three nights a week; sponsoring of 54 Malian primary school children by Redcats employees through the association ABC d'ailleurs; financial support to the association Futsal which teaches young people from poor neighbourhoods to observe the rules of the community by playing indoor football.

In addition, following the example of PPR and 17 French companies, **Fnac** contributed through its business licence tax to an experimental project uniting eight higher education institutions, the French government and the Ile-de-France Region. Under this project tour, four schools in Seine-Saint-Denis should benefit from the best educational measures: a dedicated team of teachers, flexible and adaptable timetables, compulsory academic support, skill assessments, and exchanges with high education institutions. The role of the companies is to open the doors to the world of work and the businesses. The project, created by the members of the French National Education Board, was launched in September 2006 for 500 fifth-year pupils with general and technical programmes.

Fnac also set up a partnership with the Henri-IV School with regard to the opening of an experimental preparatory class for admission to major business and management schools so as to welcome pupils from modest social backgrounds.

Fnac Digitale, conscious of the idea of diversifying recruitment for this segment, has become a partner by supplying 30 pupils with computers with a dedicated after-sales department and IT training sessions. The company also contributed to the purchase of school textbooks, offered a membership card to each pupil as well as invitations to previews. The Fnac warehouse in Massy, in the Paris region, opened its doors on several occasions to the *département*'s pupils so that they can find out about the logistics business. It also participated in the business forums organised by the town of Massy and wishes to strengthen relations with the City Council and Massy schools in 2007.

Committed since 2003 to combating illiteracy and providing access to culture, Fnac developed various partnerships with associations in France with the same objectives. The company also created the "Fnac prize for young readers" in 2006, the aim of which is to introduce reading and the pleasures of reading to primary school pupils. Renewed in 2006, more than 500 pupils across France took part in the competition. In 2006, the Fnac Prize for young readers was awarded on June 13 to Guillaume Guéraud for his book "Affreux, sales et gentils." In 2007, nearly 3,500 pupils will take part in a new competition, organised in partnership with the APFEE, one of the two associations with which Fnac works to combat illiteracy.

In 1987, Fnac created the Goncourt Prize for Lycéens in partnership with the Académie Goncourt and the Ministry of National Education with the aim of giving young people the desire to read. 2,000 readers aged between 15 and 18 read 13 works selected by the Académie Goncourt and met their respective authors. The prize was awarded on November 13, 2006 to Léonora Miano for her book "Contours du jour". By supporting the Gaston Bachelard School in Paris, SolidarCité enabled 16 sixth-year pupils to recount their experience as judges in a play called "Voyage page à page".

Present in 26 African countries, **CFAO** Solidarité has set up scholarships over the past 6 years. The scholarships awarded to the children of non-managerial African workers to finance their secondary studies aim to promote access to schooling for the poorest and most deserving students. To ensure that the scholarship amounts are first and foremost used to pay the expenses directly related to the children's education, the entity directly pays the invoices to the schools and stationery suppliers as much as possible.

An allocation committee monitors the programme, determines the number of scholarship recipients, organises the competitions, validates the allocations according to results, and annually reassesses the scholarship amounts and the amount of parental income above which a scholarship cannot be obtained. All the terms and conditions of this programme have been listed in a charter.

The number of scholarship recipients in 2006-2007 rose from 273 in January 2006 to 385 in September 2006. CFAO wishes to continue this programme until the recipients obtain the *baccalauréat* or equivalent. The company is considering the creation of a higher education scholarship programme, under which the first CFAO scholarship recipients would take their *baccalauréat* exam in June 2008.

In 2006, CFAO joined the "Kits scolaires" campaign launched by Planète urgence, SolidarCité's partner company. The campaign aims to increase schooling for children in Africa by giving them the means to go to school by providing school supplies. 10,000 kits costing two euro each comprising a fabric satchel, two exercise books, two pens, a pencil, an eraser, a pencil sharpener and a ruler were manufactured on site and distributed in 2006, compared to 2,500 in 2005 and 1,000 in 2004.

In addition to these initiatives, certain Group brands implement a sponsorship policy in favour of providing access to culture and supporting the international educational projects organised by specialised associations.

Thus, **Gucci** pursued its international campaign offering support to the educational programmes and other essential services of UNICEF [(1)] for children in Africa. At the end of 2006, the brand displayed a collection of luxury items in the 200 boutiques worldwide. The project was supported by Holiday Shopping Nights, an event organised in the brand's boutiques to give a preview of the collection. 20% of the profits

(1) UNICEF: United Nations Children's Fund.

from the sale of these items was paid to children in Mozambique, where 650,000 children are directly affected by the HIV/AIDS virus or have lost at least one parent.

Gucci Group recognises the profoundly positive influence of art on creativity and people. The Gucci Group's policy is therefore to actively support artistic and creative expression. In September 2006, Gucci Group presented the first-ever *Gucci Group Award,* in association with the *Mostra internazionale d'arte cinematografica* in Venice (Cinema festival), intended to reward a celebrity of the art world who has made an outstanding contribution to cinematographical expression and who has already gained an international reputation in an area other than the cinema.

Gucci also supported the artistic domain by making donations to around ten museums and cultural institutions, including the *Metropolitan Museum* and the New York Modern Art Museum in the United States. Finally, the brand supported several cinematographical foundations in order to help restore and preserve the great classics of the cinema such as "A Woman Under The Influence" by John Cassavetes.

Yves Saint Laurent organised a fund raising event for the *Serpentine Gallery*, one of the most popular contemporary and modern art galleries in London, UK, with more than 800 guests.

In 2006, **Boucheron** made a contribution to the Los Angeles Film Foundation in the United States, the National Ballet and the French Institute. Likewise, **Sergio Rossi** backed the Miami Art Museum using the funds raised at its evening sale events in 2006.

Healthcare

In parallel with their dedication to education and culture, healthcare remains a major commitment for the Group's brands and companies.

In 2006, PPR contributed, as in previous years, to major mobilisation campaigns for sick people. **Redcats** mobilised the telephone platforms of the Senior and Children-Family divisions to gather pledges for the European Association Against Leucodystrophy (ELA): more than 9,300 calls received by 250 volunteer employees for a pledge amount of around €220,000.

Conforama France employees rallied together on December 10, 2006 for the 20th Téléthon and collected over €51,000. Based on the initiatives in 86 sites - sale of key rings, tombolas, mobile telephone collections, etc. - the funds raised will contribute to advancing research, and helping children and adults affected by myopathy in their daily lives.

Since 2003, **CFAO** has launched in its subsidiaries in Sub-Saharan Africa a campaign against HIV/AIDS which consists of informing and educating employees and their families about the illness, holding voluntary diagnostic sessions for the workforce and paying for the care of anyone testing positive. At the end of September 2006, for the 23 countries where this programme was implemented, around 85% of employees had participated in the education and awareness sessions, more than 500 sets of instructors were trained and more than 40,000 condoms were distributed monthly.

However, the number of tested employees remained low. The screening test acceptance rate in the relevant countries is generally between 20% and 25%, but for a few exceptions like Cameroon and Kenya with a rate of over 80%. However, the employees do not always collect the test results. For all countries, including those where tests have yet to be organised, the number of screened persons represents around 20% of total employees.

The number of persons living with HIV increases each year according to UNAIDS (1), but HIV may become less prevalent on account of the specific measures. CFAO's initiatives will continue over the long term, with one imperative: increase the number of employees who agree to screening tests. Information and awareness days were therefore organised for CFAO employees and their families, particularly spouses, in Cameroon, Ghana and the Republic of Congo. In 2006, more than 7,000 persons were able to attend awareness raising sessions.

At the same time, CFAO continued to work with Sida-Entreprises in order to educate the management of the large firms operating on the continent, organise exchanges of best practices and help the companies with their programmes. Created in 2003 and chaired by Alain Viry, the Chairman and CEO of CFAO, Sida-Entreprises brings together 20 companies including Accor, Bolloré, Total and Optorg involved in the fight against HIV/AIDS, mainly in Africa.

The member companies decided to give fresh impetus to this association by appointing a Development Director and creating in 2006, with the *Global business coalition* (GBC) (2), "Partners against AIDS, a GBC/Sida-Entreprises initiative". Its purpose is to manage a support fund of €3 million over 3 years, granted by the French Development Agency, to provide advisory services and training to companies wishing to initiate or reinforce local HIV/AIDS programmes for their employees, their families and the surrounding communities.

In addition, Sida-Entreprises encourages companies to form coalitions in the countries where they are based in order to organise exchanges and assess the available resources within the country. A private sector coalition against HIV/AIDS (CSP) was therefore set up in Mali in 2006. It now includes 13 active companies which were able to finance through the World Bank 90% of the costs of hiring a coordinator, with the remaining 10% of costs being paid by the contributions of the CSP member companies.

Finally, Sida-Entreprises set up a unit in Morocco in April 2006, due to the involvement of local representatives from Accor, Bgi (Castel), CFAO, Gras Savoye, Lafarge, Sanofi-Aventis and Total. To maintain the low prevalence rate in Morocco and prevent the disease from spreading, the programmes are scheduled to begin quickly.

CFAO has also implemented an initiative in the fight against malaria, a pandemic that is devastating the Sub-Saharan population.

In keeping with the work performed within Sida-Entreprises, particularly with Total and Sanofi Aventis, CFAO, via CFAO Solidarité, is involved in the creation of a malaria practical guide. An information and awareness raising device, this guide is a toolbox that enables a company to quickly initiate an action plan against malaria. Launched in July 2005, the guide was completed in November 2006 and distributed in all the countries affected by malaria.

(1) UNAIDS: Joint United Nations Programme on HIV/AIDS: p. 3 of the report "AIDS epidemic update 2006", December 2006.
(2) GBC: The Global Business Coalition against AIDS is a network like Sida-Entreprises whose aim is to rally businesses in the fight against AIDS in developing countries.

In addition to these initiatives, certain Group brands have also implemented a sponsorship policy in favour of organisations working to improve healthcare.

Gucci is also involved in the fight against HIV/AIDS by supporting the *American foundation for AIDS research* (amfAR), Sidaction, the *Charity association -National society for the prevention of cruelty to children* (NSPCC) in the UK and the French branch of Care International.

In 2006, **Yves Saint Laurent** undertook numerous sponsorship measures for women and children. In the United States, the brand assisted more than 30 associations, particularly the *Fresh start women's foundation*, the Susan G. *Komen breast cancer foundation*, and the *Ovarian cancer research fund*. In France, the brand supported Sidaction, UNICEF, amfAR and an association to help children in Rwanda. In the UK, the brand supported the British Red Cross and the *Raïssa Gorbatchev Foundation*, devoted to children with cancer. In Asia, Yves Saint Laurent has particularly contributed to the Charity Organisation for children in Taiwan and the Charity Organisation for children suffering from malnutrition in Korea.

YSL Beauté focused its actions on mistreated children and women with cancer in 2006. A partner of l'Enfant bleu for the past 14 years, the care association for children who have suffered physical, psychological or sexual abuse, the brand pledged products to help raise funds. For women diagnosed with cancer, YSL Beauté supported the Ovarian cancer research fund and the Cosmetic executive women (CEW) association, which sets up beauty salons in the hospitals where cancer patients are treated, in the United States, by donating products and taking part in charity evenings.

Finally, YSL Beauté offers regular support to *Arcat Sida*, a French association dedicated to the fight against HIV/AIDS.

In 2006, and thanks to product donations - clothing and bags, **Balenciaga** contributed to fund raising in favour of organisations working to combat HIV/AIDS. The brand also purchased advertising space in the Red Cross catalogue in order to support its actions worldwide.

Sergio Rossi offered aid to women and children by organising evening sales events, the profits of which were paid to *Step Up/Women's Network* of Los Angeles, in the United States, *Costa mesa's toby's house* for single pregnant women and the *Liya Kebede Foundation* which fights to reduce world child mortality rates. At the 2006 Cannes Festival, the brand also supported the amfAR association by donating hand-cut precious stones from its collections.

In 2006, **Bottega Veneta** focused its actions on healthcare and well-being. The brand contributed to fund-raising for Nouvelles recherches biomédicales (NRB) "Lutte Contre le Cancer" in Europe and the Parkinson's disease foundation, the Foundation to conquer lung cancer (Joan Scarangello Foundation) and the *Ovarian cancer research fund* in the United States. Bottega Veneta also supported US hospitals through donations and product sales.

In 2006, **Boucheron** took part in events organised by associations dedicated to the health and well-being of women and children such as the Fondation pour l'enfance, Vaincre le Cancer, *Gala run for life*, the Association pour l'enfance malheureuse and *Cosmetic executive women* (CEW). In 2006, the brand also partnered the *Reboum by Stiletto event* by creating a special "snake" pendant for sale at auction. The proceeds from this sale were paid to Le Rire médecin, a French association supporting children with long-term illnesses.

Life in the Community

The PPR companies and brands and SolidarCité work daily on developing the economic fabric of their closest markets.

In 2005, to raise awareness about discrimination in the workplace, SolidarCité and the PPR Group called on Yamina Benguiguito to produce the film "Les Défricheurs" (The Pioneers). Following its widespread internal broadcasting within the Retail division companies, SolidarCité continued to broadcast the film in 2006 with showings in partnership with the City of Paris and the City of Rouen (10,000 spectators) and with the MEDEF (1) during their national conventions. In addition, "Les Défricheurs" opened the Creusot Business Film Festival in June 2006.

SolidarCité also supports numerous initiatives in favour of social integration: the association *Ni putes ni soumises* and the *Maison de la mixité* in the 20th district of Paris and the newsletter Respect Magazine which echoes France's social and cultural diversity by promoting exchanges and relationships between generations.

With a strong presence in the north of France, **Redcats** has demonstrated a genuine ability to rally its employees. The SolidarCité team implemented numerous measures in order to finance projects for the benefit of local associations. Following the creation of the "Espoir en stocks" storage centre, SolidarCité Redcats recovers and stores in-kind donations from PPR companies such as excess goods inventory, customer returns or samples. On site, around fifty volunteers receive, sort and arrange the objects and clothes which will then be distributed to local associations according to their needs or resold at very low prices at a charity event. The annual "Kermesse de l'espoir" charity event brings together 150 volunteers and many Group employees for a day of selling and activities. In 2006, a total of €46,000, following the contribution from SolidarCité, was collected and paid to eleven associations.

Furthermore, the volunteers of SolidarCité Redcats, always attentive to the surrounding environment, organised a "Xmas at la Redoute" day. Thanks to around thirty volunteers, 200 underprivileged people were invited to share a Xmas lunch, in partnership with the Social action centres in Waterloo and Roubaix in the north of France. A visit from Father Christmas and activities completed the day.

Fnac has also established ties with local players. For the year-end festivities, the Fnac stores allowed partner associations such as the Secours populaire français (SPF) (47%), les Restos du Cœur (17%), health associations (11%), cultural associations (11%), scouts (9%) or children's associations (4%) to gift-wrap presents. These partnerships were often set up locally: 40% of stores being directly canvassed by associations. 45% of all French stores valued the sum collected and such funds totalled €438,864. Only two stores did not organise gift wrapping stands with the associations.

(1) Mouvement des entreprises de France (MEDEF), or the Movement for French Enterprises is the largest union of employers in France. Formerly known as the Conseil National du Patronat Français (CNPF), or National Concil of French Employers, the purpose of this union is to represent, protect and promote the interests of French employers.

At the company's head office in Clichy, the SolidarCité team set up a partnership with the town's local missionary group in order to help the under 26's find employment. Around ten employees sponsored and advised them on their professional career path.

Conforama, the French no. 1 in household goods and home furnishing strengthened its commitment vis-à-vis the most impoverished by giving them access to comfort.

On June 6, 2006, Conforama, SolidarCité and the Secours populaire français (SPF) signed a partnership agreement in order to help re-house families in precarious situations. Conforama provided the Secours populaire with free new home furnishing kits: 78 kits were distributed to more than 430 impoverished families and persons.

Generally designed for 4-person families, the kits are adjustable according to the needs identified by the SPF: 1 table, 4 chairs, 2 adult beds and mattresses, 2 children's beds and mattresses, kitchen or buffet equipment, washing machine, refrigerator, cooker, children's desk, microwave oven, vacuum cleaner, lighting, etc.

In 2007, SolidarCité and Conforama wish to extend this partnership by distributing another 70 kits across France.

The Télémaque Foundation

Since 2005, the Télémaque Foundation has supported and assisted talented and motivated pupils with a strong potential but whose social environment jeopardizes their chances of taking up studies equal to their merits.

Each pupil, selected based on academic and social criteria, receives a scholarship according to merit and is monitored by a school representative and a company mentor. The role of the mentor, working on a voluntary basis, is to guide the pupil, allow him to benefit from the company's networks, widen his horizons and support him in his schooling.

The Télémaque Foundation now comprises 10 companies: PPR, Axa, Darty, Schneider, Total, Rexel, Accor, Adecco, Air France and Stratégies & Corp. The partnerships with the French National Education institutions also developed in 2006. To date, 30 institutions are partners. The Foundation assists a total of 120 pupils (61% girls, 39% boys): 50% in Ile de France, 31% in Rhône Alpes, 14% in Le Nord and 5% in the remaining regions.

Initially a partner of boarding schools, the Télémaque Foundation set up relations with success-oriented "Ambition Réussite" ("*Ambition achieved*") schools located in Priority Educational Areas at the request of the National Education Ministry. At the end of 2006, 47% of the pupils were in boarding schools and 53% in "Ambition Réussite" schools.

PROGRESSING TOGETHER WITH THE GROUP'S BUSINESS PARTNERS AND SERVICE PROVIDERS

The PPR Group wishes to maintain lasting relationships with its service providers and business partners. The Group set up a framework defining the reciprocal commitments between PPR and its partners.

Its approach is based on the mutual promotion of respect for human, social and environmental rights and the integration of partners from the social economy.

The cornerstones of PPR's commitment vis-à-vis its partners

The Group prefers long-term partnerships that guarantee continuity and reliability. These long-standing partnerships are based on a set of strict rules cited in the PPR Code of Business Practices and the Supplier Charter. PPR's commitment is also demonstrated through its membership of the Social Clause Initiative.

PPR's Code of Business Practices

Designed by PPR and shared by the Group companies since 2005, the Code of Business Practices is derived from basic international laws:

- the United Nations Universal Declaration of Human Rights and the European Convention on Human Rights;
- the OECD guidelines for Multinational Enterprises; and
- the United Nations Convention on Children's Rights.

PPR's commitments to our business partners stipulate that: "*We are against child labour and forced labour and we monitor our suppliers and ensure that they comply with the principles to which we are attached (…) we do not form partnerships with suppliers if we know or learn that they do not comply with health and safety regulations or if they do not carry out their business in compliance with environmental laws and regulations*".

In the Code, PRR also agrees to observe impartiality and equal treatment when engaging in competition, objectivity in the terms for awarding contracts and compliance with the rules governing industrial ownership or when terminating a business relationship. It is accessible under the "Commitments" heading at the PPR website www.ppr.com.

The PPR Group Supplier Charter introduced in 2002

The PPR Supplier Charter outlines all the rules with which the Group's suppliers must comply and is based on the main conventions of the International Labour Organisation (ILO) and compliance with labour and environmental laws and regulations that guarantee:

- prohibition of labour by children under the age of 15 and forced labour (Conventions 29, 105, 138 and 182);
- compliance with health and safety regulations (Convention 155);
- guarantee of decent working conditions (Convention 100);
- the right to organise and engage in collective bargaining (Conventions 87 and 98);
- prohibition of any form of discrimination (Convention 111); and
- compliance with social and environmental laws and regulations.

Whether or not a supplier adheres to and signs this charter is a major criterion for inclusion in or removal from the list of accredited suppliers. With regard to the Charter, the Group's direct suppliers also agree to see to it that their own suppliers comply with the principles set forth in the Charter.

Segment commitments undertaken by the Group

In 2004, in addition to the Supplier Charter, PPR's indirect purchasing office, PPR Buyco, produced an Ethics Charter specific to logistics and transport. Sent to all carriers under contract with PPR since 2005, it notably specifies commitments in terms of environmental criteria as well as limits on drivers' working hours that must be met by the contracting companies and their sub-contractors. In addition, calls for tender by PPR Buyco include corporate social responsibility requirements.

In 2005, an ethics code specific to on-line auctions, the Code of Electronic Trading Practices, was completed and sent to the auction managers in the French and foreign subsidiaries, to be passed on to the suppliers participating in them.

PPR has been a member of the Social Clause Initiative (SCI) since 2002

PPR has always conducted social audits with its suppliers. However, anxious to incorporate this policy into a development strategy, the Group wished to share its knowledge by becoming a member of the SCI. The Social Clause Initiative (SCI) is an organisation comprising 14 of the largest retailers in France, which undertake to encourage their suppliers to comply with the universal principles governing human rights as well as local labour regulations in their production units. The desire to improve the control of the process undertaken led the companies to place more emphasis on helping their suppliers to meet social and economic goals by going out to verify actual working conditions on-site. This on-site verification is then turned over to specialised independent external auditing firms accredited by the SCI.

The member companies developed, in conjunction with the audit firms referred by the SCI, a pool of common reference tools: the SCI Code of Ethics, the Audit Manual, the Factory Profile, the Audit Questionnaire, the Execution Guideline, the Corrective Action Plan, and the Notification Alert. These tools have been used by the companies and firms since 2005.

The audit questionnaire, which is used as a common reference by the companies that are members of the SCI to conduct corporate social audits, takes into account the main ILO conventions and recommendations and the local regulations of each country. This common reference is organised into eight sections: child labour, forced labour, discrimination, disciplinary practices, harassment or poor treatment, freedom of association, working hours, salaries and employee benefits.

The results of the audits are entered into a database coordinated by the SCI which enables members to exchange the results of the social audits while guaranteeing data confidentiality.

Promoting respect for human, social and environmental rights among our suppliers

Besides the adoption of a strict reference framework vis-à-vis its partners, PPR has developed a series of operating tools in order to promote respect for human, social and environmental rights among its suppliers. In order to work with PPR, the partners must formalise their support and commitment to comply with the fundamental principles cited in the Code of Business Practices and the various charters by signing these documents.

However, the Group also maintains direct relations with its suppliers through its local purchasing and supply offices and its different social audits.

Local purchasing and supply offices

To ensure that its business partners respect human and social rights, the Group's companies and PPR Purchasing (PPR-P), the Group's purchasing hub for white goods, brown goods, grey goods and consumables, are present in the international production sites.

At the 2006 year-end, the PPR companies had a network of 14 international sourcing or purchasing offices in Asia (China, India, Bangladesh, Vietnam), Eastern Europe (France, Italy, Romania, Poland) as well as in Turkey and Brazil.

This permanent presence of the Group's buyers, who are nearly all natives of the countries where these purchasing offices are located, is a key factor in terms of compliance with the quality of the products supplied, and with the quality of the Group's suppliers in terms of social awareness.

Upstream, the inclusion of social criteria set forth in the Charter contributes to the approval of all PPR company suppliers.

The PPR Group conducts internal and external assessments with its suppliers

Sent automatically to every supplier, the **self-assessment questionnaire** is part of the internal auditing system enabling the Group's purchasing teams to perform an initial analysis of respect for human, social and environmental rights. The questionnaire, completed and signed, must be returned to the companies by suppliers, thus committing them to know and comply with the principles of the Supplier Charter. The results of questionnaires can be used to guide any future audits to be performed at the production sites of direct suppliers by specialised independent firms and PPR Group in-house staff.

The PPR and PPR-P companies and their purchasing units conduct independent audits of their various suppliers.

The 2006 social audit scope includes the audits performed by Redcats, IHTM, Conforama's purchasing unit and PPR-P.

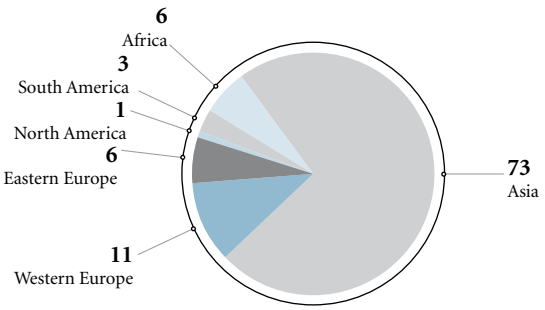
The breakdown of audits reflects the geographical areas where the Group's companies make their purchases and receive their supplies, and the desire to conduct audits in those countries where there is a higher probability of detecting cases of non-compliance with the PPR Code of Business Practices and Supplier Charter.

A total of 18 of the 452 audits initially scheduled under the 2006 scope could not be performed. Two of these 18 audits were cancelled due to the suspension of the business relationship with the supplier and 16 were refused: 8 in Bangladesh due to the very unstable political and civil situation and 8 in India, China, Morocco, Portugal and Romania. All of the audits not performed in 2006 have been rescheduled for 2007.

Hence, the data shown below is based on the total number of audits actually performed by the Group under the given scope, i.e. 434 social audits.

The 2006 audits were performed in 36 countries, i.e. 5 more than in 2005, of which 73% in Asia (particularly 177 audits in China and 61 in India), 17% in Europe, 6% in Africa and 4% in America.

BREAKDOWN OF AUDITS PERFORMED IN 2006 BY GEOGRAPHICAL AREA (as %)



Total: 434 audits

Results of the social compliance audits

The valuation criteria were modified in May 2005, with a significant increase in the level of requirements for the suppliers. Following the audits, the suppliers receive a final rating from A (excellent) to D (unacceptable). As in 2005, no Group suppliers were considered excellent (A rating) in 2006. However, 49% of the audits performed were deemed acceptable (B rating), 29% required improvements (C rating) and 22% were deemed unacceptable (D rating). Major corrective action plans were implemented immediately following the audits.

Strict procedures in major cases of non-compliance

In 2005, a new warning system was implemented: *Alert Notification* This system guarantees that in the event of major non-compliance, the manager in charge of corporate social audits is warned no later than 48 hours after the non-compliance is identified. The major cases of non-compliance that justify an alert notification are in particular: the physical presence of children in the plant, known cases of forced labour, known cases of unpaid work, evidence of poor physical treatment or excessive disciplinary practices or existence of a working environment presenting an immediate risk for the health and/or safety of the workers. For example, IHTM was alerted 3 times, including 2 cases of plant safety problems.

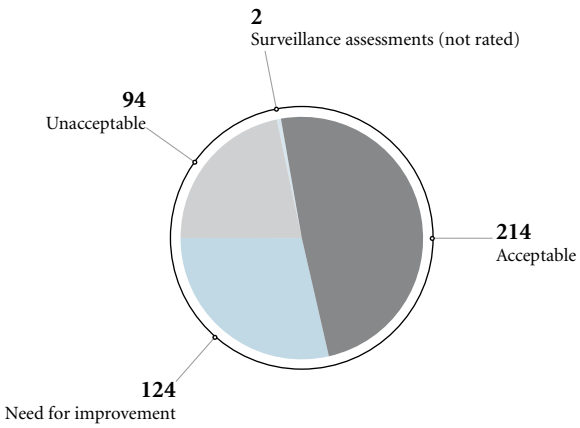
At the same time, PPR reserves the right to implement a procedure for the removal of suppliers from the Group's list of accredited suppliers when the commitments undertaken by the Group with regard to corporate social responsibility in the Code of Business Practices and the Supplier Charter are not observed. In 2006, Redcats immediately removed one of its Chinese suppliers for reasons of non-compliance with regard to child labour.

Areas of improvement

The cases of non-compliance reported in the analysis of the audits mainly involve health and safety, with 53.8% of total cases. Reports of failure to comply with safety standards include emergency exits that are obstructed or insufficient in number, lack of or insufficient protection from machines or lack of fire drills. Reports of failure to comply with health standards include an insufficient number of bathrooms, snack rooms or dormitories compared with the number of employees. 19.8% of cases reported include working hour violations (no day off during the week, excessive overtime, etc.), 9.8% include the lack of documentation proving compliance with legislation and 19.8% of cases of non-compliance related to wages and benefits (failure to pay the minimum wage, unpaid overtime or overtime paid below the legal rate, lack of the legally required insurance and retirement contributions, etc.).

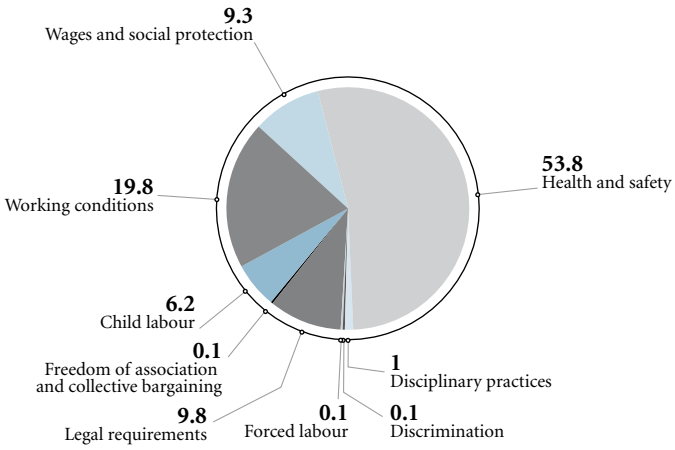
In 2006, 7 known cases of child labour were reported. These suspicions may be primarily due to the lack of documents proving the age of employees, the lack of governmental or parental work permits, the lack of medical certificates, the non-restriction of working hours for minors or even the non-restriction of workers below the legal working age. Six cases were finally dismissed due to the evidence provided by suppliers but one case was upheld. In accordance with the PPR Code of Business Practices and the Supplier Charter, this supplier was immediately delisted by Redcats.

RESULTS OF THE AUDITS PERFORMED IN 2006 (in numbers)



Total: 434 audits

BREAKDOWN OF CASES OF NON-COMPLIANCE BY TYPE IN 2006 [1] (as %)



1 Breakdown of cases of non-compliance based on the eight section classifications of the SCI.

PPR has the same level of requirements with all its suppliers, regardless of their geographical origin or size: they must comply with the conventions of the International Labour Organisation (ILO), the Code of Business Practices and PPR's segmental charters together with prevailing local labour and environmental regulations.

Certified partners

Over and above this commitment, PPR wishes to introduce a virtuous circle to its business partners and thus develop together. Accordingly, more attention is paid to the inclusion of social and environmental criteria in the services and products proposed to the Group and the CSR policy specific to its suppliers. Although a social or environmental certification is not a criteria for accreditation, the Group prefers suppliers which are committed to these issues and able to justify such claims with reliable documents.

The analysis of PPR Group's suppliers revealed that in 2006:

- 100% of IT suppliers hold or are in the process of obtaining a ISO type certification. Among these suppliers, 91% own at least one ISO 14001 certified site and 54.5% possess an ISO 9001 certified site;
- regarding express transport, 100% of PPR's suppliers have at least one ISO type certification;
- regarding air transport, 75% of PPR's suppliers have at least one ISO type certification;
- regarding road transport, 43% of PPR's suppliers have at least one ISO type certification;
- regarding sea transport, 39% of PPR's shipowners have at least one ISO type certification;
- regarding paper in Europe, 100% of PPR's suppliers have ISO 14001 certified production sites and 76% have obtained the European EMAS [(1)] certification.

At the same time and for the sake of progress and consistency with its own strategy, the Group encourages the creation of new partnerships with companies facilitating integration through economic activity and employment support centres.

Integration through economic activity

In seeking to facilitate the social and professional integration of underprivileged persons, SolidarCité holds PPR's commitments at the highest level. The association works so that the long-term unemployed, under 26's without training or employment, the homeless or any persons in a precarious situation can, with personalised guidance, return to employment. In receiving them during the integration process, the Group's companies enable such persons to regain the know-how and expertise required for integration within the company.

In 2006, under this approach and in keeping with the partnership set up in 2003 between the PPR Group and Janus, from the Vitamine T Group, Redcats hired temporary staff for a total of 50,900 hours, or 29 full-time equivalents, as warehousemen, goods preparers, order preparers, form setters, forklift truck operators, etc.

Finally, SolidarCité called on placement organisations, particularly for personal services, e.g. the Hope association at la Redoute for ironing and sewing or Le Relais for bouquets of flowers.

Fnac Logistique has since 1998 employed around ten placed workers in Massy by subcontracting to the Arès Atelier association the operation of the assembly line for cleaning the trays used to dispatch books, CD's, and small technical products. Since the beginning of this partnership, 10 persons have been recruited on permanent contracts.

In 2007, SolidarCité wishes to strengthen its partnerships with placement organisations across France in order to help a greater number of socially excluded people to find employment.

Working with employment support centres

Sheltered workshops are designed as actual production units which follow the company's logic but employ disabled or incapacitated employees (up to 20% of the company's workforce). Being an integral part of the market economy, these workshops offer high quality services in specific business segments (subcontracting, services, etc.).

Certain PPR companies have elected to work with this type of organisation. Following a test period at its Bastille store in Paris, Fnac has since 2006 outsourced the cleaning of the green waistcoats for all its Ile de France stores staff to a sheltered workshop. This policy is gradually being extended to local regional stores.

In 2006, new types of services and purchases were entrusted to this sector: printing work for the PPR head office, input of gift vouchers without orders for the Senior division of the Redcats Group, etc.

(1) EMAS: Environmental Management and Audit Schema, European environmental management framework whose application is voluntary.

Support the Group's customers as responsible players

A major retail player, the Group's customers are at the heart of its strategy. The Group therefore guarantees that its products are reliable and quality certified. Since the number of consumers expecting more environmentally friendly products with fair trade labels is rising, the Group is now also working to develop innovative products and services incorporating sustainable development criteria.

DEVELOPMENT OF RESPONSIBLE PRODUCTS

As part of their sustainable development policy, the Group's companies develop products incorporating sustainable development criteria. This policy is based on the promotion of fair trade items, support for organic cotton products and the development of eco-design.

Promotion of fair trade and organic cotton

Initially confined to the food and craft industries, fair trade has now reached the fashion world. Several PPR Group brands have for the past few years been committed to proposing fair trade products to their customers.

La Redoute signs a partnership with Max Havelaar

La Redoute, aware of the possibility of improving the living conditions of the most underprivileged producers, has in the past three years undertaken with Max Havelaar to promote ethical fashion among its customers. A range of 12 designer label T-shirts from Mali, Senegal, Burkina-Faso and Cameroon was first offered in the La Redoute Autumn-Winter catalogue for 2005/2006.

Out of the 750 tonnes of cotton produced in these African countries, 82 tonnes were directly sold by La Redoute during the 2005/2006 Autumn-Winter season, i.e. 12% of the fair trade cotton production with the Max Havelaar label.

In 2006, the brand diversified its range by proposing bed linen in addition to a ready-to-wear collection. These constant efforts were rewarded and La Redoute plans to extend its fair trade cotton collection in 2007.

Through this partnership, Redcats helped to develop a new fair trade cotton segment in Africa for textiles. The Max Havelaar label guarantees for the 3,000 small manufacturers a minimum price that is 20 to 30% higher than international market rates, with a development premium paid to groups of manufacturers.

PPR supports ethical fashion

In connection with its new fair trade product range, PPR has for the past three years been a partner in the Ethical Fashion Show. This show, which brings together the various players in the ethical fashion business, is an opportunity for the Group to assist designers in their venture as responsible entrepreneurs and promote products incorporating social and environmental criteria.

For the first time in 2006, La Redoute joined this partnership. The brand awarded special prizes entitled "Tackling ethical fashion with La Redoute" ("Entreprendre la mode éthique avec La Redoute") to Jérôme Schatzman, the founder of the "Tudo Bom?" clothing brand and Judith Condor-Vidal, designer, two innovative players in the fair trade business. This prize offers the founder of "Tudo Bom?" the possibility to design and sell to 13 million brand customers in France and abroad an exclusive private label product distributed in the La Redoute catalogue and website during the 2007/2008 Autumn-Winter season. Due to Judith Condor-Vidal's low production capacity, La Redoute elected to work with the designer on limited editions distributed on its website during specific campaigns.

La Redoute therefore pursues and affirms its role as intermediary between designers and the general public and strengthens its commitment in favour of fair trade.

Somewhere, Vertbaudet and organic cotton

In 2006, the **Somewhere** brand renewed its BIO clothing line, for *Believe in origins,* made from organic cotton. Between 10 and 15 designer label products for men and women were put on sale in the Spring-Summer and Autumn-Winter seasons. The cotton used is certified by the independent Dutch label *Skal International,* guaranteeing that no pesticides or chemicals were used in the cotton manufacturing process, and that dyes were without heavy metals.

The brand for children and future mothers, **Vertbaudet,** inaugurated an organic cotton range for babies in its 2006 Spring-Summer collection. Called "BB Bio", this new line includes 10 cotton items, dyed using organic dyes. The cotton used by Vertbaudet is hand grown,

guaranteed without fertiliser (except compost) or pesticide and is certified by the independent Dutch label *Skal International*.

Eco-design, an innovative approach developed by Conforama

Combining discount, social ethics and environmental performances, a challenge taken on by Conforama

Eco-design involves incorporating environmental requirements from the product design phase. Accordingly, this strategy relies on an overall multi-criteria environmental approach and is based on the understanding of all stages of the product lifecycle.

In connection with its sustainable development strategy, Conforama has since 2005 adopted an eco-design policy aimed at reducing the impact of the products it sells on the environment. It launched a project in partnership with ADEME and Electrolux regarding the selection of 8 energy saving, water saving and recyclable electrical household appliances. Following the success of the operation, Conforama wished to take things a step further in terms of production by extending its eco-design policy to its furniture range. The company will therefore market an adjustable baby's bedroom, allowing two separate arrangements depending on the age of the child.

To undertake this project, Conforama worked in 2006 with its main supplier of children's bedrooms, the Wood and Furniture Technical Centre (CTBA), a consulting firm and the Agency for the Environment and Energy Management (ADEME) in order to be able to sell the bedroom in the second half of 2007.

The first operation undertaken in partnership with Electrolux showed that training was essential for purchasing and product managers. Eco-design products are often sold at prices equivalent to "standard" product prices. The purchasing and product managers required sales pitches, which take into account not only the sale price but the overall product cost including the savings relating to the period of use, e.g. savings on energy or water, to which customers are paying more and more attention.

Aware of the importance of this phase, Conforama invested half the project's budget to training 25 buyers and product managers as well as raising the awareness of store personnel. In total, around 7,000 employees were informed in France.

In addition to employee training, communication tools for the general public are planned. Another substantial portion of the budget has been invested in the production of 10,000 recycled paper leaflets.

RESPONSIBLE AND SUPPORTIVE CUSTOMERS

PPR's aim is to provide its customers with the means of supporting social and environmental projects. The Group has therefore developed *shared product* campaigns, particularly with associations, and widely collects used products in its stores.

The development of shared product offers

Redcats helps the underprivileged

For the past several years, **La Redoute** has offered shared products, for which the mascot remains Baptiste the Bear. Dressed by Cacharel in 2006, Baptiste the Bear accompanied a Spring-Summer bag and an Autumn-Winter necklace. For any purchase of one of these shared products, La Redoute pays €10 to SOS Villages d'Enfants.

Daxon, a brand of the Redcats Senior division, pursued its solidarity measure initiated in 2005. For its 2006 Autumn-Winter catalogue, the brand elected to go into partnership with the ASMAE association, founded by Sœur Emmanuelle. For any purchase of an item presented by the actress Macha Méril, Daxon paid €3 to ASMAE. The funds raised were used to back a programme in the Philippines intended to facilitate access to healthcare and education for children.

Vertbaudet launched a competition called "Graines de Designers" in the Autumn/Winter of 2005-2006 rewarding the 6 most original children's projects. These six products were then manufactured by Vertbaudet and put on sale in the brand's catalogue and on its website, and all the profits from their sales were paid to the association ABC D'ailleurs in order to finance the construction of a school in Mali. In 2006, the brand also invited Isabelle Adjani to design a private collection for children. The actress undertook to transfer 50% of the profits generated by the sale of this collection to Necker – Enfants malades de Paris hospital in France.

Fnac helps great causes

Fnac has since 2003 been committed to fighting illiteracy and opening the door to culture. Since December 2003, Fnac has teamed up with two associations, the Association to promote an effective school (Association pour favoriser une école efficace – APFEE), and the Student city foundation association (Association de la fondation étudiante pour la ville – AFEV), which implement measures to prevent illiteracy among young pupils in order to make culture accessible to everyone. In 2006, the company demonstrated its commitment by renewing the sale of 2 shared products in all Fnac stores (the CD "On aime, On aide" recorded in 2006 by Cali and the "figurines de Noël") which enabled Fnac to transfer €100,000 to the two partner associations.

In November 2006, a DVD boxset of 5 films entitled "Gardons les yeux ouverts" was put on sale at Fnac for the benefit of the International

Federation of Human Rights (IFHM). This boxset, available only at Fnac for €49.99, includes militant films promoting human rights: "*La controverse de Valladolid*", "*Le cauchemar de Darwin*", "*Mémoire d'un Saccage*", "*No man's land*" *and* "*S21*". 1,500 boxsets went on sale and around 1,300 were already sold by the end of 2006, generating around €20,000 that will be fully transferred to the IFHM to support its actions worldwide.

At the same time, Fnac continues its partnership with Reporters sans frontières (RSF), the association committed to the freedom of expression throughout the world. The albums "100 football photos for press freedom" and "100 star photos for press freedom", published in association with Agence France Presse and Harcourt studios respectively, were put on sale in Fnac stores. In 2006, Fnac decided to accompany the release of the 2 albums by opening eleven of its photo galleries from June 5 to July 10. All the profits from the nearly 18,000 albums sold were transferred to RSF in the amount of around €90,000.

Promoting solidarity awareness

Fnac, whose ecological gestures become an act of solidarity, has since 2005 set up collection areas with a view to recovering any used products that customers would have purchased in its stores. This policy falls in line with the company's corporate social responsibility strategy, whereby, as a retailer, it must facilitate the recovery of the products its sells.

Fnac's commitment has gone beyond the environmental sector by linking this project to a placement firm for the recovery and treatment of the products.

Collection of used printer ink cartridges

Since June 2005, Fnac has undertaken to collect used printer ink cartridges in all its stores, except for the Sud and Rhône/Alpes regions, in order to encourage recycling. Customers can therefore leave their empty cartridges in the collection terminals set up in the stores.

Under this project, Fnac wished to enter into partnership with Ateliers du Bocage, a placement firm relating to Emmaüs France which collects and recycles used printer cartridges. In 2006, around 70,000 or 4 tonnes of used cartridges were recovered. By leaving their cartridges in the Fnac stores, the customers learn from the information shown on the collection terminals that they are helping to develop the social and solidarity economy since this waste is recycled by disadvantaged persons. Les Ateliers du Bocage now employs 170 employees, including 25 disabled persons.

Collection of used mobile phones

During the sustainable development week in June 2006, Fnac announced the signing of a new partnership with Les Ateliers du Bocage/Emmaüs, with a view to collecting used mobile phones from private individuals.

The company then set up collection terminals in its stores where customers can leave their old phones. The used phones are then collected, sorted and tested by the employees of Ateliers du Bocage and Tiem, another placement firm. If the phones are in working order, they will be sold on the second-hand market by Emmaüs, permitting their use by the underprivileged. Otherwise, they will be sent, in accordance with the regulations governing electronic and electrical waste, to certified specialised material recovery systems.

Since the 2nd quarter of 2006, out of the nearly 3,000 phones recovered in all the Fnac stores in France, 45.4% were reused.

By extending the life of the recovered products, Fnac, les Ateliers du Bocage, Emmaüs, and Fnac's customers all help to preserve the environment and find jobs for the disadvantaged.

Reduce the Group's environmental impact

The PPR Group, whose distribution segments do not present any major "industrial" risks for the environment, strives nevertheless to reduce its environmental impact everywhere where its activities may have an actual impact on ecosystems, energy and raw material consumption or on climate change particulary with CO_2 emissions

Since 2004, the PPR Group has developed an upgradeable reporting tool, comprising quantitative and qualitative indicators, which cover the scope of its activities and which can be used at the various consolidation levels to monitor and present its environmental performances and the outstanding progress margins used to define priority action plans.

This reporting is structured around 4 primary themes:

- **management of the environment**

  This central theme presents how environmental management is organised internally in each company and transversally within the Group: the methods implemented in order to train and inform employees, the assessment or certification strategies, the cross-cutting approaches in order to take into account environmental impacts;

- **transport and energy policy**

  These indicators measure the Group's impact on climatic change through greenhouse gas, and more specifically, CO_2 emissions, even if measurement remains extremely difficult and even incomplete for a group such as PPR that is so decentralised and vast. In addition to these quantitative indicators, the measures undertaken by the companies in order to improve their logistical efficiency and thus the efficiency of their activities in terms of energy are presented;

- **optimisation of raw materials**

  Within the environmental reporting scope, PPR is concerned with optimising the use of raw materials for a limited number of activities. However, the use of packaging and paper for the preparation of catalogues, as well as the industrial activities of YSL Beauté in particular, require monitoring of such consumption (paper, packaging, metals, etc.) and the publication of information on the Group's water and raw material consumption; and

- **waste management**

  The Group's activities generate little hazardous waste; nevertheless, PPR has set up a detailed reporting of the waste generated by its subsidiaries, particularly with regard to WEEE regulations, for which the recovery system has been operational since November 15, 2006.

MANAGEMENT OF THE ENVIRONMENT

The adoption of a new reporting platform in 2006

The PPR Group's environmental reporting has been set up with the realistic goal of steady progress. The aim since 2003 has been to have relevant, reliable and operational indicators for the Group's international scope.

After having developed a reporting structure in 2004 ensuring a genuine and practical visibility of the Group's environmental impacts, the main challenge in 2005 was to improve the reliability of data feedback, extend the scope of the data and establish reporting sheets for qualitative data. The year 2006 is in keeping with the two previous years as the Group has continued its efforts to improve the reliability of data feedback and the calculation of environmental indicators and define indicators representing the challenges of each company.

To achieve this, PPR steered its reporting tool towards a new platform which remains a simple, scaleable and sustainable solution. The new version of the tool offers the possibility of launching targeted reporting "campaigns", which can be customised. Installing this new version required extensive upstream preparation as each company had to be allocated only those indicators relevant to its business. For example, the indicators relating to the consumption of industrial raw materials were only supplied this year to YSL Beauté and CFAO, the only companies affected by these problems.

At the same time, the new tool is designed to review the companies' data entry methods. Particular attention was therefore paid to harmonising the process so that each company enters the indicators at the same level, with the aim of facilitating data consolidation.

This change required the entry levels to be reorganised. 4 organisational and consolidation entry levels were defined: site (level 4), business unit (level 3), company (level 2) and the PPR Group (level 1).

At the same time, a geographical consolidation remains available according to PPR Group, continent, country and site levels.

This switchover to this platform reflects the Group's desire to set up a tree diagram similar to that for social reporting so that the different types of indicators can be cross referenced in the medium-term.

An advanced reporting

Due to the Group's very highly decentralised organisation, its presence in 74 countries and the diverse activities of its companies, PPR's environmental reporting is each year a delicate and complex operation.

Even though the companies subject to environmental reporting in 2006 are the same as those in 2005 (YSL Beauté and all the Retail division entities), the 2006 environmental reporting scope has however increased due to 3 factors:

- the inclusion of a certain number of foreign sites, that were until recently absent, in the environmental reporting scope (e.g. Fnac Belgium, Brazil or Spain);
- the increase in the number of sites that responded to a higher number of indicators than in 2005. A site, which does not give precise information on an indicator, is systematically excluded from this indicator's reporting scope unless the data can be extrapolated [(1)]. However, certain sites involved in the reporting campaigns of previous years responded in 2006 for the first time to the indicators that they had left blank in the previous years, thus increasing the reporting "base"; and
- an increased "technical" knowledge each year of the content of each indicator which enhances the inclusion of all the factors that contribute to the production of the indicator: for example, the inclusion of all office paper consumed in 2006 by certain companies and not only the data collected relating to the consumption of A4 paper.

This extended scope makes data comparability with previous years extremely difficult, more than often impossible. Certain indicators have developed, not due to the changes in consumption or production but due to the changes in the collected data, either with regard to the geographical scope or the components of the indicator in question.

However, as more and more sites respond in an improved manner to their indicators and the number of sites increases each year, the general reliability of environmental reporting therefore improves year after year, thus allowing genuine changes and trends in the stabilised scopes to be monitored and presented.

Despite these difficulties, each time a comparison between 2005 and 2006 was possible on an identical reporting scope basis, such reconciliations were performed.

Reporting scope by company

YSL Beauté

The entities represented in the 2006 reporting are the Lassigny industrial site and the YSL Beauté head office.

Fnac

The entire company is presented in the 2006 reporting: in France (Fnac France: head office, stores, after sales department and warehouses); abroad: Fnac Switzerland, Fnac Italy, Fnac Belgium, Fnac Portugal, Fnac Brazil, Fnac Spain; the subsidiaries (Éveil & Jeux, Fnac.com, Surcouf, SFL and corresponding head offices, after sales departments and warehouses).

Redcats

The subsidiaries represented in the 2006 reporting are: Redoute (La Redoute, la Maison de Valérie, les Aubaines, SOGEP and DIAM; Redcats Senior Specialised Companies (Movitex); Redcats Children-Family Specialised Companies (Cyrillus, Somewhere, Vertbaudet); Redcats USA; Redcats Nordic and Redcats UK. Redcats Asia was not included in the scope.

CFAO

The company's transversal functions (head offices) and its four business units (Automotive, Eurapharma, Industries 8 Trading and Technologies) took part in the reporting. Six countries were involved (France –metropolitan and overseas territories –, Burkina Faso, Cameroon, Congo, Morocco and Kenya).

Conforama

The entire company was represented in the 2006 reporting: Conforama France (head office, stores and warehouses), Conforama Spain, Conforama Italy, Conforama Portugal, Conforama Switzerland, Conforama Poland, Conforama Croatia); the purchasing unit IHTM, and Cogedem.

With regard to this reporting scope, the representation of the information presented is specified in this document, for each indicator, as a percentage of the revenue [(2)] of the entities and/or their surface area (m²) when the sites that have contributed to establishing the indicator have no commercial activity and therefore no revenue (e.g. warehouses).

Effective indicators identifying the Group's environmental challenges

The reporting indicators must be representative of each company's environmental challenges. Eight themes were introduced in 2004 by the environmental network's inter-company working group, including

(1) With regard to 2006 reporting, certain consumptions missing from 2 Fnac stores and 5 Conforama stores were extrapolated in 2006 using a weighted average per surface area of the consumptions of the other stores belonging to the same company.

(2) Revenue prior to consolidation.

5 themes composed of quantitative indicators (consumption of raw materials, transport, waste production, energy consumption, water consumption) and 2 transversal themes composed of qualitative indicators (products policy, environmental and risk management). An 8th theme encompasses general data (surface area, revenue, etc.)

Even though certain indicators may appear as minor progress levers with regard to the potential savings or the impact of other industrial activities, the adopted approach aims to identify the PPR Group's environmental impact and does not in theory exclude any issue.

An organisation specific to each company and an inter-company community to coordinate the management of the environment

Each company has a manager dedicated to corporate social responsibility issues. He is responsible for deploying the Group's CSR approach and implementing the social and environmental measures specific to the company's activities.

Concerned with rendering their task even more effective, the Group set up mechanisms in order to optimise the management of risks specific to the environment. Even those companies whose activity does not represent a risk identified as major for the environment have systematically a clearly identified correspondent, specifically responsible for environmental issues.

These correspondents meet regularly in order to share and exchange the best practices developed within the Group companies. In addition to exchanging experiences, these meetings are held to define action plans which respond to both the Group's and the companies' transversal issues. The network and the dedicated operational management committee, working on waste electrical and electronic equipment (WEEE), were therefore able to respond efficiently to the application decree of the European directive that requires the implementation of a recovery system for this type of waste and make each company operational for the commissioning of the system on November 15, 2006.

Employee information, awareness raising and training initiatives

The CSR approach is deployed across the PPR Group. Numerous initiatives and measures were taken, either at Group level or within each company, in order to increase the awareness of employees and their understanding of environmental issues and the importance of changing some of their practices.

In 2006, PPR created at Group level a summary communication media, a *leaflet* for raising the general awareness of employees with regard to sustainable development and, more specifically, environmental issues, while attracting more particular attention to the measures implemented by the Group to limit its environmental impact. By way of example, the section relating to endangered natural resources underlined PPR's response with regard to the optimisation of raw material consumption, particularly the use of paper. 3,000 copies of this *leaflet* were printed and distributed to the employees of the PPR, Redcats, Fnac, Conforama and CFAO head offices. This leaflet was also sent to foreign branch managers.

At the PPR head office, a work group comprising around twenty voluntary executives and employees considered the various ways of limiting the consumption of resources. The action plans defined by the work group will be implemented in 2007.

In the companies, awareness raising initiatives were also taken. By example, a team of 12 people was trained in the Group's environmental quality requirements in several CFAO subsidiaries in Kenya.

Conforama's Sustainable Development Department took advantage of Sustainable Development week (from May 29 to June 4, 2006) to carry out an awareness raising event at its head office. Organised around an exhibition, panels and a conference followed by a Q&A session, the event focused on the actions that the company undertakes with regard to CSR to show the dimensions and the issues covered by the notion of corporate social responsibility.

Following the success of this conference, a second session was organised, and similar events will take place in 2007.

The PPR Group also extends its environmental awareness to its relations with suppliers. CFAO plans to incorporate environmental management in its contracts with certain suppliers. La Redoute set up a new audit form for its suppliers including environmental criteria regarding the manufacturing process.

In the same vein, YSL Beauté's strategy is to select suppliers committed to protecting the environment.

Finally, several companies informed their employees on the reduction of internal paper consumption: Fnac in Brazil, the Redcats USA and Nordic or even CFAO in Morocco. The employees of these entities were, for example, encouraged to use both sides of the paper for printing. Fnac Switzerland also uses recycled paper internally.

Internally, consumption is therefore reduced, for example at La Redoute, whose envelope and A3 paper consumption has decreased by 40% and 57% respectively, compared to 2005.

Business appraisal or certification measures with regard to the environment: the example of YSL Beauté

YSL Beauté has in the past several years implemented an environmental management strategy, which was confirmed in December 2006 with a triple certification, including the ISO 14001certification relating to the environment.

Each year, strategies are reviewed, quantified and shared targets are set and then broken down into action plans. In 2006, the main areas of improvement identified by YSL Beauté involved the reduction of discharges in water, the saving of natural resources and the optimised management of waste and its reduction at source. With regard to the optimisation of waste management, YSL Beauté set a target of 98% of waste, including a 70% recovery rate.

In addition, with respect to the deployment of its policy, the company trained all its employees in environmental issues and objectives, the ISO 14001 certification strategy, and set up a monthly internal communication campaign on the following topics:

- selective waste sorting;
- energy saving;
- reduction in water consumption; and
- control of pollutants in sewage discharges.

Each specific environmental issue such as asbestos or chemicals used is documented and specific measures adopted where necessary.

Finally, YSL Beauté also incorporates the environmental aspect when designing new buildings. The studied aspects involve, in particular, the optimisation of air conditioning and heating performances in terms of energy.

TRANSPORT AND ENERGY POLICY

Energy consumption is an indicator closely monitored at PPR, as it represents a substantial burden for the stores and a primary environmental indicator. Likewise, logistics and transport are an important environmental issue for the Group on account of their greenhouse gas emissions.

Energy consumption and related CO_2 emissions

For the 2006 reporting scope, the breakdown of the indicators considered for energy consumption is as follows:

Energy	Conforama	Fnac	CFAO	YSL Beauté	Redcats
Electricity consumption					
As % of revenue	100%	100%	100%		100%
As % of surface area	100%	100%	100%	100%	100%
Natural gas consumption					
As % of revenue	100%	85%	100%		100%
As % of surface area	100%	70%	100%	100%	100%
Fuel oil consumption					
As % of revenue	100%	97%	100%		100%
As % of surface area	100%	98%	100%	100%	100%
Steam consumption					
As % of revenue	100%	100%	100%		100%
As % of surface area	100%	100%	100%	100%	100%

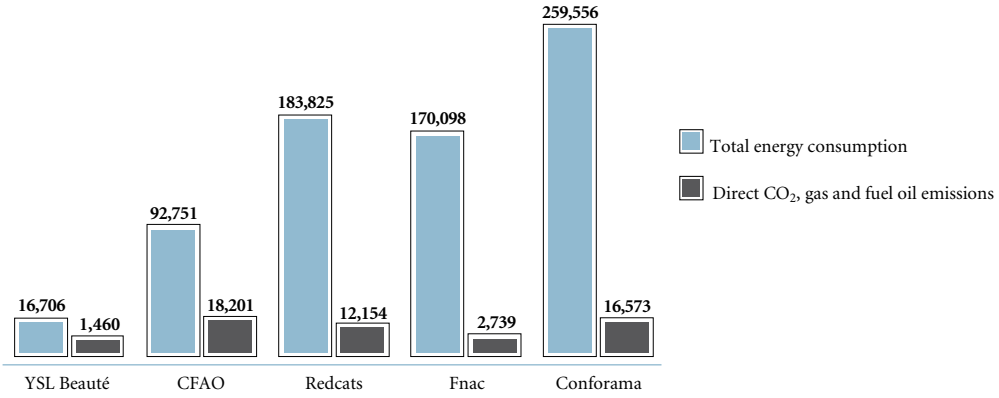
A stabilised energy flow breakdown

For the reporting scope, the PPR Group's total energy consumption in 2006 was 722,936 MWh, i.e. a direct calculated emission of 51,127 tonnes of CO_2 equivalent relating to the Group's fuel oil and natural gas consumption.

The breakdown of PPR's energy consumption in 2006 is as follows:

- 67% electricity (484 GWh);
- 19% natural gas (138 GWh);
- 12% fuel oil (84 GWh);
- 2% steam (17 GWh).

ENERGY CONSUMPTION IN MWh AND RELATED CO_2 EMISSIONS IN 2006 (in MWh and tones)



As 67% of energy consumption derived from electricity, the corresponding CO_2 emissions were reduced.

GROUP ENERGY CONSUMPTION IN MWH

	YSL Beauté	CFAO	Redcats	Fnac	Conforama	
Electricity consumption	9,452	27,151	108,843	157,937	180,760	484,143
Natural gas consumption	7,143	2,087	52,283	8,294	68,625	138,432
Fuel oil consumption	111	63,513	6,062	3,859	10,171	83,716
Steam consumption (heat network)			16,637	8		16,645
Total energy consumption	**16,706**	**92,751**	**183,825**	**170,098**	**259,556**	**722,936**
Direct CO_2, gas and fuel oil emissions	**1,460**	**18,201**	**12,154**	**2,739**	**16,573**	**51,127**

A stable consumption within the Group with companies aiming at energy efficiency

The energy consumption trends within the Group have complex explanations due to the changes in reporting scope. With 91,514 MWh and 10,730 MWh of energy consumed in 2005 respectively, Printemps and the YSL Beauté Bernay plant do not fall within the 2006 reporting scope anymore. However, it should be noted that the Group's companies have again this year initiated measures aiming to reduce their energy consumption.

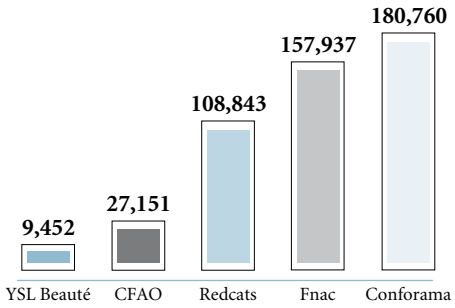
Electricity remains the primary energy flow consumed by PPR and is mainly used for lighting selling areas. Out of the 484,143 MWh of electricity consumed by the Group in 2006, 37% was consumed by Conforama, followed by Fnac with 33%. It should be noted that 15% of the electricity consumed by YSL Beauté plant in Lassigny come from renewable sources.

To reduce its electricity consumption and therefore its environmental impact, Conforama tested a mechanism in 2006 in its Béziers and Torcy stores designed to replace the base lighting which, in view of the results, will be extended in 2007.

Traditionally equipped with around 240 75W halogen base lamps (for a surface area of 3,800 m^2), both stores tested 75W and 35W ceramic burner lamps. The tests demonstrated that the burner lamps ensured better lighting and a better depiction of colours; the number of lamps could therefore be divided by three and the power of the lamps used reduced; the life of the lamps would therefore increase from 2,000 hours to 7,500 hours and this would result in savings of €1,800/year.

Validated by Conforama's Executive Committee, the project will be extended in 2007 to the remaining stores: all the stores that are to be renovated in 2007 (between 10 and 15) will be equipped with these new lamps; and the measure will also be extended to the Conforama stores in Portugal.

ELECTRICITY CONSUMPTION OF COMPANIES IN 2006 (in MWh)



The Group's second major energy flow is natural gas. For the 2006 reporting scope, PPR consumed 138,432 MWh, mainly in order to heat stores and warehouses. With 50% and 38%, Redcats and Conforama are the largest consumers of natural gas. Nevertheless, the increase in their natural gas consumption is mainly due to the replacement, in several Redcats subsidiaries and Conforama stores, of fuel oil by natural gas in order to reduce their environmental impact by reducing their greenhouse gas emissions.

In addition, CFAO is the largest fuel oil consumer with nearly 63,513 GWh in 2006, representing more than three quarters of the Group's consumption, due to the company's brewing activity in the Congo. Due to its fuel oil consumption, CFAO is the Group's largest contributor to direct CO_2 emissions with 18,201 tonnes.

Transport and related CO_2 emissions

The Group's transport flows develop steadily and reflect PPR's growth. The Group's position on new markets, the increase in suppliers in terms of numbers and geographical areas and the development of new technologies involve the opening of new stores or development of new business segments such as e-commerce. Accordingly, the companies require logistics scenarios to be extended and reorganised.

Nevertheless, the Group's companies are aware of the impact of their logistics systems on the environment and have set up measures in order to optimise their transport flows like Conforama in Poland by optimising truck loads. YSL Beauté has set up a logistics optimisation system enabling the reduction in the number of products transported by combining the various orders of the same customer in one shipment. This initiative will be continued in 2007 by also combining, in the same package, all of the different brand products that are intended for the same customer. Surcouf and Fnac are also seeking to improve their logistics system (optimised shuttle turnover and truck loading) in order to reduce fuel consumption and greenhouse gas emissions.

However, each company has its own logistics and hence transport flow data is extremely varied. The specific logistics scenarios for each company presented in this document partly show their logistics organisation. The transport flow data shown in this document only corresponds to the transport controlled and paid for by the companies:

- the routes of group fleets among the various entities;
- the store supply flow from the warehouses; and/or
- delivery to customers.

For some companies, the shipments made by suppliers directly and the transport of employees and customers were excluded because of the difficulty in collecting outside data on transport for which PPR's ability to act is reduced.

It must be noted that due to the different reporting scopes, a comparison between companies of the results presented in this document is not relevant. By way of example, the data collected by Conforama abroad only takes into account the flows with Poland and Italy but Redcats data includes their entire scope of business with the exception of Asia.

To provide greater reporting clarity, transport was divided into two categories when the data was collected:

- transport of goods between the various business units or suppliers of the companies, known as "B to B" transport;
- transport flows to customers, known as "B to C" transport.

For a better comparability of the volumes transported by the companies, the rail, maritime and air transport flows are shown in tonnes-kilometres. This transport unit corresponds to the sum of the distance covered multiplied by the tonnage transported for each type of transport. The average weight of the containers transported was estimated at 12 t per 20-foot container, i.e. an average load factor of around 0.5 t per m^3 transported.

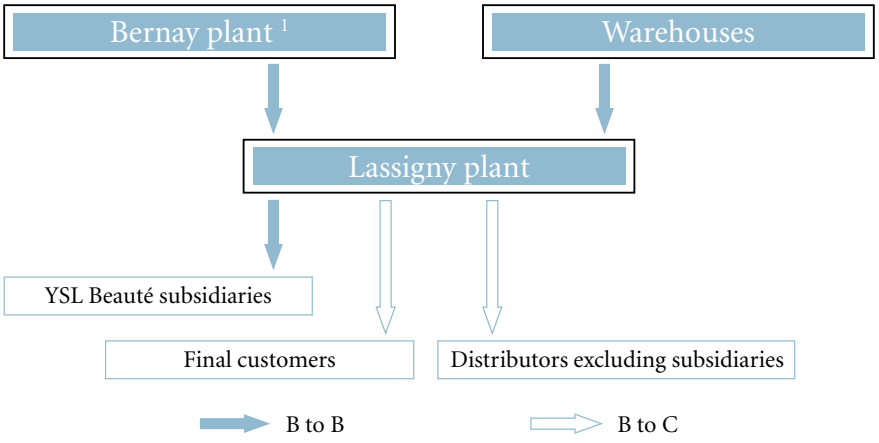
Company transport flow data

YSL Beauté

Transport reporting takes into account the transport flow data concerning the Lassigny plant:

- upstream ("B to B"): product flows are transported from the companies warehouses and the Bernay plant (sold in July 2006 and therefore considered in 2006 as a Group supplier); and
- downstream: the plant supplies its subsidiaries ("B to B") and the various end distributors and customers ("B to C").

YSL BEAUTÉ LOGISTICS SCENARIO: EXAMPLE OF FRANCE



[1] Disposal of the Bernay site in July 2006.

For long distance and important quantity in "B to B" exports and "B to C" transport, YSL Beauté primarily uses shipping. The company also uses trucks in France and Europe. In 2006, road transport consumed 171,410 litres of fuel, representing 923,143 kilometres covered (an average consumption of 19 litres for 100 kilometres covered).

Whether it concerns "B to B" or "B to C" transport, YSL Beauté mainly uses air freight (especially for the smallest quantities to enable rapid delivery) and shipping i.e. a direct CO_2 emission of 1,080 and 7,569 tonnes respectively for the 2006 reporting scope. At the same time, the company uses road freight particularly for the delivery of goods to its customers. With a total consumption of 171,410 litres of fuel and 923,143 kilometres covered (an average consumption of 19 litres for 100 kilometres covered), YSL Beauté emitted 455 tonnes of CO_2 in 2006.

YSL BEAUTÉ "B TO B" TRANSPORT

B to B transport	Road freight	Shipping	Air freight	Rail freight
Freight in km	273,143	3,600,000	3,000,000	120,000
Freight in litres of fuel consumed				
Freight in number of containers		363		95
Freight in tonnes			408	
Freight in number of trips		330	390	80
Freight converted in t.km		47,520,000	3,138,462	1,710,000
CO_2 emissions in tonnes of CO_2	110	855	2,919	21

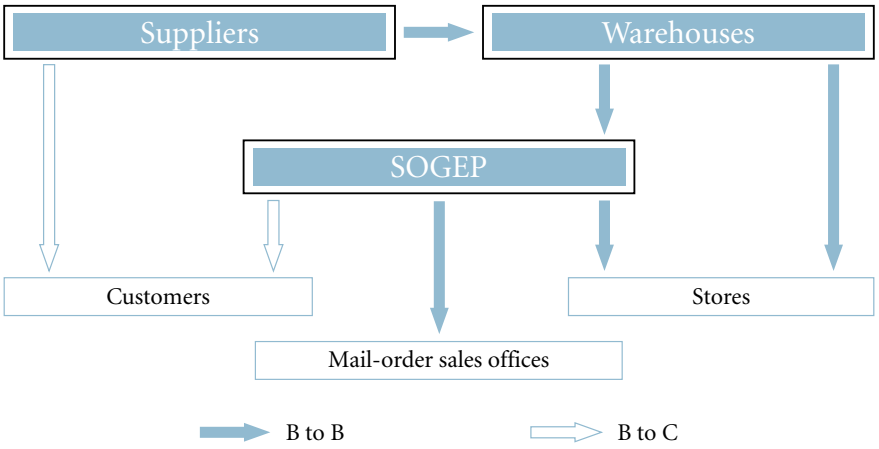
YSL BEAUTÉ "B TO C" TRANSPORT

B to C transport	Road freight	Shipping	Air freight
Freight in km	650,000		
Freight in litres of fuel consumed	130,000		
Total tonnage (t) x total distance (d)		10,000,000,000	6,000,000,000
Freight in number of trips		800	1,200
Freight converted into t.km		12,500,000	5,000,000
CO_2 emissions in tonnes of CO_2	345	225	4,650

Redcats

Redcats represents a large number of complex transport flows. The suppliers supply the warehouses and end customer directly. In addition, the warehouses supply customers via the 27 SOGEP agencies (the Redcats logistics structure), and the company's stores.

REDCATS LOGISTICS SCENARIO: EXAMPLE OF FRANCE



Due to its logistics organisation, Redcats primarily uses trucking but also rail and air freight and shipping for its "B to B" transport.

To transport the products to its customers, "B to C" transport, the company only uses trucks. For a scope equivalent to 90% of its total revenue and 94% of the total surface area of its premises, the company consumed 6,075,499 litres of fuel in "B to C" transport, representing 29,670,899 kilometres covered (an average consumption of 20 litres for 100 kilometres covered). The CO_2 emissions relating to road transport total 19,097 tonnes of CO_2, including 16,100 tonnes of CO_2 from "B to C" transport.

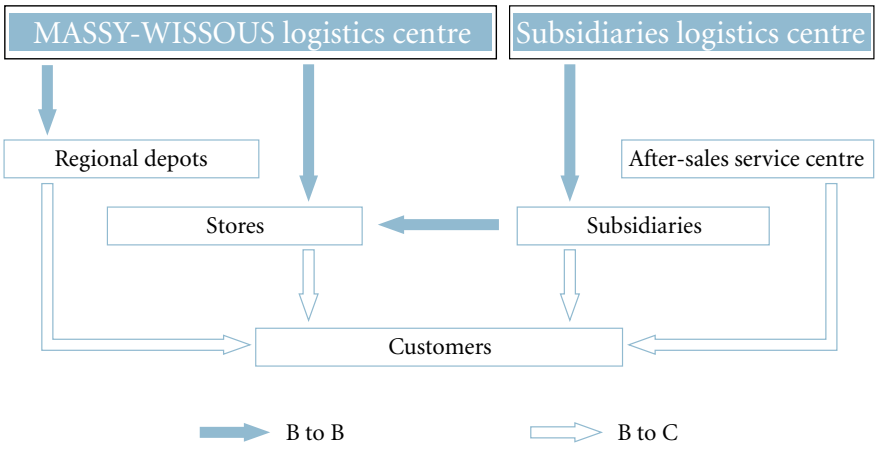
Aware of the importance of transport for its activities, Redcats showed a real desire to optimise its transport flows in order to reduce its environmental impact. The STERE project set up in order to regroup the preparation of bulky orders for its Vertbaudet, La maison de Valérie, and la Redoute brands on two platforms instead of five also reduced the road distances covered between the various logistics platforms. The La Maison de Valérie items prepared in Blois in the heart of France were transported daily to Viry-Chatillon in the Paris region (176 kilometres) and subsequently sent by truck to the 27 SOGEP agencies in France for delivery to customers. The Viry-Chatillon platform will be closed in March 2007 and transferred to Blois where a new platform will be built thus reducing CO_2 emissions by 7 trucks per day.

REDCATS "B TO B" TRANSPORT

B to B transport	Road freight	Shipping	Air freight	Rail freight
Freight in km	2,739,660	12,389,096	3,898,922	3,335
Freight in litres of fuel consumed	1,130,892			
Freight in number of containers		22,187		3,668
Freight in tonnes			16,422	
Freight converted in t.km		4,654,472,569	148,497,664	12,231,169
CO_2 emissions in tonnes of CO_2	2,997	83,781	138,103	147

Fnac

FNAC LOGISTICS SCENARIO: EXAMPLE OF FRANCE

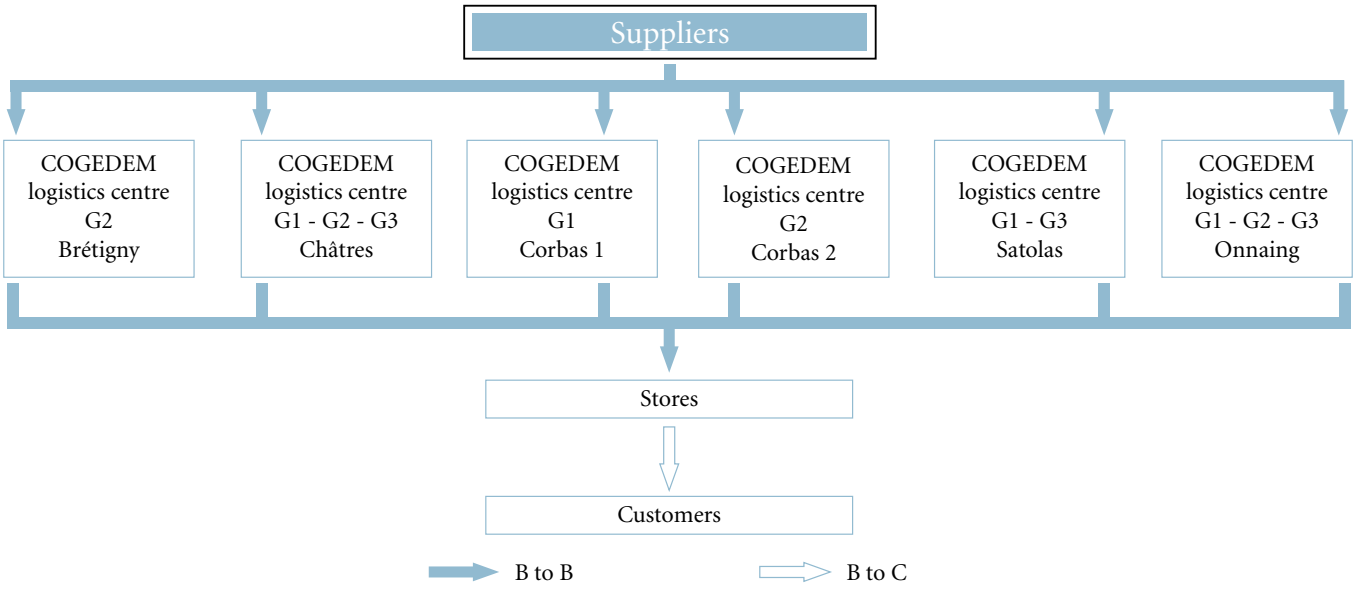


In France, Fnac ensures numerous transport flows, primarily by road. The suppliers supply the company's subsidiaries and the logistics centre in Massy-Wissous. This centre is the departure point for Fnac's largest transport flows since it supplies the regional warehouses, the stores, customers, subsidiaries, and after-sales service centre. Fnac consumed a total of 3,054,717 litres of fuel in 2006, representing 13,462,792 kilometres (an average consumption of 23 litres for 100 kilometres). This freight resulted in total CO_2 emissions in 2006 of 8,095 tonnes of CO_2.

Conforama

Conforama's transport flows are routed through the company's logistics centres and its various stores:

CONFORAMA LOGISTICS SCENARIO: EXAMPLE OF FRANCE



For its "B to B" transport, Conforama mainly uses road freight with 32,050,267 kilometres covered and 10,825,415 litres of fuel consumed, resulting in the emission of 28,687 tonnes of CO_2. It should be noted that in Italy and Poland Conforama uses shipping and rail freight.

For "B to C" transport, Conforama consumed 7,345,512 litres of fuel in 2006, which corresponds to 23,367,704 km covered (for an average consumption of 14 litres per 100 kilometres). The distances covered

to transport products to customers resulted in the emission of an estimated 19,466 tonnes of CO_2.

It should be noted that the company, in its approach to optimise its logistics scenario, set up a logistics platform, the Distripôle Paris Val Bréon, in France incorporating environmental criteria such as the provision of a rail service or the inclusion of land use coefficients.

In its search for a location east of the Paris region to serve its stores in the Paris region and the east of France, Conforama wished to meet its environmental and social commitments (stable employment region). The proximity of the Seine and the river ports of Gennevilliers and Bonneuil sur Marne will enable Conforama to continue developing its river transport, which results in less CO_2 emissions, for the containers arriving from the port of Le Havre. Conforama already uses river transport for its logistics platform in Lyon. In 4 years, this logistics platform has prevented 12,500 trucks from driving through the Rhône valley.

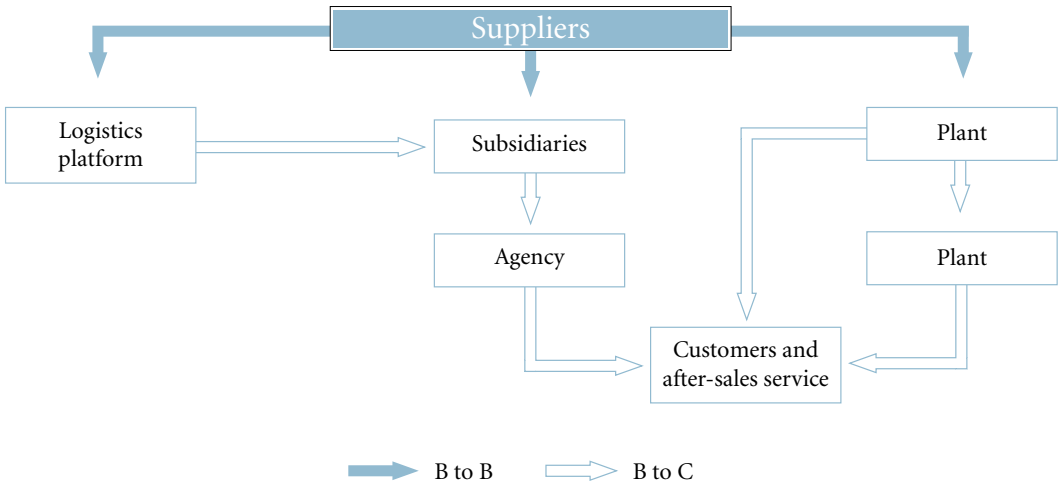
CONFORAMA "B TO B" TRANSPORT

B to B transport	Road freight	Shipping	Rail freight
Freight in km	32,050,267	290,000	430,000
Freight in litres of fuel consumed	10,825,415		
Freight in number of containers		4,238	900
Freight in number of trips		17,800	550
Freight converted in t.km		828,553	8,443,636
CO_2 emissions in tonnes of CO_2	28,687	15	101

CFAO

For 2006, only "B to B" transport flows were taken into account.

CFAO LOGISTICS SCENARIO



Regarding "B to B" transport, CFAO primarily uses shipping and air freight to supply products to the various entities, resulting in the emission of 16,197 tonnes and 5,586 tonnes of CO_2 for 2006 respectively.

CFAO "B TO B" TRANSPORT

B to B transport	Road freight	Shipping	Air freight	Rail freight
Freight in km	15,264,343			
Freight in litres of fuel consumed	839,858			
Freight converted into t.km		899,858,145	6,006,567	8,756,856
CO_2 emissions in tonnes of CO_2	2,226	16,197	5,586	105

The imports giving rise to most transport CO_2 emissions

Based on the above flow data, transport in 2006 resulted in the emission of 330,555 tonnes of CO_2 for the Group(1).

CO_2 EMISSIONS IN TONNES BY COMPANY AND TYPE OF TRANSPORT

	YSL Beauté 2006 scope	CFAO 2006 scope	Redcats 2006 scope	Fnac 2006 scope	Conforama 2006 scope	Total 2006 scope
B to B road freight	110	2,226	2,997	7,334	28,687	41,354
B to B shipping	855	16,197	83,781		15	100,848
B to B air freight	2,919	5,586	138,103			146,608
B to B rail freight	21	105	147		101	374
Total B to B	**3,905**	**24,114**	**225,028**	**7,334**	**28,803**	**289,184**
B to C road freight	345		16,100	761	19,466	36,672
B to C shipping	225					225
B to C air freight	4,650					4,650
Total B to C	**5,220**	**0**	**16,100**	**761**	**19,466**	**41,547**
Total CO_2	**9,125**	**24,114**	**241,128**	**8,095**	**48,269**	**330,731**

Regarding "B to B" transport, Redcats was the main contributor of CO_2 emissions in 2006 with 225,027 tonnes, particularly relating to air transport and shipping, or 68% of total transport CO_2 emissions. This was due to the fact that Redcats is the only company which took into account virtually all its flows.

Regarding "B to C" transport, Redcats and Conforama, on account of their customer home delivery service, are the main contributors of CO_2 emissions, with respectively 39% (16,100 t) and 47% (19,466 t) of road transport CO_2 emissions.

OPTIMISATION OF RAW MATERIALS

Paper, a major issue for PPR

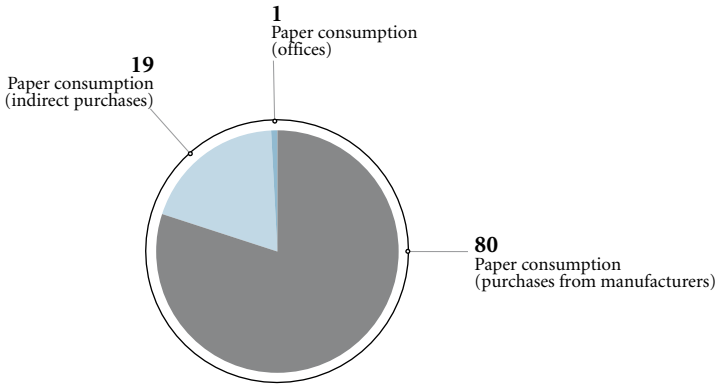
For the 2006 reporting scope, the breakdown of paper indicators is as follows:

Paper	Conforama	Fnac	CFAO	YSL Beauté	Redcats
As % of revenue	100%	100%	100%		100%
As % of surface area	100%	99%	100%	100%	100%

Due to the Group's retail and home shopping activities, paper consumption is a major concern for PPR as it directly impacts the environment. With 266,000 tonnes in 2006, the quantity of paper consumed by the Group is mainly intended for the production of catalogues or internal publications. In order to better manage its consumption, PPR has established a centralised management of paper purchases, the aims of which are to reduce consumption and improve the quality and traceability of paper consumed.

(1) For information: total CO_2 emissions from road freight and other types of transport amounted to 136 millions tonnes in 2005 (Source: "Air Emissions in French Metropolitan Regions"), a study performed by the Inter-professional Technical Studies Center for Atmospheric Pollution; updated in April 2006).

BREAKDOWN OF CONSUMPTION BY TYPE OF PURCHASE[1] IN 2006 (as %)



[1] Direct purchases of paper: paper purchased directly from manufacturers for business purposes. Ex. catalogues, leaflets, magazines, brochures and other.
Indirect purchases of paper: paper purchased from a third parties (printer, converter or agency). Ex. posters, mailings, point-of-purchase advertising, calendars and others.

Reducing the Group's paper consumption

For the 2006 reporting scope, the companies again showed their desire to reduce their paper consumption. Measures were implemented, for example in order to reduce the weight of catalogues or restrict their printing and distribution. Brylane Home, Redcats US brand, reduced the weight of its catalogues from 48 g/m^2 to 45 g/m^2, a 6% decrease compared to the previous year. In 2006, this initiative enabled the brand to save 180 tonnes of paper. In addition to reducing the weight of its catalogues, Fnac in Spain, Switzerland and Belgium and its subsidiaries reduced the number of catalogues published (by 30% at Surcouf), optimised the distribution of prospectuses and catalogues by refining its targets or replaced paper invoices for on-line purchases with electronic invoices.

On a comparable basis in terms of reporting scope, the companies reduced their paper consumption. With 218,542 tonnes of paper consumed in 2006, or 82% of 2006 total consumption, Redcats reduced its consumption by just under 5% despite the 15% rise in the paper consumption of its Scandinavian brands due to an intensified sales strategy.

On a comparable basis in terms of reporting scope (Fnac France and Fnac Éveil & Jeux, which had provided their data in 2005), Fnac also reduced its paper consumption from 6,740 to 6,478 tonnes, a decrease of 4%. For the 2006 reporting scope, with 3% of the total consumption, Fnac devoted 65% of its consumption to the publication of its magazines, technical guides, brochures and year-end guides. Contrary to Redcats, for which foreign subsidiaries represented 51% of its consumption, the Fnac subsidiaries in Italy, Belgium, Spain and Brazil only represented 5% of the company's consumption in 2006.

Aiming for a higher quality of consumed paper

The centralised paper management system set up within the Group is used to select purchasing channels for paper extracted from forests certified under the *Forest Stewardship Council* (FSC) or the *Pan European Forest Certification* (PEFC). PPR's aim is that, by the end of 2007, 70% of the paper purchased directly from manufacturers will come from certified forests. In 2006, these purchases reached 68.8% in Europe and 59.3% in the United States (particularly Redcats US brands), or 65% on average for the Group worldwide. The 35% remaining paper, although not certified, came from reliable suppliers: all the Group's suppliers require their wood or pulp suppliers to sign a charter to comply with local laws. Hence, 78% of the Group's supplies have a guaranteed traceability from the wood to the paper. In addition, 100% of PPR's suppliers have ISO 14001 certified production sites and 76% have obtained the European EMAS certification.

The quantity of directly purchased paper used for sales catalogues and documents extracted from certified forests totalled 140,000 tonnes in 2006.

Besides purchases of paper from certified forests, Fnac and Conforama consumed almost 11,500 tonnes of recycled fibres. The use of recycled fibres is more difficult for Redcats as there is for the moment no lightweight recycled paper for photogravure printing.

PAPER CONSUMPTION IN 2006 (IN TONNES)

	YSL Beauté 2006 scope	Redcats 2006 scope	Fnac 2006 scope	Conforama 2006 scope	CFAO 2006 scope	Total 2006 scope
Paper consumption (direct purchases from manufacturers)	0	170,301	5,529	37,699	0	213,529
Paper consumption (indirect purchases)	0	45,756	2,405	953	273	49,387
Paper consumption (offices)	65	2,486	523	296	196	3,566
Total consumption	**65**	**218,543**	**8,457**	**38,948**	**469**	**266,482**

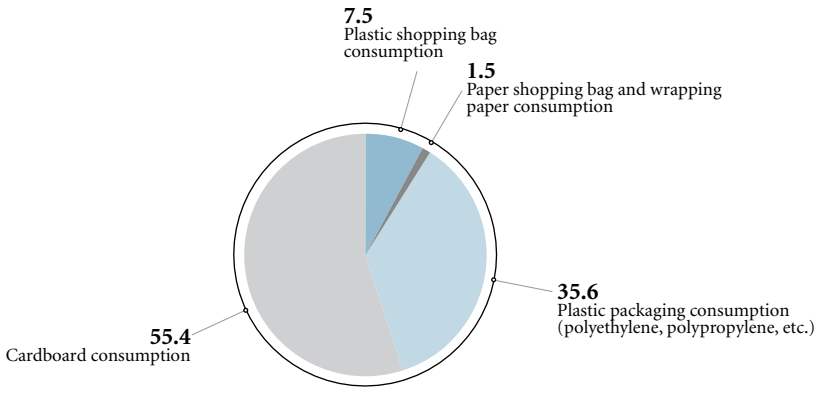
Packaging, the guarantee of product protection

The Group's companies use significant volumes of cardboard and plastics to protect and transport the products sold in their stores or mail-ordered.

For the 2006 reporting scope, the breakdown of packaging consumption indicators is as follows:

Packaging	Conforama	Fnac	CFAO	YSL Beauté	Redcats
Bags+ plastic bags packaging					
as % of revenue	100%	100%	100%		100%
as % of surface area	100%	99%	76%	100%	100%
Cardboard packaging					
as % of revenue	100%	100%	100%		100%
as % of surface area	100%	99%	100%	100%	100%

BREAKDOWN OF PACKAGING CONSUMPTION BY TYPE OF PACKAGING IN 2006 (as %)



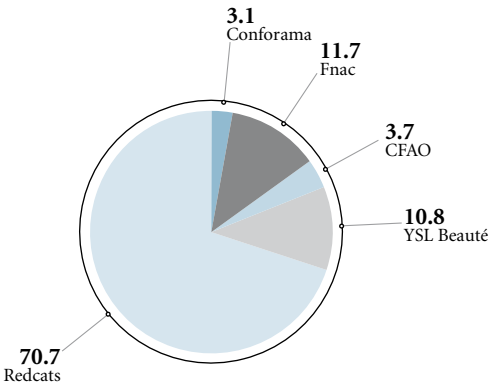
Total: 17,589 tonnes

Increased recycling of plastic and cardboard packaging

For the 2006 reporting scope, PPR consumed 6,268 tonnes of plastic packaging (excluding shopping bags) and 9,737 tonnes of cardboard. This packaging is used to protect and transport the products distributed to stores or delivered to homes particularly by Redcats. With 66% of total packaging consumption in 2006, Redcats is the largest consumer of plastic (polyethylene, polypropylene, etc.) (81% of total consumption) and cardboard (64%) packaging. However, Fnac consumes the most bags (plastic and paper) and wrapping paper with 72% of the total consumption in 2006.

This year again, the Group's companies made efforts to reduce their packaging consumption (plastic and cardboard). The following measures were implemented: shared dispatching and elimination of overpackaging at Surcouf, Fnac's subsidiary; the use of suppliers' cardboard in about twenty CFAO entities; or the grouping of catalogues in a single dispatch to La Redoute and replacement of disposable cardboard crates with reusable steel crates to reduce the quantity of large cardboard packaging used for transporting goods between Redcats warehouses. Likewise, in 2007, Fnac will use reusable plastic boxes ('Dispobox') for transporting products and will use recycled materials to reinforce them. This initiative aims to replace the system set up in 2006, in accordance with La Poste. Although used for environmental reasons, the lighter bubble wrap packaging for after-sales service transport was insufficient to protect the products. The use of Dispobox will reduce the company's waste production.

BREAKDOWN OF PACKAGING CONSUMPTION (EXCLUDING SHOPPING BAGS) IN 2006 BY COMPANY (as %)



Total: 16,006 tonnes

Bags, an environmental issue giving rise to innovative measures within the Group

Considering the companies' sales activity, the shopping bag is a real issue for the Group. At the root of significant environmental impacts such as waste production, visual pollution, oil consumption (for plastic bags), the shopping bag is very visible for the customers of PPR's companies and therefore highly symbolic.

The Group is getting ready for the coming into force of new legislation and has considered alternative solutions to non-biodegradable disposable shopping bags. The diverse positioning of the companies and their customers means that a single solution is not feasible. However, several initiatives have now been set up to enable PPR and its companies to identify and deploy the most adapted alternatives and change their customers' consumption habits, particularly at city centre stores.

For almost a year in Limoges, and since April 2006 in all stores in Belgium, Fnac has been experimenting with biodegradable bags. With 53 million bags distributed in France and 71% of the Group's total plastic shopping bag consumption in 2006, Fnac hopes to reduce its environmental impact while raising the awareness of its customers.

In Belgium and Limoges, the "small model" bags made of recycled paper and printed with water-based ink are distributed free of charge; the "large format" bags made of bioplastic (NFEN 13432 standard) require payment of a deposit but may be exchanged free of charge. As part of its approach to reduce its environmental impact, the company focused on the product's lifecycle: manufactured using a recyclable vegetable-based material (corn starch) and fully biodegradable, they are produced by a European supplier in order to limit CO_2 emissions arising from transport.

In the cities or countries where the removal of plastic bags has been decided by the public authorities, PPR has been fully committed to adopting and advocating this approach. Conforama, with 17% of the Group's total plastic shopping bag consumption in 2006, has in the past few years replaced plastic bags with reusable saddle bags in Switzerland and certain stores in France. The stores in Ajaccio, Albertville, Aubagne, Bastia, Besançon, Dijon and Rennes signed commitment charters for the elimination of plastic bags at the request of the local authorities. Conforama analysed the results obtained in order to find out if its choice is the most appropriate given its positioning and that of its customers.

It should be noted that, although Redcats is less involved in the distribution of shopping bags due to its numerous home shopping activities (12% of total consumption in 2006), the company is reviewing its dispatch bags. Following the example of the Group's other companies, Redcats has shown great concern with regard to its environmental impact and included product lifecycle analysis in its review. In the United States, Redcats designed resealable home shopping delivery bags that can therefore be reused upon return of the products. Out of the 15 million bags designed for product returns to Redcats, 3 million were sent back in 2006. When designing these new bags, the size was reduced and recyclable materials used: 53% of used bags (in terms of weight) are now manufactured with 10% recyclable materials.

	Conforama 2006 scope	Fnac 2006 scope	CFAO 2006 scope	YSL Beauté 2006 scope	Redcats 2006 scope	Total 2006 scope
Plastic shopping bags consumption	225	942	0	0	160	1,327
Paper shopping bags and gift wrapping consumption	32	195	0	0	29	256
Total shopping bags consumption	**257**	**1 137**	**0**	**0**	**189**	**1,583**
Plastic packaging consumption (polyethylene, polypropylene, etc.)	269	195	563	166	5,076	6,268
Cardboard consumption	221	1,676	36	1,568	6,236	9,737
Total packaging consumption	**747**	**3,008**	**599**	**1,734**	**11,501**	**17,589**

Industrial raw materials, a step towards optimising consumption

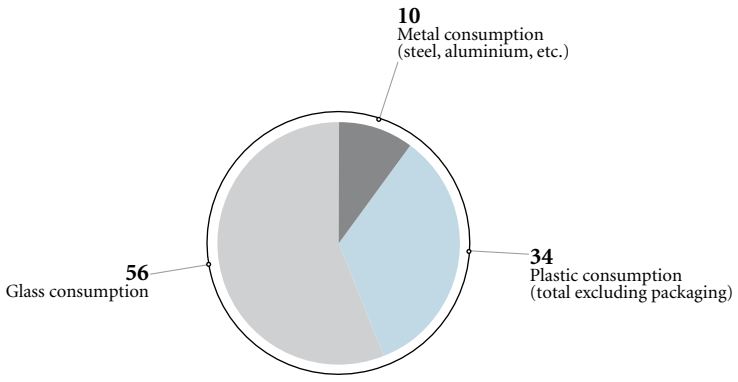
For the 2006 reporting scope, industrial raw material consumption is relatively low: only two companies, YSL Beauté and CFAO consume wood, metals, plastics or glass totalling 7,410 tonnes due to their production sites.

YSL Beauté's cosmetics and fragrance activities result in the consumption of plastic and metals, particularly for packaging its products, and glass for bottle-making. In 2006, YSL Beauté, at its industrial site at Lassigny, in France consumed 30% of a total of 2,552 tonnes of plastic and 49% of the metals consumed in 2006. Glass consumption at the Lassigny site in 2006 totalled around 2,000 tonnes, up 11% compared to 2005, due to an increase in production volumes.

With 51% of the total consumption in 2006, CFAO's glass consumption increased 2.5 times compared to 2005 due to an extension of the packaging stock, and the replacement of the Guinness bottle stock in the CFAO Industries & Trading BDC entity.

Furthermore, the company consumed 15,214 m^3 of gas as a raw material in connection with its industrial plastics and two wheel vehicle assembly activities based in Cameroon and Morocco respectively.

BREAKDOWN OF RAW MATERIAL CONSUMPTION IN 2006 (as %)



Total: 7,400 tonnes [1]

[1] Total except wood consumption (10 tonnes)

Water, a minor issue for PPR

For the 2006 reporting scope, the breakdown of water consumption indicators is as follows:

Water	Conforama	Fnac	CFAO	YSL Beauté	Redcats
as % of revenue	100%	83%	100%		100%
as % of surface area	100%	75%	99%	100%	100%

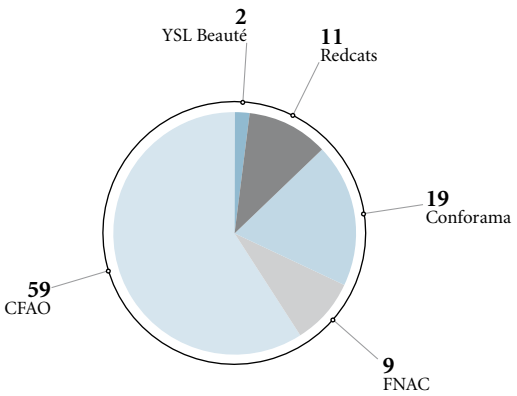
Although the Group's water consumption is mainly for sanitary purposes, particularly in stores, PPR, with 1.8 million m³ in 2006 (1), has shown a genuine concern for this vital natural resource. When the Group's activities require the use of water for industrial purposes such as cosmetics manufacturing for YSL Beauté or beer production for CFAO, PPR encourages its companies to implement measures designed to optimise water consumption.

Saving natural resources in YSL Beauté's industrial site production process in Lassigny, France is one of the priorities in connection with the ISO 14001 certification. Having divided its water consumption by 10 between 2003 and 2005 by using a closed loop set-up for cooling water, the Lassigny industrial site's consumption increased by slightly more than 10% in 2006 compared to 2005 due to a significant increase in its production. Nevertheless, the brand continued its water saving efforts, particularly by finalising the implementation of quantification and analysis tools such as water counters and a continuous monitoring system for municipal water consumption designed to detect leakage more easily. Using the collected data, water optimisation measures were developed to reach a ratio of less than 20 m³ of water used per tonne produced.

Following the example of YSL Beauté, CFAO with 90% of the total water consumption, also showed genuine concern for the reduction of its water consumption in Africa. The company set up a water recycling system so that water can be reused for cleaning customer cars. The car and workshop cleaning water then passes through a purifier, which increases water recovery and limits the network's water consumption units.

Finally, the average water consumption ratio per total surface area (2) occupied by the Group's companies decreased slightly from 0.58 m³/m² in 2005 (3) to 0.57 m³/m² in 2006.

BREAKDOWN OF WATER CONSUMPTION IN 2006 BY COMPANY (as %)



Total: 1,812,003 m³

(1) All surface areas: production, sale, warehouse and office surface areas.

(2) A more detailed comparison of consumptions cannot be made due to the changes in scope compared to the previous year.

(3) For the 2006 reporting scope. In addition, due to the changes in reporting scope since 2005 and the improvement in data collection reliability in 2006, these results may be difficult to compare with those of 2005.

WASTE MANAGEMENT

The nature of the waste produced by PPR relates primarily to its retail business. Product repackaging, the use of palettes for transport, operation of printing works for the production of catalogues and sales media are the activities which mostly generate non-hazardous waste (1). PPR mainly generates packaging waste and very small quantities of hazardous waste (2).

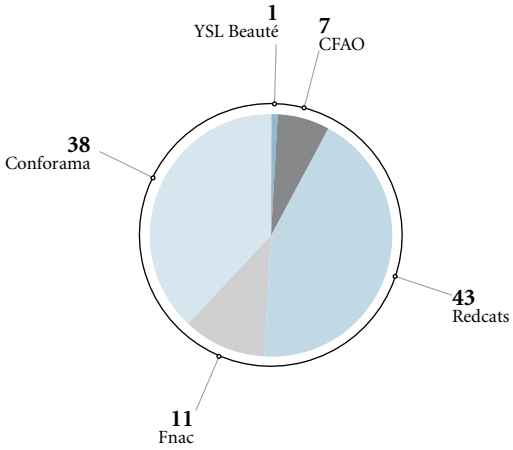
The entities within the 2006 reporting scope generated a total of 78,466 tonnes of waste. In proportion to the total surface area of the entities within this same scope (3,290,293 m²), this represents an average annual waste production (3) of 23.8 kg/m².

Non-hazardous waste, mostly generated within the Group

For the 2006 reporting scope, the breakdown of waste production indicators is as follows:

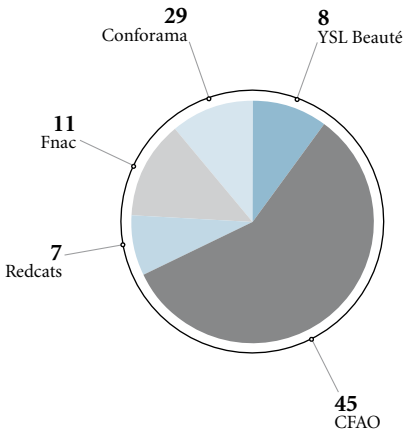
Waste	Conforama	Fnac	CFAO	YSL Beauté	Redcats
Non-hazardous waste					
as % of revenue	100%	95%	100%		100%
as % of surface area	100%	93%	99%	100%	100%
Hazardous waste					
as % of revenue	26%	95%	100%		100%
as % of surface area	37%	93%	99%	100%	100%

BREAKDOWN OF NON-HAZARDOUS WASTE PRODUCTION IN 2006 BY COMPANY (as %)



Total: 72,803 tonnes

BREAKDOWN OF HAZARDOUS WASTE PRODUCTION IN 2006 BY COMPANY (as %)



Total: 7,073 tonnes

(1) Non-hazardous waste: formerly called non-hazardous industrial waste. This mainly includes cardboard, paper, scrap metal, plastic, ink cartridges, glass and plaster.
(2) Hazardous waste: includes neons, batteries, waste electrical and electronic equipment, used oils, photo laboratory waste, paints, aerosols, tyres and soiled packaging.
(3) It should be noted that the average annual production may vary considering the diverse nature of the sites (head offices, stores, warehouses, industrial sites).

WASTE PRODUCTION IN 2006 (IN TONNES)

	YSL Beauté 2006 scope	CFAO 2006 scope	Redcats 2006 scope	FNAC 2006 scope	Conforama 2006 scope	PPR Group 2006 scope
Non-hazardous industrial waste	1,079	4,959	31,102	8,297	27,366	72,803
Hazardous industrial waste	561	3,226	478	748	2,060	7,073
Total waste production	**1,640**	**8,185**	**31,580**	**9,045**	**29,426**	**79,876**

Only CFAO and YSL Beauté produce waste specifically related to an industrial activity. YSL Beauté's Lassigny site produces cardboard, plastic, paper, wood, metal, metallic cask or empty plastic waste. All this waste passes through a material recovery facility.

This site also generates hazardous waste: soiled rags, laboratory waste, batteries and cells, aerosols, WEEE, sewage system cleaning residue, used oils, ethyl alcohol and production residue. All this waste is subject to an energy recovery process, with the exception of batteries and cells, WEEE, used oil and ethyl alcohol which are subject to a material recovery process.

For the 2006 reporting scope, the Group's companies generated 72,803 tonnes of non-hazardous waste or 92.8% of total waste. In proportion to the total surface area of the entities within this same scope (3,290,293 m²), this is equivalent to an average annual waste production [(1)] of 22 kg/m². Redcats, with 43% of total non-hazardous waste production in 2006, has a higher waste production per surface area than the overall average due to the DIAM site activity (Redcats printing works) which produces 55 kg/m² (1,311 tonnes in total), but which recovers 77% of this paper and cardboard waste by sending them for recycling.

NON-HAZARDOUS WASTE PRODUCTION AND RECOVERY IN 2006 (IN TONNES)

	YSL Beauté 2006 scope	CFAO 2006 scope	Redcats 2006 scope	FNAC 2006 scope	Conforama 2006 scope	Total 2006 scope
Non-hazardous waste	**1,079**	**4,959**	**31,102**	**8,297**	**27,366**	**72,803**
Of which paper and cardboard sent to recovery systems	594	3,798	17,596	2,063	2,777	26,828
Of which palettes sent to recovery systems	140	37	809	947	10	1,943
Of which ink cartridges sent to recycling and repackaging systems	0.2	0.1	1.0	4.2	0.7	6.2
Other recovery processes (tyres, metals, plastics, etc.)	140	22	64	138	158	522
Total recovery	**874.2**	**3,857.1**	**18,470**	**3,152.2**	**2,945.7**	**29,299.2**

The year 2006 marked by the improvement in waste collection and recovery

Reuse, recycling or recovery process improvements are the initiatives pursued or undertaken in 2006 within PPR. Although 92.8% of total waste within the 2006 reporting scope is non-hazardous, the companies showed their desire to reduce their environmental impact by recovering generated waste.

For the 2006 reporting scope, 91% of the 40% total recovered non-hazardous waste (more than 29,000 tonnes) were paper and cardboard. With 66% of the total recovery of this type of waste, i.e. 17,596 tonnes, it should be noted that Redcats also recycles the packaging cardboard of products imported from their suppliers, representing 140% of their consumption. This packaging cardboard represents more than three quarters of CFAO's non-hazardous waste, more than half of that of Redcats and YSL Beauté and a quarter of that of Fnac.

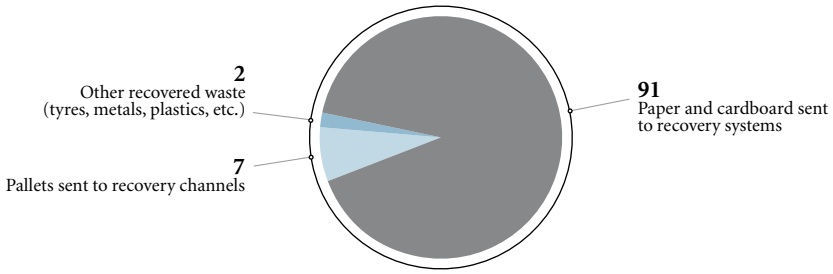
Although YSL Beauté only represents 2% of the cardboard recovered by the Group in 2006, the Lassigny site technical departments have since October 2006 worked to reduce packaging waste in connection with the automation of a fragrance packaging line. The measure consisted in replacing the cardboard items used for transporting and wedging components (bottles and headgear) with reusable thermoformed trays. This measure led to a 38 tonne or 6.4% reduction in cardboard waste out of the 594 tonnes produced in 2006 by the site's activity. The next step will be to extend this principle to other packaging lines.

In addition to the 4,959 tonnes of non-hazardous waste generated in 2006, of which 76.6% was recovered, CFAO generates daily around 2.5 tonnes of slop (solid residue from the beer manufacturing process) from the Pointe Noire brewery in the Congo. This residue is fully recovered at the manufacturing chain outlet by farmers, market gardeners and fish farmers, who come directly on site to recover the slop for future reuse. This recycling method is also used at CFAO's second Congolese site in Brazzaville.

Furthermore, on Fnac's initiative, Kadéos, which proposes giftcards available for sale in Group companies, entered into a partnership in 2006 with Fnac to recycle 3 million giftcards produced in 2005. Fnac's sustainable development department organises the return of the cards to its logistics site in Massy which then performs the recovery and recycling processes. After recycling, the used giftcards then become PVC pipes and electrical connection boxes.

(1) It should be noted that the average annual production may vary considering the diverse nature of the sites (head offices, stores, warehouses, industrial sites).

BREAKDOWN OF THE MAIN[1] WASTE RECOVERED IN 2006 (as %)



Total: 29,293 tonnes

[1] As the collection of ink cartridges was proportionally very small, it was not included in this pie chart.

Combining environmental protection with social equity, ink cartridge collection

Although cartridges only represent 0.2% (figure to be reviewed on account of Fnac and CFAO) of waste recovered within the 2006 reporting scope, they may represent a threat to the environment (soil pollution and noxious gas emissions during their incineration) due to their easily recyclable metal and plastic composition. The Group strongly encouraged the initiatives set up or pursued in order to recover this type of waste.

Since June 2005, Fnac has collected printer ink cartridges in all its stores in order to encourage recycling which, in environmental and economic terms, seems to be the most appropriate (see p. 85).

Likewise, CFAO has been recycling its used ink cartridges for two years with the Association missionnaire maranatha internationale (AMMI), which recovers CFAO's cartridges and toners in Sèvres, France, in order to support, promote or implement structures assisting populations with major sanitary, economic and social difficulties. In 2006, the installation of a local water fountain in Central Africa granting 3,000 persons access to running water and the repair of an IT installation and premises to enable 15 students to follow a diploma-based training course were financed.

Hazardous waste

Hazardous waste only represents around 7% of total waste for the 2006 reporting scope, i.e. a volume of 5,663 tonnes. 10% of this waste stems from YSL Beauté's industrial activities (laboratory solvent, aerosol, neon and production scrapping waste) and 58% from CFAO, including 80% from its DIMAC subsidiary in Morocco, a moped manufacturer and distributor. The differences in reporting scope compared to 2005 make it difficult to perform comparisons between the results of two years and due to the new legislation relating to waste electrical and electronic equipment such a comparison is no longer appropriate.

Since November 15, 2006, a new WEEE collection and recycling system was set up in France. Several eco-organisations were certified by the government authorities. A shareholder of Eco-Systèmes, one of these 4 certified eco-organisations, PPR has for several years prepared for the coming into force of this new legislation. When selling electrical or electronic equipment, the retailers must recover the old equipment on a 1 for 1 basis. Hence, Fnac, Redcats and Conforama, members of Eco-Systèmes, have since November 2006 performed a more exhaustive count of waste electrical and electronic equipment collected. In order to finance the system's operation, the retailers contribute to the eco-organisation which they support. This contribution, called the eco-contribution, is reflected identically in the final price and therefore borne by the final consumer. At the same time, the retailers must also inform their customers of the ban on throwing away WEEE with household waste, environmental and sanitary risks and the collection and recycling systems made available to them. For Fnac, this represents around 10,000 items for 200 suppliers which were impacted by the system's installation. More than 500 briefings were organised for 7,000 employees, directly or indirectly affected by WEEE.

HAZARDOUS WASTE PRODUCTION AND RECOVERY IN 2006 (IN TONNES)

	Gucci 2006 scope	CFAO 2006 scope	Redcats 2006 scope	FNAC 2006 scope	Conforama 2006 scope	Total 2006 scope
Hazardous waste	**561**	**3,226**	**478**	**748**	**2,060**	**7,073**
Of which batteries and cells sent to recycling systems	0.2	64	16	26	4	110.2
Of which WEEE sent to recovery systems	7	2	450	544	2,056	3,059
Of which neons sent to recovery systems	0.2	0.1	0.7	16.5	0,4	17.9
Total recovered waste	**7.4**	**66.1**	**467**	**587**	**2,064.4**	**3,187.1**

Due to their industrial activities, CFAO and YSL Beauté are more concerned by the production of hazardous waste. Hence, 64% of total hazardous waste stems from CFAO, of which 80% is produced by its DIMAC subsidiary in Morocco, and 11% is generated by YSL Beauté's plant in Lassigny and corresponds to laboratory solvent, aerosol, neon and production scrapping waste.

Finally, Fnac and Conforama also generate a significant portion of the Group's hazardous waste (13% and 29% respectively), however these quantities are low when compared to the surface area of the premises (around 1 kg per m^2), and they correspond to neons, batteries and WEEE.

Due to the installation of the WEEE recovery system, the quantity of hazardous waste from Redcats and Fnac totalled 1,000 WEEE for the 2006 reporting scope.

For the 2006 reporting scope, 45% or 2,262 tonnes of total hazardous waste were recovered. By way of example, CFAO in Kenya has a system designed to eliminate the used oil from filters.

23% of PPR Group's hazardous waste comprises waste electrical and electronic equipment, batteries, sent to recovery systems. In 2006, PPR recovered and developed more than 3,000 tonnes of WEEE.

Water discharges

Water discharges do not represent a major impact for the PPR Group's retail companies. Discharges of polluted water from photo laboratories are nevertheless an exception. For example, Fnac Montparnasse in Paris and 6 stores in Brazil have specific equipment in order to treat polluted water in their laboratory.

The Group's industrial activities set up processes to reduce discharges. Hence, the YSL Beauté site in Lassigny recovers during the manufacture of skin cream the products remaining at the end of production (pumping, recycling) to prevent them seeping into the wastewater network.

Likewise, the brewery that CFAO owns with Heineken in the Congo representing 60% of the company's water consumption has a wastewater treatment plan.

This plant inaugurated in Pointe Noire in December 2005 is designed to treat 1,440 m^3 per day or more than 500,000 m^3 per year, and required an investment of €3 million. The purposes of this plant are as follows:

- regulate the pH of the water discharged in the environment;
- limit the odours arising from the manufacturing process.

An equivalent plant should be set up in Brazzaville in 2007.

The PPR Group's retail activities do not present any major "industrial" risks for the environment. However, waste production, paper and packaging consumption or extensive goods transportation are issues with a genuine impact on the environment. PPR is therefore highly mobilised and organised to reduce its environmental impact to a maximum extent. In addition to the dedicated organisations in each company, environmental management is therefore highly structured in the Group's overall coordination and is based on 3 key drivers: management at head office level of the major issues concerning all companies, exchange of best practices between companies and the environmental reporting tool, deployed at all entities and used from year to year to increase the refined knowledge of the Group's environmental impacts and specify the remaining development paths.

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FOREWORD

IFRS 5 – Non-current assets held for sale and discontinued operations

In accordance with IFRS 5 – *Non-current assets held for sale and discontinued operations*, the Group has presented certain activities as "operations discontinued, sold or to be sold." The net income of these activities is presented under a separate income statement heading, "Discontinued operations", and restated in the cash flow statement and the income statement over all published periods.

The assets and liabilities arising from "operations sold or to be sold" are presented on separate lines in the Group's balance sheet and not restated for previous periods.

The assets and liabilities arising from "discontinued operations" are not presented on separate lines in the balance sheet.

Definition of "actual" and "comparable" revenue

The Group's actual revenue corresponds to reported revenue. Non-Group revenue is defined as the revenue from each company or brand, after elimination of inter-company sales.

The Group also uses the concept of "comparable" figures, which enables it to assess its organic growth. The concept of "comparable" revenue figures consists in restating 2005 revenue for the impact of changes in Group structure in 2005 or 2006 and translation differences relating to foreign subsidiaries' revenue in 2005.

For the Luxury Goods division, revenue from directly-operated store retail sales is recognised using the "Merchandise Calendar." For 2006, this comprises 53 weeks instead of 52. In the following comments, the revenue growth rates on a comparable basis are shown after cancellation of the impact of the additional week and excluding the impact of exchange rate fluctuations.

Definition of Group consolidated net indebtedness

The concept of net indebtedness used by the Group comprises gross indebtedness less net cash, as defined by French National Accounting Council recommendation 2004-R.02 of October 27, 2004. For fully consolidated consumer credit companies, the financing of customer loans is presented in borrowings. Group net indebtedness excludes the financing of customer loans by consumer credit businesses.

Definition of EBITDA

The Group uses EBITDA, the management line item, to monitor its operating performance. This financial indicator corresponds to recurring operating income and depreciation, amortisation and provisions for non-current operating assets recognised in recurring operating income.

Definition of free cash flow from operations and available cash flow

The Group also uses an intermediate aggregate, Free cash flow from operations, in order 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 and interest and dividends received minus interest paid and equivalent.

2006 HIGHLIGHTS

In 2006, PPR pursued its primarily organic growth strategy, with the priority being the development of its activities outside France. The fiscal year was therefore marked by the implementation in all Group entities of major projects aiming to improve the sales, operating and financial performances of its brands and companies.

Substantial changes were also introduced this year in order to focus the Group on its priority activities, particularly by separating itself from those no longer at the core of its businesses, and to strengthen its positions through tactical acquisitions.

In addition, PPR actively pursued a policy intended to increase its free cash flow from operations and enhance its financial structure, liquidity and financial ratios. In particular, the Group took advantage of favourable market conditions in order to anticipate the redemption-conversion of its OCEANE bonds issued in 2003. This transaction accelerated the Group's debt reduction considerably, without any major dilutive impact for its shareholders.

Focus on priority activities

Sale of Printemps

Following the transaction's approval by the competition authorities, PPR and RREEF (Deutsche Bank Group), in association with the Borletti Group, announced in October 2006 the sale of their control of France Printemps. The agreement had been announced in June and concluded in August. The transaction took place in two phases: the immediate sale of 51% of the shares, then, in order to ease the change of share ownership as part of an orderly and gradual transition, the sale of the remaining interest in 2007. The transaction was based on an asset price of €1,075 million with an immediate and future tax impact of around €158 million since most of the underlying assets were comprised of real estate.

An important page in the Group's history was thus turned with the sale of this company whose international growth potential was considered as insufficient, with PPR being able to seize the opportunity offered by the real estate market in terms of asset valuation.

Sale of Orcanta

In August, Orcanta, created by PPR in 1996 and operating 64 lingerie boutiques in France, was sold to the Chantelle Group for an enterprise value of €42.5 million.

Sale of Ibn Sina, the CFAO subsidiary in Egypt

In August, CFAO sold Ibn Sina, its Egyptian pharmaceuticals subsidiary, whose business and economic model were specific, and whose operating and financial performances no longer met Group standards.

Restructuring measures

Closure of Fnac Service

Due to the worldwide decline in the printing market for film, Fnac Service has, since May 2006, discontinued its activities and closed all its stores, excluding franchisees. This decision was accompanied by a job protection plan.

Reorganisation of YSL Beauté

YSL Beauté finalised a plan for the reorganisation of its head office services and industrial activities. In an increasingly aggressive fragrance and cosmetics market, YSL Beauté has to be more responsive and improve its competitiveness. The recovery plan consisted in adapting all the head office services in Neuilly-sur-Seine and regrouping the industrial activities on a single site at Lassigny in Oise. In July, YSL Beauté also sold its interest in YSL Beauté Recherche et Industrie which operated its other industrial plant in Bernay.

Strengthening of positions through tactical acquisitions

Takeover of Sodice Expansion by Conforama

In January, Conforama obtained the majority control of Sodice Expansion, its principal franchisee, listed on the Paris stock exchange and of which it already held 32% of shares. Following a simplified public offer in March and a mandatory withdrawal in December, Conforama holds all the shares in the company, which is no longer listed. These transactions were completed at a share price of €150. Located in the Nord-Pas-de-Calais region, Sodice Expansion operates 14 stores under the Conforama name, of which 11 are fully owned, over a sales area of 57,000 sq. m. The pro forma contribution (over twelve months) of Sodice Expansion to Group revenue is around €120 million. Through this transaction, Conforama has therefore strengthened its presence in a key region and reinforced its leading position in France by extending its national coverage.

Acquisition of The Sportsman's Guide by Redcats

In August 2006, Redcats finalised the acquisition of the NASDAQ-listed US company The Sportsman's Guide. The Sportsman's Guide group specialises in the distribution over the Internet and by catalogue of outdoor sports goods (hunting, fishing, etc.) and golf equipment. The agreement was concluded for a cash share price of US$31, bringing the total value of The Sportsman's Guide to US$265 million. It involved a "cash merger", so that Redcats now holds all shares, which are no longer listed. In 2005, the revenue of The Sportsman's Guide totalled US$285 million. This transaction enabled Redcats to reinforce its presence in the United States, in a buoyant sector and with a predominant Internet activity. It demonstrates the Group's desire to bolster its positions in regions and segments with high growth potential.

Extension of the CFAO system

In 2006, CFAO completed its system in high potential markets through acquisitions and the extension of its major brand import-distribution network. In the Automotive sector, the emphasis was placed on the launch of new brands including Nissan in Nigeria, Chevrolet in New Caledonia, Peugeot in Mauritania and Toyota in Guinea. These countries complete and densify CFAO's geographical network. In the Pharmaceuticals sector, growth opportunities were developed in new zones through two acquisitions in the pharmaceutical distribution business in Algeria and Togo. In addition, CFAO's healthcare division acquired a company specialising in medical promotion through the purchase of Cider.

Strengthening of the financial structure – Conversion of 2003 OCEANE bonds

In October 2006, PPR decided to proceed with the early redemption of all outstanding 2.5% OCEANE bonds maturing in January 1, 2008, and issued in May 2003 in the amount of €1,079.5 million. The transaction was very successful, as virtually all bondholders exercised their PPR share allotment rights.

In order to maximise value for its shareholders, PPR redeemed the bonds by issuing 4,155,911 existing shares and 8,333,106 new shares, while the remainder was redeemed in cash.

This transaction increased the Group's consolidated equity by €719.6 million and reduced the Group's net indebtedness by €687.9 million.

COMMENTS ON 2006 ACTIVITY

The main financial indicators included in the PPR 2006 consolidated financial statements show very commendable performances:

(in € million)	2006	2005	Change
Revenue	17,930.9	16,937.9	+5.9%
Recurring operating income	1,274.5	1,062.6	+19.9%
as a % of revenue	*7.1%*	*6.3%*	*+ 0.8 pt*
Net income attributable to equity holders of the parent	685.3	535.4	+28.0%
Net income from continuing operations excluding non-recurring items attributable to equity holders of the parent	698.0	531.0	+31.5%
Gross operating investments	414.9	344.5	+20.4%
Free cash flow from operating activities	1,069.6	917.2	+16.6%
Shareholders' equity	9,124.5	8,134.1	+12.2%
Net financial indebtedness	3,461.2	4,584.4	(24.5%)
Average number of employees	70,179	71,029	(1.2%)

These figures once again reflect the PPR teams' remarkable ability to generate a steady increase in earnings and a constant improvement in the financial position.

Revenue

Consolidated revenue from continuing operations in 2006 totalled €17,930.9 million, up 5.9% in actual terms and 4.8% on a comparable basis compared to 2005:

(in € million)	2006	2005	Actual % change	Comparable change[1]
Retail Division	14,364.5	13,905.7	+3.3%	+2.0%
Luxury Goods Division	3,568.2	3,034.4	+17.6%	+18.1%
Eliminations and other	*(1.8)*	*(2.2)*	*nm*	*nm*
PPR – Continuing operations	**17,930.9**	**16,937.9**	**+5.9%**	**+4.8%**

(1) On a constant Group and exchange rate structure – Luxury Goods Division over 52 weeks.

Fiscal 2006 was a new year of sustained growth for PPR. Luxury Goods brands continued to achieve remarkable growth, outstripping their markets. The Luxury Goods division therefore represents 19.9% of the total Group revenue in 2006, up significantly compared to 17.9% in 2005. The Retail division's solid performance reflected the companies' resilience in a difficult environment, particularly in the fourth quarter.

The increase in revenue includes the positive impact of changes in Group structure in the amount of €184.6 million. These changes are mainly due to the acquisition of Sodice Expansion by Conforama and The Sportsman's Guide by Redcats, in addition to the sale of Ibn Sina, CFAO's pharmaceuticals subsidiary in Egypt (contribution to 2006 revenue: €62.8 million).

Exchange rate fluctuations had a negative impact on revenue in the amount of €53.6 million, including €48.1 million arising from the depreciation of the yen against the euro (only in the Luxury Goods division), and €17.4 million arising from the depreciation of the US dollar against the euro (mostly at Redcats).

In the Retail division, the adverse calendar impact amounted to €63.2 million in 2006. For the Luxury Goods division, the application of the Merchandise Calendar led to the recognition of revenue (for the Retail section only) over 53 weeks instead of 52. The favourable impact of this additional week totalled €40.3 million.

Revenue by geographical area

(in € million)	2006	2005	Actual % change	Comparable change[1]
France	8,029.6	7,819.8	+2.7%	+1.2%
Europe excluding France	4,484.9	4,232.9	+6.0%	+5.8%
North and South America	2,293.7	2,084.5	+10.0%	+5.3%
Africa	1,751.4	1,595.4	+9.8%	+11.1%
Oceania	197.2	182.5	+8.1%	+8.3%
Asia	1,174.1	1,022.8	+14.8%	+18.2%
PPR – Continuing operations	**17,930.9**	**16,937.9**	**+5.9%**	**+4.8%**

(1) On a constant Group and exchange rate structure – Luxury Goods Division over 52 weeks.

International Group revenue totalled €9,901.3 million in 2006, up 8.6% in actual terms and 8.4% on a comparable basis in terms of Group structure and exchange rates. The weight of the Group's international activity continued to grow and represents 55.2% of total revenue in 2006, compared to 53.8% in 2005.

The Group was able to better withstand economic fluctuations through the balance in its geographical locations and selling formats. Revenue increased in all major geographical areas in 2006. In particular, the Group has become less dependent on the European economy. Hence, the Group's revenue outside Europe rose by 10.4% in 2006 (on a comparable basis in terms of Group structure and exchange rates) and now represents 30.2% of total revenue compared to 28.8% in 2005.

Internet revenue

Group Internet revenue from continuing operations totalled €1,642.3 million in 2006, up 23% compared to the previous year.

In 2006, e-commerce represented 11.3% of total Retail division revenue, compared to 9.5% in 2005 (13.4% and 11.1% respectively excluding CFAO which does not have an e-commerce site). Luxury Goods division on-line sales increased by 69.7% in 2006 while the on-line sales in the Retail division rose by 23.1% (21.8% on a comparable basis in terms of Group structure and exchange rates).

Gross profit

The Group's gross profit totalled €7,855.7 million in 2006, up 7.0% compared to the previous year.

The gross profit percentage breaks down as follows:

(as a % of revenue)	2006	2005	Change
Retail Division	38.1%	38.3%	(0.2 pt)
Luxury Goods Division	68.1%	66.5%	+1.6 pt
PPR – Continuing operations	**43.8%**	**43.3%**	**+0.5 pt**

The Group's gross profit percentage increased by 0.5 point to 43.8% due to:

- the increase in the weight of the Luxury Goods division within the Group;
- the significant increase in the gross profit percentage across all brands in the Luxury Goods division;
- the slight downturn recorded in the Retail division.

Recurring operating expenses

Up 4.9%, recurring operating expenses increased less rapidly than gross profit (7%), demonstrating once again the efficiency of the Group's systems and its teams' ability to curb operating costs:

(in € million)	2006	2005	Change
Sales and marketing expenditure	(1,534.5)	(1,511.4)	+1.5%
Marketing expenses	(3,116.5)	(2,957.4)	+5.4%
Other operating income and expenses	(1,930.2)	(1,807.7)	+6.8%
PPR – Continuing operations	**(6,581.2)**	**(6,276.5)**	**+4.9%**
Of which: payroll expenses	*(2,636.5)*	*(2,469.5)*	*+6.8%*

The moderate increase in sales & marketing investments arises from the 13% growth in the Luxury Goods division and a 2.2% reduction in the Retail division (mostly at Redcats).

The Group's payroll expenses increased, especially in the Luxury Goods division, which represented 25.3% of total payroll expenses in 2006, compared to 23.1% in 2005. In 2006, the productivity rate, which measures payroll expenses in ratio to gross profit, stabilised following a 0.1 point improvement in 2005 compared to 2004.

The average number of employees fell to 70,179 in 2006, compared to 71,029 employees in 2005. The number of employees only rose in the Luxury Goods division over the period, representing 17.4% of the Group's average employees in 2006 (16.3% in 2005). In 2006, the average number of employees at the PPR Corporate head offices was 134 (146 in 2005).

Depreciation, amortisation and provisions for non-current operating assets totalled €355.5 million in 2006, up 2.1% compared to 2005, due to the efficiency gains in investment programs.

EBITDA

Earnings before interest, tax, depreciation and amortisation of non-current operating assets (EBITDA) totalled €1,630 million in 2006, up 15.5% compared to 2005:

(in € million)	2006	2005	Change
Retail Division	981.2	947.5	+3.6%
Luxury Goods Division	696.9	519.7	+34.1%
Holding companies and other	(48.1)	(56.4)	+14.7%
PPR – Continuing operations	**1,630.0**	**1,410.8**	**+15.5%**

This considerable increase follows a 7.8% rise in 2005 (pro forma) compared to 2004. On a comparable exchange rate basis, EBITDA rose 15.9% in 2006.

EBITDA in ratio to revenue increased by 0.8 point to 9.1% for the entire Group due to the significant 2.5 points improvement in the Luxury Goods division's profitability to 19.6%.

Recurring operating income

The Group's recurring operating income totalled €1,274.5 million in 2006, up 19.9% compared to the previous year which had already reported 9.9% growth compared to 2004 (pro forma):

(in € million)	2006	2005	Change
Retail Division	759.4	729.4	+4.1%
Luxury Goods Division	565.2	392.0	+44.2%
Holding companies and other	(50.1)	(58.8)	nm
PPR – Continuing operations	**1,274.5**	**1,062.6**	**+19.9%**

This substantial rise in PRR's recurring operating income in 2006 reflects the excellent performance of the Luxury Goods division, which now represents 42.7% of the Group's recurring operating income (excluding holding companies and other), compared to 35.0% in 2005 (28.3% in 2004). Through its ability to resist and adapt, the Retail division also contributed to this improvement, in particular its foreign subsidiaries.

The impact of exchange rate fluctuations on recurring operating income was less significant than in previous years: on a comparable exchange rate basis, the increase is 20.4%.

The Group's recurring operating profitability totalled 7.1% in 2006, up 0.8 point compared to 2005:

(as a % of revenue)	2006	2005	Change
Retail Division	5.3%	5.2%	+0.1 pt
Luxury Goods Division	15.9%	12.9%	+3.0 pts
PPR – Continuing operations	**7.1%**	**6.3%**	**+0.8 pt**

The rise in recurring operating profitability was due to the combination of:

- the increase in the weight of the Luxury Goods division within the Group, thanks to its higher profitability and swifter activity growth;
- the substantial increase in the Luxury Goods division's profit to 15.9% in 2006, up 3.0 points compared to 2005;
- the slight increase (0.1 point) to 5.3% in the Retail division;
- and the improvement in the income of "Holding companies and other."

This improvement was due to the reduction in Corporate operating costs, the increase in the contribution of transversal service firms and the solid performance of Kadéos (subsidiary specialising in the design and sale of gift vouchers and cards).

Other non-recurring operating income and expenses

Other non-recurring operating income and expenses consist of unusual items, particularly with regard to their frequency, nature or amount, likely to disrupt the appraisal of the Group's economic performance and represented an expense of €0.1 million in 2006. This included pre-tax capital gains of €148.6 million (€90.2 million in 2005) recognised on the sale of operating and financial assets, mainly including the sale of real estate assets, the €52 million expense arising from the SARs early buyback program in the Luxury Goods division, asset impairments in the amount of €29.5 million (€57.7 million in 2005) in addition to restructuring costs in the amount of €56.4 million (€34.8 million in 2005), including €26 million for the YSL Beauté reorganisation plan.

Net financial expenses

The Group's net financial expenses break down as follows:

(in € million)	2006	2005	Change
Cost of net financial indebtedness	(241.5)	(256.5)	(5.8%)
Other financial income and expenses	(48.5)	(50.9)	(4.7%)
Net financial expenses	**(290.0)**	**(307.4)**	**(5.7%)**

The cost of net indebtedness continued to decrease in 2006, reflecting the steady decline in the Group's average outstanding net debt and the very moderate increase in average interest rates by around 40 basis points. In a general context of rising interest rates, this rise was contained through an active policy aiming to increase the fixed-rate portion of net debt and the improvement in the Group's credit quality.

In 2006, the cost of net indebtedness included a €54.5 million expense in respect of the 2003 OCEANE bonds which were subject to early conversion in October 2006. This notional one-off expense arises solely from the application of IAS 32 and IAS 39 and did not give rise to any cash disbursement. Excluding this technical impact, the net financial expense therefore totalled €235.5 million in 2006, down 23.4% compared to 2005.

The other financial expense items mainly relate to the adverse impact to date of the remeasurement of derivative instruments in accordance with IAS 39.

Corporate income tax

The Group's 2006 income tax charge breaks down as follows:

(in € million)	2006	2005	Change
Tax on recurring income	(240.9)	(188.4)	+27.9%
Tax on non-recurring items	(19.0)	1.4	nm
Total tax change	**(259.9)**	**(187.0)**	**+39.0%**
Effective tax rate	**26.4%**	**24.7%**	**+1.7 pt**
Recurring tax rate	**24.5%**	**25.0%**	**(0.5 pt)**

As of December 31, 2006, the increase in the Group's effective tax rate was attributable to non-current items.

Adjusted for the impact of non-current items and the corresponding income tax, the current tax rate fell by 0.5 point to 24.5% due to:

- the slight increase in the tax burden rate in the Retail division;
- the rate decrease in the Luxury Goods division whose weight in the Group's total income significantly increased.

Net income from continuing operations

Net income from continuing operations totalled €726.7 million in 2006, up by a staggering 26.4% compared to 2005.

The portion of this net income attributable to the equity holders of PPR increased by 26.7% to €679.7 million.

Net income from continuing operations excluding non-recurring items attributable to the equity holders of PPR increased by 31.5% to €698.0 million.

Net income from discontinued operations

This heading includes all assets or groups of assets recognised under IFRS 5 – *Non-current assets (or groups of assets) held for sale and discontinued operations*. As of December 31, 2006, operations discontinued, sold or to be sold include Printemps, Orcanta, YSL Beauté Recherche et Industrie and Fnac Service.

Net income from discontinued operations totalled €5.4 million in 2006 (compared to a €1.0 million loss in 2005) and included in particular:

- a €50.4 million gain with respect to France Printemps;
- a €7.8 million gain with respect to Orcanta;
- a €39.9 million loss with respect to YSL Beauté Recherche et Industrie;
- a €12.9 million loss with respect to the "discontinued operations" of Fnac, essentially due to closure costs.

Minority interests

Minority interests amounted to €46.8 million in 2006, up 22.2% compared to 2005 and mainly concern CFAO and the Luxury Goods division.

Net income attributable to the equity holders of PPR

Net income attributable to the equity holders of PPR totalled €685.3 million in 2006, up 28.0% compared to 2005.

Adjusted for the post-tax impact of non-recurring items, net income from continuing operations attributable to the equity holders of PPR totalled €698.0 million, up 31.5% compared to the previous year.

This substantial increase was due to the steady improvement in the Group's operating performances, the reduction in its finance costs and the solid control of its income tax charge.

Net earnings per share

The weighted average number of PPR shares used for the earnings per share calculation was 121.4 million in 2006, compared to 118.7 million in 2005. The share capital increase performed in October 2006 in order to pay for the unhedged portion of the OCEANE bonds issued in 2003 created 8.3 million additional shares and was taken into account on a time proportion basis in 2006. Taking into account dilutive instruments, the number of shares totals 121.7 million for 2006 (132.5 million for 2005).

Net earnings per share in 2006 was €5.64, up 25.1% compared to the previous year. Excluding non-recurring items, net earnings per share from continuing operations rose by 28.6% in 2006 to €5.75.

ANALYSIS OF OPERATING PERFORMANCES BY DIVISION

Retail division

(in € million)	2006	2005	Change
Revenue after inter-company eliminations	**14,357.2**	**13,898.1**	**+3.3%**
Recurring operating income	**759.4**	**729.4**	**+4.1%**
as a % of revenue	***5.3%***	***5.2%***	***+0.1 pt***
EBITDA	981.2	947.5	+3.6%
as a % of revenue	*6.8%*	*6.8%*	*+0.0 pt*
Gross operating investments	256.0	225.4	+13.6%
Average number of employees	57,699	59,171	(2.5%)

In 2006, the Retail division once again proved its resilience and maintained its sales momentum (up 3.3% compared to 3.4% in 2005) in a difficult environment, while restoring growth in its recurring operating income (up 4.1% compared to a 0.9% downturn in 2005) with a slight improvement in recurring operating profit (5.3% compared to 5.2% in 2005).

On a comparable basis in terms of Group structure and exchange rates, the division's revenue rose by 2% in 2006. Furthermore, the calendar impact was negative during the year at 0.4 growth point.

The Retail division companies strengthened their positions internationally; hence, 46.0% of Retail activity was performed outside France in 2006 (45.5% in 2005).

In 2006, the adverse impacts of exchange rate fluctuations on recurring operating income were measured: on a comparable exchange rate basis, the increase rate is 4.3%.

Free cash flow from operations from the Retail division increased by 11.2% in 2006. This very satisfactory increase was obtained without any slowdown in the investment programs, up 13.6%, and due to the effective management of working capital requirements.

Fnac

(in € million)	2006	2005	Change
Revenue after inter-company eliminations	**4,538.0**	**4,353.8**	**+4.2%**
Recurring operating income	**170.2**	**154.0**	**+10.5%**
as a % of revenue	***3.8%***	***3.5%***	***+0.3 pt***
EBITDA	255.0	238.8	+6.8%
as a % of revenue	*5.6%*	*5.5%*	*+0.1 pt*
Gross operating investments	78.4	61.5	+27.5%
Average number of employees	15,740	16,361	(3.8%)

In a context marked by a high demand driven by technological developments, strong price pressure and an increasingly multifaceted competition, Fnac has significantly improved its performances for the third year running.

In 2005, Fnac generated revenue of €4,538 million, up 4.2% (4.7% on a comparable basis in terms of Group structure, exchange rates and number of trading days).

In France, 2006 revenue, up 2.2%, was bolstered by *technical products* and more specifically TV-Video (up 21.3%). Fnac obtained market shares in most of its *technical products* ranges and maintained or increased its market shares in *books and publications* in a sharply declining French market. In music, Fnac's market share was 27.2% in 2006 (source: GFK), up 0.8 point compared to the previous year.

On-line sales continue to record high growth rates. Fnac's Internet revenue totalled €262.5 million in 2006, up 22.2% compared to 2005. This growth did not have a negative impact on profitability since Fnac.com, the main e-commerce site, reported an operating profit of 4.3% in 2006.

In order to pursue its expansion in France, Fnac launched a store concept in peri-urban zones and opened its first "Fnac- périphérie" store in September in Bordeaux Lac. This new store has made a promising start by surpassing its objectives, and paves the way for substantial development in the years to come.

Activities outside France, the company's strategic line of development, rose by 10.8% and represent 25.2% of Fnac revenue in 2006. In Spain, Portugal and Italy, the company reported two-figure growth. Belgium is again profitable with growth. The countries in which the company has more recently commenced operations confirmed their sales momentum, with a 16.4% growth in Brazil (on a comparable exchange rate basis), and an increase in activity in Switzerland in a highly competitive market.

In 2006, Fnac increased its recurring operating income by 10.5% to €170.2 million, following a 10.9% growth in 2005. Its recurring operating profit improved significantly by 0.3 point. This performance was achieved despite the extent of the development programs which, in 2006, weighed more heavily on income than in the previous year.

For the most part, this improvement arises from:

- a positive product mix impact: technical products generate a lower gross profit than books and publications, but their operating profit is largely superior;
- major productivity gains, due to the decrease in the average number of employees and the virtual stability of payroll expenses;
- the reduction in operating costs, with, in particular, a reduction in the Fnac Paris head office expenses.

In France, excluding developments, the company's profitability increased slightly in 2006. Internationally, the performances were outstanding: Spain and Portugal improved their profitability, recurring operating income in Brazil increased and Italy significantly reduced its losses, and Switzerland and Belgium are now close to their break-even points.

Due to sound management of working capital requirements, Fnac increased its free cash flow from operations by 20.3% despite the intensification of its store opening and remodelling programs. The cost of these transactions was optimised to the extent that the increase in gross operating investments was contained at 27.5%.

Conforama

(in € million)	2006	2005	Change
Revenue after inter-company eliminations	**3,271.9**	**3,136.7**	**+4.3%**
Recurring operating income	**181.7**	**177.1**	**+2.6%**
as a % of revenue	***5.6%***	***5.6%***	***+0.0 pt***
EBITDA	242.2	237.1	+2.2%
as a % of revenue	*7.4%*	*7.6%*	*(0.2 pt)*
Gross operating investments	61.6	62.4	(1.3%)
Average number of employees	13,412	13,139	+2.1%

In 2006, Conforama continued to modernise its concept, adapt its product ranges and optimise its supply chain. Its non-Group revenue totalled €3,271.9 million, up 4.3% in actual terms and 1.0% on a comparable Group structure and exchange rate basis.

In France, Conforama generated revenue of €2,270.8 million in 2006, up 2.3% on a comparable basis in terms of Group structure and number of trading days:

- in *Furniture*, repositioned product families recorded satisfactory growth: in particular Children's bedrooms (up 8.6%), Living rooms (up 4.6%) and Kitchen kits (up 12.5%); a 2007 market plan was drafted for the other product families;
- in *White Goods*, a 3.5% growth rate during the period demonstrates Conforama's correct positioning in this category; in *Brown Goods*, Conforama benefited from the "World Cup effect" and followed the market's rising price trend to record 3.4% growth; in *Grey Goods* (up 0.6%), low margin product sales were deliberately reduced in 2006;
- in *Home Decoration*, the overhaul of the product offer has shown promising initial results; the category increased by 6.3% in 2006 with excellent trends in the product families for which the approach has been finalised: Textiles (up 12.6%) and Rugs (up 12.3%) for example.

Furthermore, the performances recorded by recently renovated stores were particularly satisfactory. The cost of renovations was reduced in addition to the duration of the work. In addition, per square metre revenue increased, particularly in the furniture and home decoration markets.

International activity excluding Italy rose 4.1%, underscoring solid performances in Spain, Croatia, and Poland.

In 2006, market conditions were particularly difficult for distributors in Italy. Conforama's revenue fell there by 5.8%. The Group is banking on the conversion of Emmezeta stores to the Conforama concept to ensure a turnaround. The performances of the Verona store, remodelled according to this concept in 2006, largely surpassed the other Italian stores. This model will therefore be steadily extended to the entire store network, with three conversions scheduled for 2007.

In Switzerland, the recent openings strengthened the territorial network with a limited cannibalisation effect. In 2006, revenue increased by 4.0% on a comparable exchange rate basis and Conforama acquired shares in the *Furniture* market (5.3% growth).

For the other countries, the new concept, which is less predominant in *Brown Goods* and *Grey Goods* compared to *Furniture* and *Home Decoration*, made a promising start and was particularly successful in Spain (up 7.7%) and Poland (up 15.9%). The gradual deployment in the other stores and Portugal should be positive in forthcoming months.

In 2006, Conforama's recurring operating income increased once again by 2.6% to €181.7 million, following a 14.4% decline in 2005. Recurring operating profit was sustained at 5.6%.

Conforama's gross profit percentage rose by 0.4 point in 2006, following a similar improvement in 2005. This performance reflects the impact of a positive product mix trend, particularly in the second half of the year, with higher rates in all product categories, and the impacts of a more effective management of promotional offers, especially since the second quarter of 2006.

Despite the store network extension in 2006 and 2005, the rise in operating expenses was contained during the period. In particular, the logistics processes and mechanisms were better controlled so that their cost only rose by 3.9% for the entire network.

Despite the decline in its activity in Italy, Emmezeta, also present in Croatia, managed to maintain its recurring operating income by closing a loss-making store and adapting its cost structure.

The expenditure incurred in gross operating investments for store openings, conversions and renovations increased by 21.3% in 2006. The increase due to the intensified expansion and remodelling projects was attenuated by a significant reduction in per square metre costs.

Redcats

(in € million)	2006	2005	Change
Revenue after inter-company eliminations	**4,327.9**	**4,373.3**	**(1.0%)**
Recurring operating income	**225.1**	**231.3**	**(2.7%)**
as a % of revenue	***5.2%***	***5.3%***	***(0.1 pt)***
EBITDA	275.1	278.4	(1.2%)
as a % of revenue	*6.4%*	*6.4%*	*+ 0.0 pt*
Gross operating investments	46.1	56.6	(18.6%)
Average number of employees	18,412	18,950	(2.8%)

In 2006, the home shopping sector had to cope with a particularly difficult environment, with a clothing market affected by erratic climatic conditions. Redcats resisted better than its direct competitors by continuing to convert its traditional model to a multi-specialist and multi-channel model focusing on strong brands and the development of Internet sales.

In this context, Redcats' non-Group revenue decreased slightly by 1.0% to €4,327.9 million and by 2.3% on a comparable exchange rate basis and excluding discontinued catalogues.

Redcats confirmed its Internet leadership in textiles and minor decorations. In 2006, on-line sales increased by 23.1% to €1,352.7 million and represent 33.8% of Redcats' total home shopping sales (compared to 27.1% in 2005). This growth was driven by numerous technological and sales innovations, but did not offset the sluggish traditional catalogue sales.

Redcats increased the market share of its flagship brands:

- *La Redoute* improved the appeal of its product offer, particularly in women's fashion with solid growth in ready-to-wear and accessories; present in 22 countries, the brand continues to expand internationally in new countries;
- the *Children-Family division* confirmed its correct positioning and its control of a multi-channel strategy, with stores representing 30% of total activity;
- the *Outsize* division in the US maintained its leading position with a 5.1% growth on a comparable basis in 2006;
- *The Sportsman's Guide* reported 8.2% growth, thus outstripping its direct competitors, with solid Internet growth representing around 58% of total sales.

The other activities are currently being repositioned:

- the *Senior division* set up a sales strategy focusing on the Daxon brand; the *Scandinavian division* is currently being streamlined and modernised, and *Empire Stores* in the UK accelerated the conversion of its specific traditional model ("Agency");
- the *Misses division* in the US began to restore the appeal of its product offer by optimising its sales coordination; at the same time, the change in the name from Lerner to Metrostyle proved successful in 2006.

During this transition, the sales strategies aimed to encourage continuous buying by the best customers with limited prospection and an optimisation of sales promotion measures. These initiatives weighed somewhat on revenue in the short term (particularly in the fourth quarter of 2006) but helped maintain profitability and laid the foundations for the future.

In 2006, Redcats' recurring operating income totalled €225.1 million, compared to €231.3 million in the previous year. Recurring operating profit dropped slightly to 5.2%.

Excluding The Sportsman's Guide, whose gross profit percentage is structurally lower, Redcats managed to improve its gross profit percentage due, in particular, to the increasing popularity of Asian outsourcing and a sound inventory management.

Through drastic cost cutting programmes, Redcats has maintained its profitability, with in particular:

- optimised sales investments, including the reallocation of a portion of catalogue-related expenditure to Internet profits;
- tight control of payroll expenses virtually stable, excluding the consolidation of The Sportsman's Guide;
- and substantial savings on all operating costs.

In 2006, Redcats' free cash flow from operations increased by 30.9%, due to a sound management of working capital, in particular regarding inventory, and a tight control of operating investments. These include the expenditure incurred in IT and logistics projects for €28.2 million in 2006, up 3.7% compared to 2005.

CFAO

(in € million)	2006	2005	Change
Revenue after inter-company eliminations	**2,219.4**	**2,034.3**	**+9.1%**
Recurring operating income	**182.4**	**167.0**	**+9.2%**
as a % of revenue	***8.2%***	***8.2%***	***+0.0 pt***
EBITDA	208.9	193.2	+8.1%
as a % of revenue	*9.4%*	*9.5%*	*(0.1 pt)*
Gross operating investments	69.9	44.9	+55.7%
Average number of employees	10,135	10,721	(5.5%)

This year again, CFAO reported steady and robust growth in its performances with a revenue of €2,219.4 million, up 9.1% in actual terms and 9.7% on a comparable Group structure and exchange rate basis.

In 2006, CFAO's activity was boosted particularly by a favourable economic environment and the solid growth in Sub-Saharan Africa. The savings on the African continent benefited from the sharp rise in commodity prices, numerous debt waiver programmes, a certain political stability and the resumption of foreign investments.

In this context, the *Automotive* activity, which rose by 13.4% overall in 2006, reported particularly high growth in Sub-Saharan and Mediterranean Africa, whereas the French overseas departments suffered an economic slowdown during the year.

The growth rate of the *Pharmaceuticals* activity slowed down in 2006. Revenue increased by 3.9% in actual terms and by 7.2% on a comparable basis. The trend was positive in Sub-Saharan and Mediterranean Africa but more negative in the French overseas departments.

In 2006, the growth of *Production and distribution of convenience goods* activities reached 12.2%, based on the results of all entities. Revenue in the *Technologies* activity declined by 7.8%, mainly due to the reduction in its capabilities.

The rise in CFAO's recurring operating income was steady and robust and accelerated in 2006, with a 9.2% growth, following a 5.1% increase in 2005. With a recurring operating income of €182.4 million, profitability was maintained at 8.2% during the period.

This improvement was mainly due to a solid gross profit and productivity gains, particularly driven by Sub-Saharan Africa in 2006.

In addition, management of working capital requirements was particularly effective in 2006 and the significant growth in gross operating investments was partly financed by sales of assets in the amount of €21.8 million. Hence, CFAO reported significant growth in free cash flow from operations in 2006.

Luxury Goods division

(in € million)	2006	2005	Change
Revenue after inter-company eliminations	**3,564.4**	**3,030.4**	**+17.6%**
Recurring operating income	**565.2**	**392.0**	**+44.2%**
as a % of revenue	***15.9%***	***12.9%***	***+3.0 pts***
EBITDA	696.9	519.7	+34.1%
as a % of revenue	*19.6%*	*17.1%*	*+2.5 pts*
Gross operating investments	157.1	112.7	+39.4%
Average number of employees	12,194	11,550	+5.6%

Fiscal year 2006 confirmed the extraordinary potential of PPR's Luxury Goods brands and their ability to combine high sales growth and a significant improvement in operating profitability in the long term. This performance was not due to the success of a single flagship brand, but the contribution of the entire brand portfolio, thus underscoring the relevance of PPR's multi-brand model.

For the Luxury Goods division, revenue from directly-operated store retail sales is recognised using the "Merchandise Calendar." For fiscal year 2006, this comprised 53 weeks instead of 52 for the five previous years. The overall impact of this additional week is €40.3 million, fully taken into account in the fourth quarter. In the following comments, the revenue growth rates on a comparable basis are shown after cancellation of the impact of the additional week and excluding the impact of exchange rate fluctuations.

All Luxury Goods brands reported very high growth, despite the adverse impact of Japanese and US currencies that was particularly marked in the second half of the year. In 2006, exchange rate fluctuations had a negative impact on revenue in the amount of €48.3 million, including €48.1 million arising from the depreciation of the yen against the euro and €5.8 million arising from the depreciation of the US dollar.

In 2006, the non-Group revenue of the Luxury Goods division totalled €3,564.4 million, up 17.6%. On a comparable basis, the increase rate is 18.1%, following a 15.9% growth in 2005.

In 2006, the "Fashion and leather goods" activities of the Luxury Goods division increased by 25.4% on a comparable basis. Once again, the growth rates of PPR's Luxury Goods brands in this sector outstripped most of its direct competitors.

Excellent growth rates were recorded in all geographical areas (on a comparable basis): 18.6% in Europe, 18.5% in North America, 12.1% in Japan and 25.3% in Asia Pacific (excluding Japan) which, with 17% of the division's sales, is now a more significant area than Japan. Revenue in China, the priority growth area, rose by 64.0%.

In 2006, the Luxury Goods division reported an excellent recurring operating income of €565.2 million, representing a remarkable growth rate of 44.2% in actual terms and 39.7% on a comparable basis (for a minimum exchange rate fluctuation impact of 0.9 point). Operating profitability increased significantly by 3.0 points to 15.9%.

The directly-operated store network continued to develop in 2006 with the opening of 28 additional units, thus bringing the total to 454 stores at the year-end. The renovations programme also intensified to the extent that the division's gross operating investments increased by 39.4% in 2006. The Luxury Goods division therefore represented 37.9% of PPR Group investments, compared to 32.7% in 2005.

Free cash flow from operations in the Luxury Goods division rose by 18.0% in 2006.

Gucci

(in € million)	2006	2005	Change
Revenue after inter-company eliminations	**2,100.5**	**1,806.3**	**+16.3%**
Recurring operating income	**611.8**	**485.4**	**+26.0%**
as a % of revenue	***29.1%***	***26.9%***	***+2.2 pts***
EBITDA	676.8	549.6	+23.1%
as a % of revenue	*32.2%*	*30.4%*	*+1.8 pt*
Gross operating investments	93.1	63.5	+46.6%
Average number of employees	5,585	5,060	+10.4%

The Gucci brand, the Luxury Goods division's primary growth engine, continued its sustained and balanced development in 2006 and confirmed its high operating leverage.

In 2006, Gucci posted non-Group revenue of €2,100.5 million. Excluding the Timepieces[(1)] activity, revenue increased by 18.3% in actual terms and 18.8% on a comparable basis. Retail sales in directly-operated stores rose by 16.8%; indirect sales to third-party distributors soared by 25.1%.

In mid-year, the Gucci Timepieces[(1)] activity was directly integrated into the Gucci brand. The initial steps towards repositioning the product offer and consolidating the distribution network were taken in the third quarter of 2006; these measures are intended to upgrade the watch collections to ensure performance and consistency, by capitalising on the success of the *Twirl* model, which perfectly reflects the brand's codes.

All the other product categories confirm the quality and relevance of the collections, which were very well received throughout the world by customers, the specialised press and celebrities:

- Leather Goods, Gucci's leading category, represented 56% of activity, up 19.5%;
- Shoes continued to develop with 21.3% growth;
- Ready-to-wear reported sustained growth of 18.8%, thus confirming the solid momentum of its collections for both men and women;
- the 2007 Cruise collections, available in stores during the fourth quarter, made a very promising start.

In 2006, Gucci also recorded excellent performances in all geographical areas:

- in Europe, and more particularly in Spain, Germany and France, with a 19.0% growth on a comparable basis;
- in the United States, where the directly-operated store network was very successful and sales rose by 20.4% on a comparable basis;
- in Japan where, despite the slowdown suffered by the Luxury Goods sector, directly-operated store retail sales increased by 6.6% (on a comparable basis), particularly through the overwhelming success of its new Ginza flagship store;
- in Asia Pacific (excluding Japan) which increased by 22.1% on a comparable basis and where the momentum was particularly sustained by the 68.9% growth in China and the success of the Landmark flagship store in Hong Kong.

Gucci e-commerce really took off in 2006. The e-commerce site network is now fully operational in the United States, the United Kingdom, France and Germany.

Gucci's recurring operating income totalled €611.8 million in 2006, up 26.0% in actual terms. The profitability rate amounted to 29.1%, up significantly by 2.2 points compared to the previous year.

Gucci's gross profit percentage increased considerably by 1.3 points, due to the rise in royalties, limited mark-downs that were slightly lower than in 2005 and the positive impact of the brand's upgrading, which resulted in targeted price increases.

In 2006, Gucci once again benefited fully from operating leverage. Operating expenses only increased by 13.7% whereas gross profit rose by 18.5%. However, in order to promote the brand's image and boost its sales momentum, communications and advertising expenses rose by 25.7% over the period.

(1) The Timepieces activity involves the creation, manufacture and worldwide distribution of Gucci watches exclusively to third party associates (major stores and specialised or multi-specialist stores).

Bottega Veneta

(in € million)	2006	2005	Change
Revenue after inter-company eliminations	**266.9**	**159.7**	**+67.2%**
Recurring operating income	**54.6**	**13.7**	**+298.5%**
as a % of revenue	***20.5%***	***8.6%***	***+11.9 pts***
EBITDA	65.8	22.2	+196.4%
as a % of revenue	*24.7%*	*13.9%*	*+10.8 pts*
Gross operating investments	13.6	8.9	+52.8%
Average number of employees	918	643	+42.8%

Fiscal year 2006 was a record year for Bottega Veneta, from all points of view.

Revenue totalled €266.9 million, up 67.2% in actual terms and 68.7% on a comparable basis. This outstanding growth corresponds to both directly-operated retail sales and indirect sales to third-party distributors.

The success of collections is reflected in all product categories. With 66.0% growth, Leather Goods, which represented 84% of the brand's activity at the end of 2006, continued to forge ahead. The other categories also reported outstanding improvements with, in particular, a more than twofold rise in Ready-to-wear sales. Fine jewellery and furniture collections, recently launched and available by order only, made very promising starts.

In 2006, significant growth was reported in all regions. On a comparable basis, growth totalled 65.4% in Japan, the brand's primary market, 95.5% in Europe, 43.6% in the US and 69.2% in Asia Pacific (excluding Japan).

With a recurring operating income of €54.6 million in 2006 and a profitability of 20.5%, Bottega Veneta reported quite remarkable growth compared to 2005 and, in particular, confirmed its formidable potential in terms of profitability.

Bottega Veneta's gross profit percentage is structurally high due to the brand's positioning and the considerable weight of leather goods and direct sales in revenue. This rate increased again by 2.0 points in 2006, due to production and supply gains generated by large scale impacts.

In 2006, Bottega Veneta benefited from substantial operating leverage, with operating expenses up 40.8% for a gross profit up 71.9%, despite a significant rise in store network costs, on account of its considerable expansion, and a 52.8% increase in communications and advertising expenses.

Yves Saint Laurent

(in € million)	2006	2005	Change
Revenue after inter-company eliminations	**193.6**	**162.0**	**+19.5%**
Recurring operating income	**(49.4)**	**(65.8)**	**+24.9%**
as a % of revenue	***(25.5%)***	***(40.6%)***	***+15.1 pts***
EBITDA	(35.7)	(50.7)	+29.6%
as a % of revenue	*(18.4%)*	*(31.3%)*	*+12.9 pts*
Gross operating investments	4.9	4.3	+14.0%
Average number of employees	922	945	(2.4%)

After the promising end to fiscal year 2005, the successful turnaround of Yves Saint Laurent was confirmed in 2006, with very commendable sales and operating performances.

Revenue steadily increased to reach €193.6 million at the end of 2006, up 19.5% in actual terms and 19.1% on comparable basis.

In each quarter, directly-operated store retail sales accelerated, resulting in a 20.8% increase on a comparable basis over the period. This gave rise to a substantial improvement in the per square metres sales ratio. Indirect sales to third-party distributors rose by 20.9% due to the enormous success of the collections, in particular Men and Women's Ready-to-wear.

In 2006, Yves Saint Laurent confirmed its role as a major player in the Leather Goods market. As a result, this category reported 51.0% growth, due in particular to the still highly acclaimed *Muse* bag and the success of the models launched this year: The *Double*, *Rive Gauche* and *Downtown* bags, launched at the year-end as part of the 2007 Cruise collection made a promising start.

Yves Saint Laurent recorded excellent performances in all geographical areas in 2006, especially in Asia Pacific (excluding Japan), up 56.6% on a comparable basis and the United States, up 18.4%. Sales in Japan increased by 11.0%.

In addition, Yves Saint Laurent continues to attract the keen attention of the press and celebrities and has recovered its historical trend-setting brand status.

In 2006, Yves Saint Laurent's losses were considerably reabsorbed, and have decreased by 30.2% over two years.

The gross profit percentage continued to rise significantly in 2006, by 2.3 points, due to the increasing weight of leather goods in revenue, the sharp upturn in "full price" sales and a considerable decrease in mark-downs.

This solid revenue growth, geared towards high margin segments, combined with tight cost control (increase in operating expenses limited to 4.2% in 2006) gave rise to a substantial improvement in Yves Saint Laurent's operating income in 2006.

YSL Beauté

(in € million)	2006	2005	Change
Revenue after inter-company eliminations	**624.3**	**608.2**	**+2.6%**
Recurring operating income	**32.2**	**17.9**	**+79.9%**
as a % of revenue	***5.2%***	***2.9%***	***+2.3 pts***
EBITDA	51.5	34.5	+49.3%
as a % of revenue	*8.2%*	*5.7%*	*+2.5 pts*
Gross operating investments	22.0	14.9	+47.7%
Average number of employees	3,138	3,383	(7.2%)

Fiscal year 2006 was a turning point for YSL Beauté, with the reorganisation of head office services and the industrial restructuring (sale of one of the two production units) and a new strategy refocusing on key brands and priority markets.

Accordingly, YSL Beauté reported non-Group revenue of €624.3 million, up 2.6% in actual terms and 3.0% on a comparable basis. Adjusted for the discontinuation of the Fendi license, the increase was 4.2% in 2006; likewise, the new refocusing strategy led to the termination of the Van Cleef & Arpels license, with effect as from January 1, 2007.

The improvement during the year was due to the success of the Yves Saint Laurent brand, which was particularly marked in the second half of the year, with the hugely successful launch of the new men's fragrance, *L'Homme*. Cosmetics sales were boosted by numerous launches: *Golden Gloss* (lipstick), *Mascara Infinity Curl* and especially *Perfect Touch*. Beauty care sales benefited from the launch of *Hydra Feel* in the second half of 2006.

YSL Beauté also benefited in 2006 from the launch of a new Stella McCartney fragrance, *Stella In Two*, which confirms this brand's high potential.

YSL Beauté reported sound growth in Europe, Russia, South America and the Middle East. In the United States, a very difficult market for YSL Beauté, the fragrance *L'Homme* was very successful.

In 2006, YSL Beauté recorded recurring operating income of €32.2 million, up 79.9% compared to 2005, and a profitability of 5.2%. This substantial increasing was attributable to the strong appreciation of gross profit percentages, especially in the second half of 2006 and the considerable long-term savings generated primarily in the second half of the year by the restructuring plans. A portion of these savings was reinvested in communications expenses in order to finance the major launches in the third quarter of 2006.

Other brands

(in € million)	2006	2005	Change
Revenue after inter-company eliminations	**379.1**	**294.2**	**+28.9%**
Recurring operating income	**10.3**	**(13.7)**	**+175.2%**
as a % of revenue	***2.7%***	***(4.7%)***	***+7.4 pts***
EBITDA	26.4	2.8	+842.9%
as a % of revenue	*7.0%*	*1.0%*	*+6.0 pts*
Gross operating investments	23.5	21.1	+11.4%
Average number of employees	1,462	1,351	+8.2%

With a non-Group revenue of €379.1 million, i.e. 28.9% growth in actual terms and 30.3% on a comparable basis, the other Luxury Goods division brands recorded excellent performances in 2006. This year was also a turning point for all brands as for the first time ever they all reported a positive recurring operating income, having improved their sales and operating performances.

Balenciaga had an excellent year once again, with robust growth in all geographical areas, driven by the huge success of its collections, and particularly women's ready-to-wear and leather goods. After a return to break-even in 2005, Balenciaga again improved its earnings in 2006.

Due to the success of its Jewellery, Costume Jewellery and Watches collections, **Boucheron** posted outstanding results in all its product categories and geographical areas, particularly in Europe and Japan. Boucheron has confirmed its return to break-even point in 2006 one year ahead of its market plan.

Sergio Rossi had a record activity in 2006, with balanced direct and indirect sales growth in all geographical areas due to the optimisation of production and distribution processes.

Once again, **Alexander McQueen** reported high sales growth in 2006, particularly in Ready-to-wear and the brand's two essential products, Shoes and Leather Goods.

Stella McCartney continued its excellent growth momentum in 2006. All the geographical areas contributed to this growth and the potential of the new Shoes and Leather Goods lines was confirmed during the year.

Gucci Group head office expenses

In 2006, Gucci Group head office expenses increased by €48.8 million to reach €94.3 million. This increase is mainly attributable to:

- the remeasurement of *SARs* for €33.7 million;
- the initial implementation of a *Long-Term Incentive Plan* for €7.8 million.

Share Appreciation Rights (*SARs*) constitute long-term cash-settled and share-based optional compensation plans. Hence, the remeasurement of services is recalculated at each balance sheet date and recorded in income or loss. The SAR exercise price, a conventional theoretical Gucci Group value, is determined on a quarterly basis by applying price-earnings ratios for a basket of comparable companies to the results of the Luxury Goods division over twelve sliding months.

The expense recorded in 2006 as recurring operating income in respect of the *SARs* was €46.4 million (€12.7 million in 2005). This increase is attributable to the improved performance of the Luxury Goods division and the fact that a greater number of options were "in the money" and vested during the year. In the first half of 2006, the appreciation of the basket ratios accentuated this increase; during the year, the ratios were virtually stable to the extent that the second half-year expense was reduced.

In December 2006, Gucci Group implemented an early buyback programme for these *SARs* for 2.1 million options. At the end of this transaction, there were 0.6 million outstanding *SARs* compared to €3.9 million at the same period last year (also considering the 1.2 million net *SARs* exercised or cancelled). The pre-tax cost of this transaction was recorded in non-recurring operating expenses for €52.0 million in 2006.

The expense recorded in recurring operating income in 2006 corresponds to the remeasurement of services up to the initiation of the buyback programme and the cost of exercising the *SARs* over the period. In 2007, this expense will be incurred again but for a significantly lower amount.

Furthermore, in 2006, the decision was made not to renew the *SAR* allocation plans and replace them with a *Long-Term Incentive Plan* for motivation and retention purposes. Under a yearly plan, the beneficiaries may receive, after three years, a fixed percentage of their basic salary only if they are still present in the company and the forecast financial objectives (operating income and free cash flow from operations) are met. The Group's commitment is therefore contained within a maximum budget.

In 2006, the expense recorded corresponds to a third of this commitment, less normal staff turnover. In 2007, the second annuity of the 2006 Plan and the first annuity of the 2007 Plan will be recorded.

COMMENTS ON THE FINANCIAL STRUCTURE

In 2006, PPR once again bolstered its financial structure by reducing capital employed, considerably improving its equity and significantly decreasing its net indebtedness:

(in € million)	2006	2005	Change
Goodwill and net intangible assets	12,212.0	12,150.9	+61.1
Other non-current assets, net	876.2	1,389.0	(512.8)
Current assets, net	(241.9)	(314.3)	+72.4
Provisions	(514.1)	(507.1)	(7.0)
Capital employed	**12,332.2**	**12,718.5**	**(386.3)**
Net assets held for sale	253.5		+253.5
Shareholders' equity	**9,124.5**	**8,134.1**	**+990.4**
Net financial indebtedness	**3,461.2**	**4,584.4**	**(1,123.2)**

Capital employed

As of December 31, 2006, capital employed fell by 3.0% compared to the previous year.

Goodwill and net intangible assets

As of December 31, 2006, goodwill & net intangible assets represented 54.5% of total assets (52.8% as of December 31, 2005). The increase in this heading was primarily due to the adoption of IFRS 5 by France Printemps and Orcanta for a negative amount of €265.7 million, exchange rate fluctuations for a negative amount of €67.6 million and acquisitions of subsidiaries or minority interests for €413.9 million.

Other net non-current assets

(in € million)	2006	2005	Change
Property, plant and equipment, net	1,900.6	2,538.7	(638.1)
Net deferred taxes	(1,247.0)	(1,379.7)	+132.7
Investments in associates	19.3	44.0	(24.7)
Non-current financial assets, net	216.0	240.8	(24.8)
Other non-current assets	(12.7)	(54.8)	+42.1
Other non-current financial assets, net	**876.2**	**1,389.0**	**(512.8)**

The decrease in property, plant and equipment was primarily due to the adoption of IFRS 5 by France Printemps and Orcanta for a negative amount of €615.4 million, exchange rate fluctuations for a negative amount of €33.0 million and acquisitions of subsidiaries for €64.8 million.

As of December 31, 2006, property, plant and equipment comprised land and buildings in the amount of €808.9 million (compared to €1,348.1 million in the previous year). Generally, PPR prefers to lease the surface areas used for commercial purposes. Nevertheless, in the Retail division, Conforama owns 71 of its French stores, 6 of its Spanish stores, 3 of its Portuguese stores, all of its stores in Poland and Croatia and one store in Switzerland. Redcats owns the walls of around 10% of its stores, 40% of its warehouses and 30% of its offices. CFAO owns around two-thirds of the sites operated in Africa and the French overseas departments. Fnac rents all the surface areas that it occupies. The Luxury Goods retail stores are located in prestigious locations in the world's largest cities and generally leased. However, the Group owns the premises of 11 stores out of a total network of 454.

The decrease in net deferred taxes was attributable to the adoption of IFRS 5, mainly by France Printemps, for €121.4 million. Tax losses and tax credits not utilised in respect of which no deferred tax asset is recognised totalled €1,115.5 million as of December 31, 2006 (€1,213.2 million as of December 31, 2005).

The increase in miscellaneous non-current assets was mainly due to the movements in interest rate hedging derivatives.

Net current assets

As of December 31, 2006, net current assets were negative at €241.9 million, of which €187.9 million relates to the Luxury Goods division (€105.5 million less than in the previous year).

In 2006, effective management of working capital requirements generated a positive cash flow (excluding tax) of €69.6 million (including changes in customer loans for €26.2 million).

As of December 31, 2006, inventories totalled €2,744.2 million and trade receivables €1,116.4 million (respectively €2,827.2 million and €1,125.6 million in the previous year). Customer loans, generated by Redcats consumer credit activities, totalled €397.7 million as of December 31, 2006, down €18.9 million compared to 2005.

Current tax liabilities decreased mainly due to the payment of taxes on sales of shares in previous years (in particular Rexel, Finaref and Facet).

Provisions

(in € million)	2006	2005	Change
Provisions for termination payments on retirement and similar benefits	(260.7)	(279.4)	+18.7
Other provisions for contingencies and losses	(253.4)	(227.7)	(25.7)
Provisions	**(514.1)**	**(507.1)**	**(7.0)**

As of December 31, 2006, the decrease in provisions for retirement and similar benefits was primarily due (€21.9 million) to the adoption of IFRS 5 by France Printemps and Orcanta. In 2006, the non-current portion of these provisions totalled €248.6 million (€266.1 million in 2005).

Other provisions for contingencies & losses are non-current liabilities in the amount of €140.9 million in 2006 (€142.7 million in 2005) and mainly hedge against warranty and tax litigation risks.

Net assets held for sale

As of December 31, 2006, this heading results from the adoption of IFRS 5 by France Printemps.

Equity

(in € million)	2006	2005	Change
Shareholders' equity attributable to equity holders of the parent	8,971.1	7,985.3	+985.8
Minority interests	153.4	148.8	+4.6
Shareholders' equity	**9,124.5**	**8,134.1**	**+990.4**

In 2006, equity increased considerably, in particular due to the impact of:

- net income for the year (€732.1 million);
- dividends distributed by PPR and its subsidiaries (€355.4 million);
- movements in share capital and treasury shares (€635.4 million, including €719.6 million with regard to the share capital increase subsequent to the conversion of the Océane bonds issued in 2003);
- foreign exchange losses (€97.8 million);
- and the fair value measurement of certain financial instruments (€79.0 million).

PPR's share capital as of December 31, 2006 comprised 128,387,724 shares with a par value of €4 each.

In January and May 2006, 394,062 treasury shares were cancelled (without any impact on the consolidated financial statements) and 8,333,106 shares were created to pay for the unhedged portion of the Océane bonds issued in 2003. Furthermore, 269,548 shares were acquired following the exercise of PPR share purchase options set up in 2005 in order to hedge subscription plans and a net balance of 25,000 shares was sold under the liquidity contract.

In addition, 1,480,000 PPR share purchase options were acquired in order to hedge the stock option plans allocated in 2002, 2003, 2004 and 2006. PPR also reorganised the partial initial hedge of the Océane bonds issued in 2003 with 1,155,911 additional calls. These 4,155,911 purchase options were exercised at the end of October for the conversion of the Océane bonds issued in 2003.

As of December 31, 2006, PPR did not hold any treasury shares in its portfolio or under its liquidity contract. As of December 31, 2005, PPR held 149,514 treasury shares, including 25,000 shares under its liquidity contract.

Minority interests as of December 31, 2006 correspond to the CFAO and Luxury Goods division subsidiaries for €108.5 million and €41.7 million respectively (€100.9 million and €44.1 million respectively in 2005).

Net indebtedness

(in € million)	2006	2005
Gross borrowings excluding the financing of customer loans	5,043.4	6,463.1
Fair value hedging derivative instruments (interest rate)	(26.6)	(65.5)
Cash and cash equivalents	(1,555.6)	(1,813.2)
Net financial indebtedness	**3,461.2**	**4,584.4**

Group net indebtedness stood at €3,461.2 million as of December 31, 2006, down 24.5% compared to December 31, 2005. In particular, gross borrowings were reduced by €1,419.7 million over the period.

In 2006, PPR continued to strengthen its financial structure and increase the flexibility of its financing sources, and this was accelerated by the early conversion of the 2003 Océane bonds. The Group's credit ratios have improved:

- the "gearing" ratio (net indebtedness to equity ratio) totalled 37.9% as of December 31, 2006, compared to 56.4% as of December 31, 2005 and 68.0% as of January 1, 2005;
- the "solvency" ratio (net financial indebtedness to EBITDA ratio) totalled 2.12% as of December 31, 2006, compared to 3.10% as of December 31, 2005 and 3.77% as of January 1, 2005 (data published over twelve months).

The agency Standard & Poors awarded PPR with a "BBB-" with a stable outlook rating.

Short-term and long-term borrowings represented 42.3% and 32.4% of total borrowings respectively as of December 31, 2006 (36.1% and 21.7% respectively as of December 31, 2005).

In 2006, PPR continued its interest rate setting and capping policy. Hence, despite the significant impact of the early conversion of the Océane bonds issued in 2003, the fixed-rate portion of borrowings as a percentage of total gross borrowings amounted to 42.5% as of December 31, 2006 (compared to 50.8% as of December 31, 2005).

As of December 31, 2006, the Group's gross borrowings primarily consisted of Euro financing. Excluding exchange rate hedging and inter-company refinancing, the US denominated portion represented 7.1% of total gross borrowings while the Japanese yen denominated portion represented 6.2%.

As of December 31, 2006, the Group had confirmed credit lines of €5,030.9 million, compared to €5,105.6 million as of December 31, 2005. The undrawn balance of these credit lines as of December 31, 2006 totalled €4,733.1 million, compared to €4,913.1 million as of December 31, 2005.

Change in net indebtedness

The significant decrease in net indebtedness over fiscal years 2006 and 2005 may be summarised as follows:

(in € million)	2006	2005
Net financial indebtedness as of January 1	**4,584.4**	**5,183.8**
Free cash flow from operating activities	(1,069.6)	(917.2)
Net interest paid and dividend received	184.5	176.4
Acquisitions and disposals of financial assets	(174.9)	(104.3)
Disbursements on prior sales of securities	153.1	85.3
Impact of the conversion of the Océane bond issued in 2003	(687.9)	
Impact of changes in treasury shares	65.5	(185.5)
Dividend paid	355.6	326.3
Other changes	50.5	19.6
Net financial indebtedness as of December 31	**3,461.2**	**4,584.4**

Free cash flow from operations

The generation of free cash flow from operations is one of the primary objectives for all Group teams. In 2006, free cash flow from operations increased by 16.6% to reach €1,069.6 million:

(in € million)	2006	2005	Change
Cash flow from operating activities before tax, dividends and interest	**1,540.4**	**1,318.1**	**+16.9%**
Changes in working capital requirements (excluding tax)	69.6	51.5	+35.1%
Corporate income tax paid	(198.0)	(140.3)	+41.1%
Excess cash from operating activities	**1,412.0**	**1,229.3**	**+14.9%**
Net operating investments	(342.4)	(312.1)	+9.7%
Free cash flow from operating activities	**1,069.6**	**917.2**	**+16.6%**

In 2006, the rise in cash flow from operating activities before tax, dividends and interest for €222.3 million exceeds the increase in EBITDA (€219.2 million), which reflects the Group's focus on generating cash resources.

The management and optimisation of working capital requirements were particularly effective in 2006, particularly regarding inventories.

Corporate tax payments increased due to the rise in the income tax charge in the income statement (€72.9 million) and the slight increase in unpaid items.

Net cash flows from operating activities therefore rose by 14.9% in 2006 following the 6.6% growth in 2005.

In 2006, net operating investments included sales of property, plant and equipment and intangible assets for €72.5 million (€32.4 million in 2005). Gross operating investments therefore increased by 20.4% in 2006 to reach €414.9 million and mainly include the sales outlet openings, conversions and renovations for €238.3 million (€168.1 million in 2005) and logistics and IT projects for €91.1 million (€88.4 million in 2005).

Available free cash flow

The disbursements for net finance costs included interest and dividends received for €38.6 million in 2006 (€48.0 million in 2005).

As a result, available cash flow totalled €885.1 million in 2006 (€740.8 million in 2005), up 19.5%.

Financial transactions

In 2006, financial purchases and sales mainly included the takeover of The Sportsman's Guide by Redcats and Sodice Expansion by Conforama, less the profits from the sales of France Printemps and Orcanta and various share purchases and sales, mainly involving real estate. For 2005, virtually all these cash flows were generated by the sale of the remaining Facet shares.

In 2006 and 2005, disbursements for previous sales of shares included tax payments on the capital gains arising from the sale of Rexel, Finaref and Facet.

PPR share capital transactions – Dividends paid

The impact of the early conversion of the Océane bonds issued in 2003 corresponds to the cash flow generated by the related share capital increase.

The treasury share movements include the impacts of the liquidity contract and stock option plan hedging transactions on cash flow. In 2005, they also included income of €224.8 million relating to the sale of treasury shares in the amount of €2.7 million.

In 2006, dividends paid included the dividends paid to the minority shareholders of consolidated subsidiaries in the amount of €29.9 million (€27.0 million in 2005).

DIVIDEND

The Board of Directors will submit a dividend distribution of €3.00 per share, up 10.3%, to the General Shareholders' Meeting of May 14, 2007 for approval.

PPR has adopted a solid and steady dividend growth policy. Hence, the 10.3% growth in the per share dividend in 2006 follows the increases of 7.9% in 2005, 5.0% in 2004 and 4.3% in 2003.

The amount that could be distributed in 2007 is €385.2 million, up 17.7% compared to the previous year. This implies the following distribution* rates:

- 55.2% of 2006 net income from continuing operations excluding non-recurring items attributable to the equity holders of PPR (compared to 60.7% and 63.7% for 2005 and 2004 respectively);
- 43.5% of 2006 available cash flow (compared to 42.2% and 65.8% for 2005 and 2004 respectively).

* *calculated for fiscal years 2005 and 2004, using accounting aggregates published in 2005 with a 2004 pro forma over twelve months.*

SUBSEQUENT EVENTS

On February 25, 2007, PPR received a firm offer from Accor for the acquisition of all the share capital of Kadeos for €210 million.

PPR has accepted this offer and entered into exclusive negotiations with Accor in order to finalize the preparation of the legal documentation for the transaction, which is expected to close in or around mid-March.

This transaction will inaugurate a partnership with the Accor group in France and internationally. This means that the gift card and voucher activity will be confided to a leader of the sector. It will also ensure the long-term continuity of the Kadeos commercial agreements with all Group companies

Kadéos reported revenue of €17.1 million in 2006 (€19.1 million in 2005) and contributed to Group revenue (after elimination of inter-company sales) in the amount of €4.1 million (€3.2 million in 2005). In 2006, Kadéos' contribution to net income from continuing operations attributable to the equity holders of PPR was €1.0 million (€0.4 million in 2005).

OUTLOOK

The 2007 outlook for the PPR Group appears favourable considering the robust sales of the Retail division and the steady growth of the Luxury Goods division in the first weeks of the year.

Investment policy

In 2006, PPR pursued its primarily organic growth strategy, with the priority being the development of its activities outside France.

In preparing for the future, the Group has focused on the development of its brands and companies within the Luxury Goods and Retail Divisions throughout the year. It has done so by reinforcing their organic growth capacity through the pursuit and acceleration of operating investments.

This momentum was also accompanied by financial investments, through promising tactical development aimed at strengthening the scope of the current activity.

As of the date of the drafting of this document, the management bodies had not made any commitments with respect to major investments since the beginning of 2007.

FINANCIAL INVESTMENTS

2006

Cash flows from financial investments represented net cash of €60.4 million for 2006, the asset disposals (securities and other financial assets), interest and dividends received having exceeded the acquisitions of financial assets.

Takeover of Sodice Expansion by Conforama

In 2006, Conforama's 32% interest in Sodice Expansion, its principal franchisee, was increased to a majority control. Sodice Expansion had been listed on the Paris Stock Exchange. Located in the Nord-Pas-de-Calais region, Sodice Expansion operates 14 stores under the Conforama name. Through this transaction, Conforama has reinforced its leading position in France by extending its national coverage. The acquisition was carried out through a simplified public offer in March and a mandatory withdrawal in December. These transactions were completed at a share price of €150.

Acquisition of The Sportsman's Guide by Redcats

In August 2006, Redcats finalised the acquisition of the NASDAQ-listed US company The Sportsman's Guide. The Sportsman's Guide Group specialises in the distribution of outdoor sports goods over the Internet and by catalogue. The agreement was concluded for a cash share price of US$ 31, bringing the total value of The Sportsman's Guide to US$ 265 million. It involved a "cash merger", so that Redcats now holds all shares, which are no longer listed. In 2005, the revenue of The Sportsman's Guide totalled US$ 285 million. This transaction enabled Redcats to reinforce its presence in the United States, in a buoyant sector with a predominant Internet activity. It demonstrates the Group's desire to bolster its positions in regions and segments with high growth potential.

Extension of the CFAO system

In 2006, CFAO reinforced its Healthcare division through the acquisition of two companies in the pharmaceutical distribution business in Algeria and Togo. In addition, the division also acquired Cider, a company specialising in medical promotion.

Sale of Printemps

Following the transaction's approval by the competition authorities, PPR and RREEF (Deutsche Bank Group), in association with the Borletti Group, announced in October 2006 the sale of their control of France Printemps. The agreement had been announced in June and concluded in August. The transaction took place in two phases: the immediate sale of 51% of the shares, then, in order to ease the change of share ownership as part of an orderly and gradual transition, the sale of the remaining interest in 2007. The transaction was based on an asset price of €1,075 million with an immediate and future tax impact of around €158 million since most of the underlying assets were comprised of real estate.

An important page in the Group's history was thus turned with the sale of this company whose international growth potential was considered as insufficient, with PPR being able to seize the opportunity offered by the real estate market in terms of asset valuation.

Sale of Orcanta

In August, Orcanta, created by PPR in 1996 and operating 64 lingerie boutiques in France, was sold to the Chantelle Group for an enterprise value (value of the company including net indebtedness) of €42.5 million.

Other disposals

Other disposals of a financial nature essentially comprise securities, primarily real estate, less tax payments on the capital gains arising from the disposals of Rexel, Finaref and Facet.

2005

Cash flows from financial investments represented net cash of €67.0 million for 2005.

During the year, the Group sold its subsidiary MobilePlanet to Expansys Holdings Limited and its remaining 9.69% interest in Facet to BNP Paribas.

Furthermore, in connection with prior agreements, Gucci Group increased its stakes In Bottega Veneta and BEDAT & CO to 86.28% and 100% respectively.

2004

Cash flows from financial investments represented net cash of €398.4 million for 2004.

The year saw the finalisation of the strategic repositioning previously begun, the aim being to focus on the Luxury and Real Estate activities. During the year, the major transactions involved PPR's acquisition of additional shares in Gucci Group, and the sales of the controlling interest in Rexel and the residual interest in the Credit and Financial Services activity.

In accordance with the commitments undertaken in September 2001, PPR launched a public offer in April 2004 for the Gucci Group NV shares it did not hold at a price of USD 85.52 per share, thus increasing its stake to 99.41% as of December 31, 2004.

On December 10, 2004, the Group signed a definitive agreement with the consortium comprising Clayton, Dubilier & Rice, Eurazeo and Merrill Lynch Global Private Equity ("Ray Consortium") for the sale of its 73.45% interest in Rexel, the global leader in electrical equipment distribution. The transaction was conducted based on a sale price of €38.50 per share, including the payment of an exceptional dividend of €7.38 per share.

The Group also sold its residual interest in the Credit and Financial Services activity (i.e. 24.5%) in two phases to Crédit Agricole SA.

OPERATING INVESTMENTS

The Group conducts a targeted investment policy, to reinforce both its image and the unique positioning of its brands and companies, and to increase the return on capital employed of investments.

The Group's investment policy centres on the development of its store network, the transformation and renovation of its current sales outlets, the establishment and maintenance of manufacturing units in the Luxury Goods sector and logistics centres in the Retail sector, as well as the development of information systems.

Gross operating investments for the Group represented a cash disbursement of €414.9 million, up 20.4% over the previous year. The increase reflects the growth dynamic of the Luxury Goods and Retail Divisions. The investments include openings, conversions and renovations of sales outlets for €238.3 million (€168.1 million in 2005 and €198.0 million in 2004) and logistics and IT projects for €91.1 million (€88.4 million in 2005 and €99.9 million in 2004).

The share of investments outside of France totalled 61.0% in 2006 (57.1% in 2005 and 56.6% in 2004), thus underscoring the priority the Group has given to international development.

In 2006, net operating investments include disposals of property, plant and equipment and intangible assets for €72.5 million (€32.4 million in 2005 and €26.3 million in 2004).

Retail

Gross operating investments for the Retail Division amounted to €256.0 million in 2006, up 13.6% over 2005. They represent 62% of the Group's total investment budget.

The development of new commercial spaces, modernisation of concepts, step-up of e-commerce and an expanded offering of products and services have been a constant stimulus to organic growth, both in France and internationally.

The policy was largely backed during the year, particularly by Fnac with the opening of 3 stores in France and 5 internationally. Conforama opened 2 stores internationally while continuing its concept update with the accelerated renovation of its stores to the new format and visual image (18 stores renovated in 2006). The Redcats investment included IT and logistics projects, essential to the transformation of its business model and operating efficiency. Finally, CFAO operating investments posted significant growth with positive developments in several African countries. In 2006, CFAO added to its capacities in high-potential markets through the extension of its import-retail network for major brands, particularly in automobile, where the emphasis has been on the launch of new brands, among which Nissan in Nigeria, Chevrolet in New Caledonia, Peugeot in Mauritania

and Toyota in Guinea. These countries complete and densify CFAO's geographical network.

Luxury Goods

PPR pursued its operating investments in 2006, accelerating the effort for Luxury Goods, where investments totalled €157.1 million, compared to €112.7 million in 2005, an increase of 39.4%. They represent 38% of the Group's total investment budget. The step-up in capital expenditures is intended to capitalise on the remarkable positioning of the various Gucci Group brands and the proven success of its creations through an ambitious investment programme that will support and strengthen the organic growth dynamic.

This investment step-up primarily concerns store openings and renovations. Development of the network of directly-operated stores resulted in the opening of 28 additional units, mainly for the Gucci and Bottega Veneta brands, bringing the total number of Luxury Goods stores to 454 at the year-end. In terms of geographical location, the openings largely concerned the US and Asia.

The Gucci brand opened 3 new *flagships*: The Ginza and Nagoya stores in Japan, and Hong Kong Landmark in the city's *Central District*. At the same time, Gucci has started a renovation programme for its directly-operated boutiques on strategic sites. For Bottega Veneta, the most significant openings in 2006 involved Avenue Montaigne in Paris and Omotesando Hills In Tokyo.

Risk Management

FINANCIAL RISKS

The PPR Group has established a centralised structure for the management of liquidity, exchange rate and interest rate. The Group's Financing and Treasury division, which reports to the Finance Department, is responsible for this team and has the necessary expertise, resources (particularly technical) and information systems. It deals in the various financial markets with optimum efficiency and security via PPR Finance SNC, which is dedicated to treasury and financial management. It coordinates the cash management of subsidiaries and determines the Group's banking policy.

Counterparty risk

PPR minimises its exposure to counterparty risk by only dealing with high-rated companies and by spreading out its exposure among its various counterparties, up to their allocated amount. Counterparties to derivative transactions are included in the credit risk management procedures. Each of these transactions require approval and are governed by limits and maturities that are reviewed on a regular basis. Counterparties must have a Standard & Poor's rating of no less than "BBB" or the equivalent Moody's rating.

Equity risk

In the normal course of its business, PPR enters into transactions involving shares in consolidated companies or shares issued by PPR. The Group trades in its own securities either directly or through derivatives in accordance with its share buyback program and with applicable regulations. PPR has also signed an agreement with a financial intermediary to promote the liquidity of its shares and the stability of its share price. This contract complies with the provisions of the Professional Code of Conduct established by the *Association Française des Entreprises d'Investissement* (AFEI, French Association of Investment Companies).

Shares held in connection with non-consolidated investments represent a low exposure risk for the Group and are not hedged.

When PPR sets up financial investments in the form of open-ended investment funds (Sicav), UCITS or equivalent funds, it systematically uses liquid monetary instruments maturing in less than 3 months in order to limit risk. Consequently, the risk borne by PPR is deemed non-material.

Currency risk

The Group uses hedging instruments to reduce its exposure to currency risk based on each activity's specific requirements.

These instruments are used to hedge foreign currency trade debts and liabilities, i.e. to hedge highly probable budgetary exposures and/or firm commitments. Each entity hedges the risk generated in its commercial dealings by the use of a currency other than its functional currency.

The Retail companies primarily hedge the currency risk generated by firm purchase commitments in foreign currencies and highly probable purchase flows. Periods depend on the activity specific to each company. These hedging flows can be generated by inter-company flows via the purchasing centres.

The currency risk hedging of the Luxury Goods companies covers a significant portion of the sales made to their retail subsidiaries and to a lesser extent purchase flows. The hedged flows are essentially inter-company flows.

Future currency exposures are determined through a regularly updated budget procedure.

The hedging period is adapted to each company's cycle and can only marginally exceed the financial year at each balance sheet date.

The Currency risk management instructions and procedures are defined by the Executive Committee of each company and approved by PPR.

Each company hedges its own currency risks in accordance with guidelines and procedures reflecting its specific requirements.

These procedures incorporate Group policies as defined by PPR:

- PPR Finance SNC is the sole counterparty in currency transactions, unless there are any specific regulatory or operating constraints;
- the amounts and maturities of all currency hedging transactions are backed by an underlying asset to prevent any speculative dealing;
- all highly probable exposure is at least 85% hedged regarding budgeted exposure and 100% hedged in the case of firm commitments;
- PPR has strictly limited the type of financial instruments that may be used for hedging purposes;
- each company implements its own internal control system and conducts audits on a regular basis.

PPR ensures that each company's risk management policy is consistent with its underlying exposure, notably through a monthly currency reporting procedure. The Group periodically conducts audits.

The Group also hedges currency risk on financial assets and liabilities issued in foreign currencies by using currency swaps for refinancing or by investing cash in euros or the local currency.

PPR Finance SNC provides the control and administrative follow-up for all currency transactions on behalf of Group companies. Front-office, middle-office, back-office and accounting tasks are separated to ensure security. PPR Finance SNC uses market-standard information systems and other resources to value currency instruments.

Interest rate risk

Falling under PPR's authority, the interest rate risk policy is managed on a consolidated basis by PPR Finance SNC. PPR has set a 50% floating rate and 50% fixed rate breakdown for Group consolidated net indebtedness.

Interest rate risk is evaluated on the basis of current data and projections of consolidated net indebtedness and the schedule of hedged positions and fixed and floating rate issues. This enables interest-rate hedging in accordance with the Group's target fixed-to-floating rate ratio. Appropriate hedging products are set up through PPR Finance SNC, in close cooperation with PPR's senior management. PPR mainly uses interest rate swaps in order to convert all or part of its fixed-rate bonds and caps and collars to a floating rate in order to protect floating-rate financing against an increase in interest rates.

PPR Finance SNC provides the control and administrative follow-up for all currency transactions on behalf of Group companies. Front-office, middle-office, back-office and accounting tasks are separated to ensure security. PPR Finance SNC uses market-standard information systems and other resources to value currency instruments.

Liquidity risk

Liquidity risk management for the Group and each of its companies is closely monitored and periodically assessed by PPR, with the help of Group and company financial reporting procedures.

Unused confirmed credit lines as of December 31, 2006 totalled €4,773,1 million, compared with €4,913.1 million at the end of 2005. PPR also issued new bonds totalling €300 million and maturing on January 29, 2013 as part of its EMTN (Euro Medium Term Note) programme (see note 29.4 to the consolidated financial statements) to extend the maturity of its debt and diversify its funding resources. PPR also requested an extension to the maturity of the €2,750 million revolving syndicated credit facility set up in March 2005. Following this request, €2,287 million was extended to March 2012, €268 million to March 2011 and €195 million retained the March 2010 maturity.

PPR has an "A3" short-term credit rating from Standard & Poor's and a "BBB-" long-term stable outlook rating.

The Group's bank loans and bonds 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.

Confirmed credit lines are subject to a mandatory prepayment clause if the net financial indebtedness/EBITDA ratio is not lower than or equal to 3.75 (see Note 29.5 to the consolidated financial statements).

Public bond issues in the euro market are not governed by any financial ratio obligation.

The Group was in compliance with all these covenants as of December 31, 2006 and there is no foreseeable risk of breach.

LEGAL RISKS

Group companies are involved in a number of lawsuits or disputes that arise in the normal course of business, including litigation with tax, social welfare or customs authorities. Reserves for contingencies and losses 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. All of these legal risks, including the impact of commitments relating to the disposal of controlling interests in companies, have been provided for in the Group's consolidated financial statements as of December 31, 2006. None of these risks have been qualified as arising outside the scope of the normal course of business of the Group's companies.

The Group believes that effective procedures and processes for identifying and managing its industrial and environmental risks at each of its relevant companies, and which rely on the professional advice of duly authorised external organisations and advisers, adequately satisfy, in terms of relevance and proportionality, prevailing professional and technical standards in the current applicable regulatory framework. An active prevention and safety policy is an integral part of these procedures and processes.

The Group owns the trademarks, patents or intellectual property (IP) rights which it exploits and there are no restrictions as to right of priority or use on all relevant markets, irrespective of the corporate names of the companies, the store brands or Group sales outlets, or irrespective of the product trademarks or services manufactured by the various Group entities. In connection with the Group's trademark enhancement policy, this situation does not prohibit certain trademarks belonging to the Group from being licensed to third parties for the secondary distribution of related or accessory products and/or the Group from accepting to ensure the distribution of related or accessory products under licensing agreements. In all cases, these licensing agreements have been entered into under fair commercial and financial terms and conditions and have no impact on the ownership of the trademarks and signs belonging to the Group.

Regarding the warranties granted when the control of Guilbert SA was transferred to Office Depot in May 2003, PPR granted standard vendor warranties for a period of two years, excluding tax-related warranties for a period equal to the applicable statute of limitations.

The standard two-years vendor warranties granted to Office Depot in May 2003, that were capped at €85 million, as part of the disposal of the Group's interest in Guilbert's home shopping business, are only in force for the tax-related warranties for a period equal to their applicable statute of limitations.

Regarding the warranties granted in 2003 when the control of Pinault Bois & Matériaux was transferred to the Wolseley Group in June 2003, Saprodis granted a general vendor warranty on the assets and liabilities, which subsists, until July 2014, solely for the environmental, health and safety risks. This warranty is capped at €100 million and €50 million after July 2008.

Standard vendor warranties granted in July 2006 in connection with the disposal of Orcanta will expire on February 28, 2008, excluding tax-related warranties (guaranteed for a period equal to the applicable statute of limitations).

Standard vendor warranties were granted by PPR as part of the disposal of France Printemps in August 2006. General vendor warranties will expire on March 31, 2008 and tax-related warranties will expire on December 31, 2009. These warranties were capped at €65 million except for certain warranties specific to real estate assets.

Regarding laws or regulations applicable to the Group's activities, it should be noted that none of its businesses are governed by any particular rules or requirements on any of the relevant markets. The Group's businesses are governed by the same constraints and regulations as those directly applicable to the companies with which it competes on the relevant markets.

As far as we are aware, no regulatory or legislative changes are expected to occur in the near future.

To the best of the Company's knowledge, during the last twelve months, there have been no governmental, legal or arbitration proceedings (including any pending or threatened proceedings of which the issuer is aware) that could have a material adverse effect on the financial position or profitability of the issuer.

INSURANCE RISKS

PPR's Insurance Division is responsible for identifying risks, quantifying the consequences thereof and reducing them:

- either by recommending preventive measures for risks that can be eliminated or reduced in that manner;
- or by using financing terms and conditions, in particular by transferring to the insurance market sudden and accidental risk with potential severe consequences.

This Division reports directly to the PPR Corporate Secretary. It depends on each Group company, which is responsible for providing the necessary information to identify and quantify the risks and employ the appropriate means to ensure business continuity in the event of a claim.

On this basis, the Group's Insurance Division negotiates with the major players in the insurance and reinsurance industry to provide the most appropriate coverage for insurable risks.

Risk prevention

A decentralized policy of prevention, precaution and risk protection in accordance with PPR regulations applied to the Group's companies, aimed at identifying, evaluating and reducing exposure to, as well as the occurrence and the intensity of losses, based on:

- an audit of the main operating sites;
- an appraisal of risk values;
- following the recommendations of security professionals;
- internal control procedures;
- staff training;
- introducing appropriate emergency plans.

An inter-company task force (Risk Prevention Network) brings together professionals in protection and risk prevention from each company to design and introduce common standards for the most significant risks.

Insurance

A policy of transferring significant risks to insurance companies, determined by:

- achieving the right financial mix for the Group's risk coverage, premiums and self-insurance insurance;
- availability of insurance capacities, insurance market constraints and local regulations.

Coverage based on the "All risks except" approach, which is determined based on an assessment of the financial consequences for the company of possible claims, especially in the area of:

- civil liability: bodily or property damage to third parties because of products, furniture and equipment installation;
- fire, explosions, water damage, etc.;
- operating losses following direct damage.

The purchase of insurance coverage is based on the determination by site and company of a "reasonably estimated" potential occurrence of diverse risks (liability and damages). This estimate takes into account the analysis made by insurers as underwriters of PPR risks.

The insurance schemes now in force in the Group, which centralizes the purchase of insurance policies such as fire, accident and diverse risks (IARD) for all subsidiaries, were taken out with the assistance of internationally recognized insurance brokers specialized in covering major risks, with reputable insurers in the industrial risk insurance sector.

Main existing insurance programmes

- property damage from fire, explosion, floods, machine breakage, natural disasters to its own property: property/furnishings/ equipment/ merchandise/IT installations, and to property for which it is responsible, as well as any resulting operating losses, for any period deemed necessary for normal business activities to resume;
- damage and loss of equipment, merchandise and/or goods in transport;
- insurance for damages resulting from theft, fraud, embezzlement, or act of malice to valuable assets, data and/or property;
- bodily or property damage after construction operations (new construction, renovation, rehabilitation, etc.) conducted as project owners (maîtres d'ouvrage);
- liability for bodily or property damage to third parties by motorised vehicles belonging to the different companies;
- responsibility under general and environmental civil liability for the "operating risk" and "post-delivery risk" and "risk after services rendered," due to damages caused to third parties in the course of its business.

Other insurance contracts are taken out by the Group companies for specific risks or to take local constraints into consideration.

Uninsured risks are exposures for which there is no insurance coverage offered on the insurance market or insurance offers at unattractive prices compared to the advantage brought by the potential insurance coverage. This was the case in 2004 and 2005 for "terrorism coverage" in countries where there are no local schemes for insurance. In 2006, insurance offers for terrorism coverage are more reasonable and we managed to buy some policies for the Group and maintain them for 2007.

PPR Group handles insurable risks according to the state of the art and scientific knowledge allowing forecast on potential risks in a comparable way with other French or foreign industrial groups with similar types of exposures. This is one of the reasons why we are able to place our risks with insurers ready to deal with the sudden and the accidental consequences of our activities.

Overall the amount of coverage for the main potential risks of the Group as a whole as of January 1, 2007, are shown below:

- damage from fire, explosions and water damage and resulting operating losses: €800 million;
- general civil liability: €145 million;
- damage and loss of goods in transport: €15 million;
- damage from fraud and acts of malice to goods and valuable assets: €20 million.

Total "Cost of Risks" for PPR includes three main items (in addition to physical protection and prevention investments):

- cost of deductibles and non-insured losses retained or self-financed by each entity: €4.5 million in 2006;
- self-insured losses financed by the Group through its internal reinsurance company: Printemps Reassurance: €3.9 million in 2006.

  Taking out this reinsurance through a Group subsidiary reduces insurance costs and enhances performance because frequent risks are pooled within the Group and insured for an amount that is capped annually.

  Printemps Reassurance covers damages/operating losses in the amount of €1.5 million per loss with a €5 million cap per insured year (i.e. for the period from July 1 to June 30);
- insurance premiums and management fees including engineering visits and brokers fees, etc. (2006 final budget taking into account the year's developments): €28.25 million.

In 2007, it amounts to around €26.2 million and as for the previous years, there will be additional premiums to be paid in case of new developments or an increase in activity volumes during the year.

Specific additional insurance may also be bought by some entities in the Group to cover their own exposures or as a result of local specific requirements (accidents at work, natural events contributions, etc.).

Consolidated financial statements for the year

ended December 31, 2006

The 2005 and 2004 comparative information presented in this document was restated to comply with the IFRS in effect on the date the financial statements were prepared and to reflect the classification of certain activities in accordance with IFRS 5. These restatements are described in Note 3.

CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

(in € million)	Notes	2006	2005	2004 (1)
CONTINUING OPERATIONS				
Revenue	*7*	**17,930.9**	**16,937.9**	**16,660.5**
Cost of sales		(10,075.2)	(9,598.8)	(9,337.0)
Gross profit		**7,855.7**	**7,339.1**	**7,323.5**
Payroll expenses	*8-9*	(2,636.5)	(2,469.5)	(2,413.9)
Other recurring operating income and expenses		(3,944.7)	(3,807.0)	(3,843.3)
Recurring operating income	*10*	**1,274.5**	**1,062.6**	**1,066.3**
Other non-recurring operating income and expenses	*11*	(0.1)	3.1	93.3
Operating income		**1,274.4**	**1,065.7**	**1,159.6**
Finance costs	*12*	(290.0)	(307.4)	(293.2)
Income before taxes		**984.4**	**758,3**	**866.4**
Income taxes	*13*	(259.9)	(187.0)	(317.0)
Share in earnings of associates		2.2	3,4	14.4
Net income from continuing operations		**726.7**	**574.7**	**563.8**
o/w attributable to equity holders of the parent		679.7	536.4	504.5
o/w attributable to minority interests		47.0	38.3	59.3
DISCONTINUED OPERATIONS				
Net income from discontinued operations	*14*	**5.4**	**(1.0)**	**613.0**
o/w attributable to equity holders of the parent		5.6	(1.0)	560.6
o/w attributable to minority interests		(0.2)		52.4
Net income of consolidated companies		**732.1**	**573.7**	**1,176.8**
o/w attributable to equity holders of the parent		685.3	535.4	1,065.1
o/w attributable to minority interests		46.8	38.3	111.7
Net income attributable to equity holders of the parent	*2.18*	**685.3**	**535.4**	**1,065.1**
Earnings per share (in €)	*15.1*	5.64	4.51	8,94
Fully diluted earnings per share (in €)	*15.1*	5.63	4.40	8,21
Net income from continuing operations attributable to equity holders of the parent	*2.18*	**679.7**	**536.4**	**504.5**
Earnings per share (in €)	*15.1*	5.60	4.52	4,24
Fully diluted earnings per share (in €)	*15.1*	5.58	4.40	4,01
Net income from continuing operations excluding non-recurring items attributable to equity holders of the parent	*2.18*	**698.0**	**531.0**	**536.1**
Earnings per share (in €)	*15.2*	5.75	4.47	4,50
Fully diluted earnings per share (in €)	*15.2*	5.73	4.36	4,25

(1) Excluding IAS 32/39 - Luxury Goods Division consolidated for a 14-month period from November 1, 2003 to December 31, 2004.

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2006, 2005 AND 2004

Assets

(in € million)	Notes	2006	2005	2004 (1)
Goodwill	*16*	5,609.3	5,545.9	5,396.6
Other intangible assets	*17*	6,602.7	6,605.0	6,618.4
Property, plant and equipment	*18*	1,900.6	2,538.7	2,623.5
Investments in associates	*20*	19.3	44.0	46.9
Non-current financial assets	*21*	216.0	240.8	241.2
Deferred tax assets	*13.2*	692.8	585.6	425.7
Other non-current assets		13.9	11.6	14.4
Non-current assets		**15,054.6**	**15,571.6**	**15,366.7**
Inventories	*22*	2,744.2	2,827.2	2,632.6
Trade receivables	*23*	1,116.4	1,125.6	1,052.5
Customer loans	*23*	397.7	416.6	419.1
Current tax receivables	*13.2*	56.8	52.0	46.2
Other current financial assets	*24*	74.1	50.1	146.5
Other current assets	*23*	1,136,4	1,147.3	1,225.5
Short-term receivables on divestments	*25*			2,181.8
Cash and cash equivalents	*25*	1,555.6	1,813.2	2,106.3
Current assets		**7,081.2**	**7,432.0**	**9,810.5**
Assets classified as held for sale	*14*	**253.5**		
Total assets		**22,389.3**	**23,003.6**	**25,177.2**

(1) Excluding IAS 32/39.

Liabilities and shareholders' equity

(in € million)	Notes	2006	2005	2004 (1)
Share capital	*26*	513.6	481.8	489.7
Capital reserves		2,661.6	2,011.7	2,165.6
Treasury shares			(13.8)	(51.6)
Cumulative translation adjustments		(18.4)	78.6	(74.1)
Remeasurement of financial instruments		48.2	(30.4)	
Other reserves		5,766.1	5,457.4	5,250.8
Shareholders' equity attributable to equity holders of the parent	*26*	**8,971.1**	**7,985.3**	**7,780.4**
Shareholders' equity attributable to minority interests		153.4	148.8	238.8
Shareholders' equity	*26*	**9,124.5**	**8,134.1**	**8,019.2**
Long-term borrowings	*29*	3,140.7	4,398.9	6,103.2
Other non-current financial liabilities	*30*		1.8	
Provisions for retirement and similar benefits	*27*	248.6	266.1	233.3
Provisions	*28*	140.9	142.7	164.8
Deferred tax liabilities	*13.2*	1,939.8	1,965.3	1,859.7
Non-current liabilities		**5,470.0**	**6,774.8**	**8,361.0**
Short-term borrowings	*29*	1,902.7	2,064.2	2,910.2
Financing of customer loans	*29*	397.7	416.6	419.1
Other current financial liabilities	*30*	44.7	19.5	11.2
Trade payables	*23*	2,500.6	2,758.1	2,643.8
Provisions for retirement and similar benefits	*27*	12.1	13.3	14.2
Provisions	*28*	112.5	85.0	183.5
Current tax liabilities	*13.2*	279.7	355.7	266.6
Other current liabilities	*23*	2,544.8	2,382.3	2,348.4
Current liabilities		**7,794.8**	**8,094.7**	**8,797.0**
Liabilities associated with assets classified as held for sale	*14*			
Total liabilities and shareholders' equity		**22,389.3**	**23,003.6**	**25,177.2**

(1) Excluding IAS 32/39.

CONSOLIDATED CASH FLOW STATEMENT AS OF DECEMBER 31, 2006, 2005 AND 2004

(in € million)	Notes	2006	2005	2004 [1]
Net income from continuing operations		**726.7**	**574.7**	**563.8**
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets		355.5	348.2	364.4
Other non-cash income and expenses		31.0	(22.1)	26.1
Cash flow from operating activities	*33.1*	**1,113.2**	**900.8**	**954.3**
Interest paid/received		182.5	225.3	259.2
Dividends received		(1.2)	(15.1)	(26.0)
Net income tax payable		245.9	207.1	147.0
Cash flow from operating activities before tax, dividends and interest		**1,540.4**	**1,318.1**	**1,334.5**
Change in working capital requirement		43.4	43.2	(5.2)
Change in customer loans		26.2	8.3	28.6
Income tax paid		(198.0)	(140.3)	(204.9)
Net cash from operating activities		**1,412.0**	**1,229.3**	**1,153.0**
Purchases of property, plant and equipment and intangible assets	*33.2*	(414.9)	(344.5)	(369.7)
Proceeds from sale of property, plant and equipment and intangible assets	*33.2*	72.5	32.4	26.3
Acquisitions of subsidiaries, net of cash acquired	*33.3*	(295.1)	(68.6)	(2,688.0)
Proceeds from disposal of subsidiaries net of cash transferred	*33.3*	168.6	3.1	2,305.5
Purchases of other financial assets		(48.8)	(17.2)	(233.6)
Proceeds from sale of other financial assets		197.1	101.7	158.5
Interest and dividends received		38.6	48,0	59.2
Net cash from investing activities		**(282.0)**	**(245.1)**	**(741.8)**
Share capital increase/decrease [2]		720.5	1.8	(0.2)
Treasury share transactions	*33.4*	(65.5)	185.5	100.4
Dividends paid to parent company shareholders		(325.7)	(299.3)	(278.9)
Dividends paid to minority interests		(29.9)	(27.0)	(19.9)
Bond issues	*29 - 33.5*	413.3	621.1	1,343.5
Bond redemptions [2]	*29 - 33.5*	(1,611.0)	(865.2)	(1,507.9)
Increase (decrease) in other borrowings	*29*	(197.2)	(2,689.5)	1,469.5
Interest paid and equivalent		(223.1)	(224.4)	(315.0)
Net cash from (used in) financing activities		**(1,318.6)**	**(3,297.0)**	**791.5**
Net cash from assets classified as held for sale	*14*	55.9	32.4	80.4
Impact of exchange rate variations		8.2	13.3	38.7
Net increase/(decrease) in cash and cash equivalents [4]		**(124.5)**	**(2,267.1)**	**1,321.8**
Cash and cash equivalents at beginning of the year [3]		**1,340.3**	**3,607.4**	**2,722.9**
Cash and cash equivalents at end of the year [4]		**1,215.8**	**1,340.3**	**4,044.7**

(1) Excluding IAS 32/39 - Luxury Goods Division consolidated for a 14-month period from November 1, 2003 to December 31, 2004.

(2) Including €719.6 million in 2006 with no impact on cash movements.

(3) Cash and cash equivalents at the beginning of fiscal year 2005 of €3,607.4 million corresponds to cash and cash equivalents at the close of fiscal year 2004 adjusted for the impact of the application of IAS 32 and 39 as of January 1, 2005 in the amount of €437.3 million.

(4) As of December 31, 2004 "Net increase in cash and cash equivalents" and "Cash and cash equivalents at the end of the year" include short-term receivables on divestments of €2,181.8 million (note 25).

CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

(Before appropriation of net income)							Other reserves and net income attrib. to equity holders of the parent	Shareholders' equity		
(in € million)	Number of shares outstanding[1]	Share capital	Capital reserves	Treasury shares	Cumulative translation adjustments	Remeasurement of financial instruments		Equity holders of the parent	Minority interest	Total
As of January 1, 2004	**120,802,365**	**489.6**	**2,164.3**	**(273.5)**			**4,585.0**	**6,965.4**	**2,964.7**	**9,930.1**
Gains and losses recognised directly in shareholders' equity					(74.1)		(14.5)	**(88.6)**	(0.2)	**(88.8)**
2004 net income							1,065.1	**1,065.1**	111.7	**1,176.8**
Total gains and losses recognised					**(74.1)**		**1,050.6**	**976.5**	**111.5**	**1,088.0**
Share capital increase/ decrease	27,500	0.1	1.3					**1.4**		**1.4**
Treasury shares [3]	1,300,000			221.9			(113.0)	**108.9**		**108.9**
Valuation of share option programmes							7.1	**7.1**		**7.1**
Dividends paid							(278.9)	**(278.9)**	(29.9)	**(308.8)**
Changes in Group structure									(2, 807.5)	**(2, 807.5)**
As of December 31, 2004	**122,129,865**	**489.7**	**2,165.6**	**(51.6)**	**(74.1)**		**5,250.8**	**7,780.4**	**238.8**	**8,019.2**
Application of IAS 32/39	(4,583,517)			(509.4)		26.7	149.9	**(332.8)**	(67.3)	**(400.1)**
As of January 1, 2005	**117,546,348**	**489.7**	**2,165.6**	**(561.0)**	**(74.1)**	**26.7**	**5,400.7**	**7,447.6**	**171.5**	**7,619.1**
Gains and losses recognised directly in shareholders' equity					152.7	(57.1)	(13.0)	82.6	0.6	83.2
2005 net income							535.4	**535.4**	38.3	**573.7**
Total gains and losses recognised					**152.7**	**(57.1)**	**522.4**	**618.0**	**38.9**	**656.9**
Share capital increase/ decrease	(1,986,250)	(7.9)	(153.9)					**(161.8)**		**(161.8)**
Treasury shares [3]	4,738,618			547.2			(171.1)	**376.1**		**376.1**
Valuation of share option programmes							4.7	**4.7**		**4.7**
Dividends paid							(299.3)	**(299.3)**	(26.7)	**(326.0)**
Changes in Group structure									(34.9)	**(34.9)**
As of December 31, 2005	**120,2980,716**	**481.8**	**2,011.7**	**(13.8)**	**78.6**	**(30.4)**	**5,457.4**	**7,985.3**	**148.8**	**8,134.1**
Gains and losses recognised directly in shareholders' equity					(97.0)	78.6	4.2	(14.2)	(0.8)	(15.0)
2006 net income							685.3	**685.3**	46.8	**732.1**
Total gains and losses recognised					**(97.0)**	**78,6**	**689.5**	**671.1**	**46.0**	**717.1**
Share capital increase/ decrease	7,939,044	31.8	649.9					**681.7**		**681.7**
Treasury shares [3]	149,514			13.8			(60.1)	**(46.3)**		**(46.3)**
Valuation of share option programmes							5.0	**5.0**		**5.0**
Dividends paid							(325.7)	**(325.7)**	(29.7)	**(355.4)**
Changes in Group structure									(11.7)	**(11.7)**
As of December 31, 2006 [2]	**128,387,274**	**513.6**	**2,661.6**		**(18.4)**	**48.2**	**5,766.1**	**8,971.1**	**153.4**	**9,124.5**

(1) Shares with a par value of €4 each.
(2) Number of shares outstanding as of December 31, 2006: 128,387,274.
(3) Net of tax.

CONSOLIDATED STATEMENT OF GAINS AND LOSSES RECOGNISED

(in € million)	2006	2005	2004 (1)
Currency translation adjustments	(97.8)	153.7	(74.3)
Actuarial gains and losses (2)	3.8	(13.0)	(14.5)
Cash flow hedges (2)	40.9	(32.1)	
Other financial instruments (2)	38.1	(25.4)	
Gains and losses recognised directly in shareholders' equity	**(15.0)**	**83.2**	**(88.8)**
Net income for the year	732.1	573.7	1,176.8
Total gains and losses recognised	**717.1**	**656.9**	**1,088.0**
o/w attributable to equity holders of the parent	671.1	618.0	976.5
o/w attributable to minority interests	46.0	38.9	111.5

(1) Excluding IAS 32/39.
(2) Net of tax.

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for the year ended December 31, 2006

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NOTE 1. INTRODUCTION

PPR, the Group's parent company, is a *société anonyme* (commercial company) with a Board of Directors, incorporated under French law, whose registered office is located at 10, avenue Hoche 75008 Paris, France. It is registered with the Paris Register of Commerce and Companies under the reference 552 075 020 RCS Paris and listed on the Paris Stock Exchange.

The consolidated financial statements for the year ended December 31, 2006 reflect the accounting position of PPR and its subsidiaries, together with its interests in associates and joint ventures.

The Board of Directors approved the consolidated financial statements for the year ended December 31, 2006 and authorized their publication on March 8, 2007. These consolidated financial statements will become definitive following their adoption by the Annual General Shareholders' Meeting of May 14, 2007.

NOTE 2. ACCOUNTING POLICIES AND METHODS

General principles

Pursuant to European Regulation No. 1606/2002 of July 19, 2002, the PPR consolidated financial statements for the year ended December 31, 2006 were prepared in accordance with the applicable international accounting standards adopted by the European Union and which are mandatory as of that date. The international standards comprise the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS), and the interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC).

Adopted IFRS base

The amendments to published standards (amendment to IAS 21 and amendments to IAS 39, including those amendments to IAS 39 relating to cash flow hedges of forecast inter-group transactions) and interpretations (*IFRIC 4 – Determining whether an arrangement contains a lease* and *IFRIC 6 – Liabilities arising from participating in a specific market – waste electrical and electronic equipment*), which were applicable as of January 1, 2006, did not have a material impact on the Group's consolidated financial statements.

However, the financial statements do not take into account:

- draft standards and interpretations that are still at the exposure draft stage with the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), on the date these financial statements were prepared;
- new standards and amendments to existing standards and interpretations published by the IASB but not yet approved by the European Accounting Regulation Committee, on the date these financial statements were prepared. These particularly concern IFRS 8 – *Operating segments* and interpretations IFRIC 10 – *Interim financial reporting and impairment* and IFRIC 11 – *Group and treasury share transactions* for which no material impact is expected for the Group. They also include interpretation IFRIC 12 – *Service concession arrangements*, which is not applicable to the Group;
- the standards published by the IASB and adopted within the European Union on the date the financial statements were prepared, but which are applicable to fiscal years beginning after January 1, 2006. These particularly concern IFRS 7 regarding disclosures on financial instruments, the amendment to IAS 1 regarding capital disclosures and interpretations IFRIC 8 – *Scope of IFRS 2,* IFRIC 9 – *Reassessment of embedded derivatives* and IFRIC 7 – *Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies* for which no material impact is expected for the Group.

First-time adoption of IFRS

With regard to first-time adoption in 2005, the IFRS adopted by the European Union and applicable as of December 31, 2005 were applied retroactively to January 1, 2004 in accordance with IFRS 1, with the exception of certain exemptions provided by the standard:

- **business combinations**: in accordance with IFRS 3, the Group elected to restate business combinations retroactively to January 1, 1999;
- **employee benefits:** the Group adopted the IFRS 1 option of recognising all actuarial gains and losses at the transition date, offset against opening shareholders' equity;
- **cumulative translation differences:** the Group decided to use the optional exemption allowing the elimination of cumulative translation differences at the transition date through an offsetting entry in consolidated reserves;
- **assets and liabilities of subsidiaries, affiliates and joint venture partners**: IFRS 1 states that if the parent company of a group adopts IFRS for the first time in its consolidated financial statements after a subsidiary, the parent company must, in its opening IFRS consolidated balance sheet, value the assets and liabilities at the same carrying amount as that appearing in the subsidiary's financial statements, taking into account any consolidation adjustments. Since Gucci Group was already preparing its financial statements in IFRS format before the transition date, the Group complied with this treatment when preparing its opening balance sheet;

- **share-based payments:** in accordance with the option allowed by IFRS 2 for equity-settled plans, the Group has decided to apply this standard solely to plans issued after November 7, 2002, which had not vested as of January 1, 2005.

In addition, subsequent to the choice offered by regulator as to the date of adoption of IAS 32 and IAS 39 relating to financial instruments, the Group has opted to apply these standards as of January 1, 2005. Accordingly:

- for the liability component of a compound instrument that is no longer outstanding at the date of transition to IAS 32 and 39, the Group has opted not to separate the equity portion relating to the cumulative interest accreted on the liability component from the initial equity component;
- financial assets and liabilities recorded prior to the transition date were designated at fair value through profit or loss, or as held for sale, on the transition date (January 1, 2005).

2.1. Basis of preparation of the consolidated financial statements

Valuation bases

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;
- non-current assets held for sale, 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.

Use of estimates

The preparation of consolidated financial statements implies the consideration of estimates and assumptions by Group management that can affect the carrying amount of certain assets and liabilities, income and expenses, and the information disclosed in the notes to the financial statements. 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 could 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 took place and all affected future periods.

The main estimates made by management in the preparation of the financial statements concern the valuation and the useful life of operating assets, intangible assets, property, plant and equipment 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 payments and deferred tax balances and derivatives.

The main assumptions made by the Group are detailed in the appropriate notes to the financial statements and particularly in the following notes:

- Note 4.1 – Changes in Group structure;
- Note 9 – Share-based payments;
- Note 13 – Taxes;
- Note 19 – Impairment losses;
- Note 27 – Employee benefits and equivalent;
- Note 30 – Exposure to foreign exchange, interest rate and equity risk;
- Note 32 – Market value of financial instruments.

2.2. Consolidation principles

The consolidation is based on financial statements (or interim financial statements) drawn up for a 12-month period ended December 31, 2006 for all Group companies.

The consolidated financial statements include the financial statements of companies acquired as from the date of acquisition and companies sold up until the date of disposal.

Subsidiaries

Subsidiaries are all entities (including special-purpose entities) over which the Group exercises control. Control is defined as the ability to govern, directly or indirectly, the financial and operating policies of an entity in order to obtain the benefit of its activities. This situation is generally accompanied by the holding, directly or indirectly, of more than 50% of voting rights. The existence and impact of potential voting rights that are exercisable or convertible are taken into account in the assessment of control.

Subsidiaries are fully consolidated from the effective date of control.

Material inter-company assets and liabilities and transactions between fully 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.

Business combinations

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

The purchase cost is measured at the fair value, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued plus any costs directly attributable to the acquisition. The identifiable assets, liabilities and contingent liabilities of the acquired entity are measured at their fair value on the date of acquisition, including the minority interest share.

The excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity is recognised as goodwill. If the purchase cost is less than the Group's interest in the net assets of the subsidiary acquired measured at fair value, the difference is recognised directly in net income for the period.

Associates

Associates are all entities in which the Group exercises a significant influence over management and the financial policy, without exercising control, and generally holds 20 to 50% of the voting rights.

Associates are recognised using the equity method and initially measured at cost. Subsequently, the share in profits or losses of the associate attributable to equity holders of the parent is recognised in net income and the change in equity attributable to equity holders of the parent is recognised in equity. Should the Group share in the losses of an associate equal or exceed the Group's investment in the associate, the Group shall cease to recognise 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.

Gains or losses on internal transactions with equity 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.

Joint ventures

In the event of joint control, which exists pursuant to the contractually agreed sharing of control over an economic activity, and when the strategic, financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control, the Group's stake in the joint venture is recognised using the equity method.

Consolidation of consumer credit businesses

Exclusively controlled consumer credit companies are fully consolidated. These companies essentially finance sales of consumer goods within the Retail Division. Sales financing revenue is presented in revenue, while sales financing costs are considered as operating items classified in recurring operating income. The asset and liability headings of these businesses have been allocated according to their nature to special headings of the Group consolidated balance sheet, with a distinction as to the asset and liability side of consumer loan financing.

The consumer credit business contribution is included in Retail in the table presenting information by division. It does not represent a separate activity in accordance with IAS 14 – *Segment reporting* criteria.

2.3. Foreign currency translation

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 consolidated financial statements are presented in euros, which serves as the presentation currency.

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 each balance sheet date using the closing rate. Translation adjustments arising from the settlement of the items are recognised in income or expenses of 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 valued 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 equity, the foreign exchange component is also recognised in equity. Otherwise, the component is recognised in income or expenses of the period.

The treatment of foreign exchange rate hedges in the form of derivatives is described in Note 2.9 – Derivative instruments.

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:

- balance sheet items other than shareholders' equity are translated at the period-end exchange rate;
- income and cash flow statement items are translated at the average rate for the year;
- differences are recognised in consolidated shareholders' equity under cumulative translation adjustments, and notably differences on foreign currency borrowings used to hedge foreign currency investments and on permanent advances to foreign subsidiaries.

The 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 then translated at the closing exchange rate into the Group's presentation currency, and the resulting differences transferred to consolidated shareholders' equity.

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 of shareholders' equity and in income on disposal of the net investment.

Foreign exchange gains or losses in respect of foreign currency borrowings hedging foreign currency investments or permanent advances to subsidiaries are also recognised in consolidated shareholders' equity and in income on disposal of the net investment.

2.4. Goodwill

The excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity is recognised as goodwill. 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 with goodwill are subject to annual impairment tests during the second half of the fiscal year or when events or circumstances indicate an impairment loss is likely.

Any impairment losses are recorded in "Other non-recurring operating income and expenses" in the consolidated income statement as part of Group operating income.

2.5. Other intangible assets

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

Software developed by the Group and meeting all the criteria of IAS 38 is capitalised and amortised on a straight-line basis over its useful life, which is generally between 3 and 10 years.

Intangible assets acquired as part of a business combination, which are controlled by the Group and can be measured reliably, and which are separable or arise from contractual or other legal rights, are recognised separately from goodwill. These assets, in the same way as intangible assets acquired separately, are amortised over their useful life where this is finite and written down if their value in use is less than the net carrying amount. Indefinite life intangible assets are not amortised but are subject to systematic annual impairment tests or more frequent tests where there is indication that an impairment loss is likely.

Brands representing a preponderant category of the Group's assets are recognised separately from goodwill when they meet the criteria imposed by IAS 38. Recognition and durability criteria are then taken into account to assess the useful life of the brand.

A brand representing an intangible asset with an indefinite useful life is not amortised but is subject to a systematic annual impairment test or more frequent tests where there is indication that an impairment loss is likely.

A brand representing an intangible asset with a finite useful life is amortised on a straight-line basis over its useful life, not exceeding 20 years.

Any impairment losses recognised at the time of impairment tests is recorded in the income statement under "Other non-recurring operating income and expenses" as part of Group operating income.

2.6. 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 repair and maintenance costs are expensed in the year they are incurred except for expenses incurred for an increase in productivity or the extension of an asset's useful life, which are capitalised.

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 review 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 several specific assets and which transfer the right to use the asset may be 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 and a corresponding borrowing is recognised in 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.

Deferred tax is recognised in respect of the capitalisation of finance leases where appropriate.

Lease contracts that do not confer substantially all the risks and rewards incidental to ownership are classified as operating leases. Payments made under these operating leases are recognised in current operating expenses on a straight-line basis over the term of the contract.

Capital gains on the sale and leaseback of assets are fully recognised in income at the time of disposal when the lease qualifies as an operating lease and the transaction is performed at fair value.

2.7. Impairment of assets

Goodwill and intangible assets with an indefinite life and CGUs or groups of CGUs containing these items are subject to systematic impairment tests during the second half of each fiscal year.

In addition, when events or circumstances indicate that an impairment loss is likely in respect of goodwill, other intangible assets or property, plant and equipment and CGUs and groups of CGUs, an impairment test is performed. 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.

Impairment tests seek to determine whether the recoverable amount of an asset or CGU or a group of CGUs is less than its net carrying amount.

The recoverable amount of an asset or CGU or group of CGUs 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 forecast expected future cash flows, taking into account the time value of money and the specific risks attributable to the asset or CGU or group of CGUs.

Estimated future cash flow projections are based on medium-term budgets and plans. These plans are drawn up for a period of 4 years with the exception of certain CGUs or groups of CGUs subject to strategic repositioning for which a longer period may be applied. To calculate the value in use, a terminal value equal to the perpetual capitalisation in the last year of the medium-term plan is added to the expected future cash flows.

Fair value less costs to sell is the amount obtainable from the sale of an asset or group of assets in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. These values are determined based on market data (comparison with similar listed companies, values attributed in recent transactions and stock market prices).

When the recoverable amount of the asset, CGU or group of CGUs is less than its net carrying amount, an impairment loss is recognised.

For a CGU or group of CGUs, impairment is attributed directly to goodwill where necessary and recognised under "Other non-recurring operating income and expenses" in the income statement.

Impairment losses recognised in respect of property, plant and equipment and other intangible assets may be reversed at a later date up to the amount of the losses initially recognised, when the recoverable amount becomes greater than the net carrying amount. Impairment losses in respect of goodwill may not be reversed.

2.8. Inventories

Inventories are valued at the lower of cost and net realisable value. The 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 inventory of a similar nature and use within the same entity. Inventory is valued using the retail method, on a first-in-first-out (FIFO) basis or at weighted average cost depending on the Group activity.

The Group may recognise an inventory provision if inventory is damaged or partially or completely obsolete.

2.9. Financial assets and liabilities

Derivative instruments are recognised in the balance sheet at fair value, in assets (positive fair value) or liabilities (negative fair value).

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 of the instrument. It is determined by the Group on the initial recognition date, based on the objective behind the assets' 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.

Classified as current assets under cash equivalents, these financial instruments primarily comprise eligible mutual or similar funds.

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 available for sale.

These assets are initially recognised at fair value and subsequently at amortised cost using the effective interest method. Short-term receivables without a stated interest rate are valued at 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 to non-consolidated investments, other loans and receivables and trade receivables are included in this category and are presented in

non-current financial assets, trade receivables and other non-current financial assets.

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 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 shareholders' equity until their disposal. However, where there is 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 variable-income securities cannot be reversed through income or loss at a subsequent period end.

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 other financial asset definitions. They are presented in non-current financial assets.

Financial liabilities

The valuation of financial liabilities depends on their IAS 39 classification. Within the Group, and excluding liability derivatives, all financial liabilities and particularly borrowings, trade payables and other liabilities are recognised 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 a financial liability by discounting its estimated future cash flows until maturity or until the nearest date the price is reset to the market rate. The calculation includes transaction costs of the operation 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 fair value hedging relationships and are valued at amortised cost, is adjusted with respect to the hedged risk.

Hedging relationships are described in the section on derivative instruments.

Put options granted to minority interest shareholders

The Group has committed to repurchase the minority interests of shareholders of certain fully consolidated subsidiaries. These Group repurchase commitments correspond to optional commitments (written put options). The strike price of these 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.

Pending an IFRS clarification, the accounting treatment used by the Group for the recognition of these commitments is as follows:

- in accordance with IAS 32, the Group records a financial liability with respect to put options granted to minority shareholders of the entities concerned;
- the liability is initially recognised at the present value of the strike price and at subsequent balance sheet dates based on the fair value of the shares to be potentially purchased if the strike price is based on the fair value;
- the corresponding entry for this liability is deducted from minority interests and the balance from goodwill. The obligation to record a liability even though the put option is not exercised means, for purposes of consistency, that the same treatment applied to increases in percentage interests in controlled companies must initially be used for these transactions;
- the subsequent change in the value of the commitment is recognised through an adjustment to goodwill (excluding the discounting impact);
- net income attributable to equity holders of the parent continues to be calculated based on actual percentage interests in subsidiaries, and does not take into account the potential voting rights attaching to written put options.

Hybrid instruments

Certain financial instruments have both a standard debt component and an equity component.

For the Group, this primarily involves OCEANE bonds (bonds convertible and 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 bond component;

- the conversion option 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 subsequent period ends, are as follows:

- debt component: the initially recognised debt amount 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. Should the convertible bond contain 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 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 potential value of the 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 prorated over each component.

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 balance sheet under other current and non-current assets and liabilities depending on their maturity and the 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 hedging relationships.

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 of foreign activities.

Hedge accounting can only be applied if all the following conditions are met:

- there exists 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 thus 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 balance sheet, is distinguished based 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 equity. Amounts recorded in equity 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 on the balance sheet at fair value. Fair value gains and losses are recorded in the income statement and offset, to the extent effective, by matching fair value gains and losses on the hedging instrument.

Cash and cash equivalents

The "Cash and cash equivalents" line item recorded on the assets side of the consolidated balance sheet comprises cash, short-term investments and other liquid and easily convertible instruments with a negligible risk of change in value and 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 balance sheet.

In the cash flow statement, "Cash and cash equivalents" includes accrued interest receivable on assets presented in cash and cash equivalents and bank overdrafts. A schedule reconciling cash per the cash flow statement and cash per the balance sheet is presented in Note 33.

2.10. Other current assets and liabilities

Catalogue costs

Catalogue costs include all expenditure which can be directly attributable or allocated on a reasonable, consistent and permanent basis to the creation, production and preparation of a catalogue with a view to its intended use.

Pending the IFRIC's definitive position, the costs relating to catalogues dispatched are expensed on dispatch, while costs relating to catalogues not yet dispatched are recorded in prepaid expenses until the dispatch date.

2.11. Treasury shares

Treasury shares, whether specifically allocated for grant to employees or allocated to the liquidity contract or in any other case, as well as directly related transaction costs, are deducted from consolidated shareholders' equity. On disposal, the consideration received for these shares, net of transaction costs and related tax impacts, is recognised in shareholders' equity.

2.12. Share-based payments

Share purchase and subscription plans are attributed by the Group and settled in PPR shares. In accordance with IFRS 2 – *Share-based payment*, the fair value of these plans, corresponding to the fair value of the services rendered by the option holders, is valued definitively on the attribution date using a mathematical model with a trinomial algorithm such as the Black & Scholes model, taking into account the number of options potentially exercisable at the end of the rights vesting period.

During the four-year rights vesting period, the fair value of options thus determined is amortised in proportion to the vesting of rights. This expense is recorded in payroll expenses with an offsetting increase in shareholders' equity. When the options are exercised, the strike price received is recorded in cash with an offsetting entry in shareholders' equity.

Bonus share plans and share appreciation rights (SARs) granted by the Group also result in the recognition of payroll expenses spread over the rights vesting period.

In accordance with the provisional measures of IFRS 2, the Group opted to apply the standard solely to those plans issued after November 7, 2002 and for which the rights had not vested as of January 1, 2005.

2.13. Treasury share options

Treasury share options are treated according to their characteristics as derivative instruments, equity instruments or financial liabilities.

Options qualified as derivatives are recorded at fair value through the income statement. Options qualified as equity instruments are recorded in shareholders' equity for their initial amount. Changes in value are not recognised. The accounting treatment of financial liabilities is described in Note 2.9.

2.14. Income tax

The income tax charge for the period comprises the current and deferred tax charge.

Deferred tax is calculated using the liability method on all temporary differences between the accounting value recorded in the consolidated balance sheet and the tax value of assets and liabilities. The valuation of deferred tax amounts depends on the way in which the Group intends to recover or settle the carrying amount of assets and liabilities, using tax rates adopted at the balance sheet date.

Deferred tax assets and liabilities are not discounted and are classified in the balance sheet under non-current assets and liabilities.

A deferred tax asset is recognised on deductible temporary differences and for tax loss carry-forwards and tax credits insofar as their future offset appears 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.

2.15. Provisions

Restructuring measures

A restructuring provision is recognised when there exists a formal and detailed restructuring plan and implementation has begun or the main features have been announced before the balance sheet date. Restructuring costs provided essentially represent employee costs (severance pay, early retirement plan, payment in lieu of notice, etc.), work stoppages and compensation for breaches of contract with third parties.

Other provisions

Provisions for litigation and disputes, and various contingencies and losses are recognised as soon as there exists a present obligation arising from past events, which will probably result in an outflow of resources, 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 balance sheet date. The discount rate used reflects current assessments of the time value of money and specific risks related to this liability.

2.16. Employee benefits

Based on the laws and practices of each country, the Group recognises various types of employee benefits:

Short-term benefits

Group short-term benefits, primarily comprising remuneration, social security payments, compensated absences, profit-sharing and bonuses payable within twelve months, are expensed in the corresponding period.

Post-employment benefits, other long-term benefits and termination 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 latter does not have sufficient assets to cover the benefits corresponding to services rendered by personnel during the current period and prior periods. Contributions to 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 and the termination benefits are valued by independent actuaries on an annual basis for the most significant plans and at regular intervals for the other plans. These valuations take into account the level of future compensation, the probable active life of employees, life expectancy and staff turnover.

Actuarial gains and losses are primarily due to changes in assumptions and the difference between estimated results based on actuarial assumptions and actual results. All actuarial differences in respect of defined benefit plans are recognised immediately in shareholders' equity, in accordance with the option offered by IAS 19, as revised in December 2004.

Past service cost designating the increase in an obligation following the introduction of a new plan or changes to an existing plan, is recognised on a straight-line basis over the average period until the benefits vest or is expensed immediately if the benefit rights have already vested.

The expenses relating to this type of plan are recognised in recurring operating income (service cost) and finance costs (interest cost, expected return on assets). Curtailments, settlements and past service costs are recognised in recurring operating income or net finance costs according to their nature. The provision recognised in the balance sheet corresponds to the present value of the obligations thus valued, less the fair value of plan assets and non-amortised past service costs.

2.17. Revenue recognition

Revenue mainly comprises sales of goods for resale, general consumer goods and luxury goods, together with income from sales-related services, royalties and operating licenses.

Revenue is valued at the fair value of the consideration received for goods and services sold, royalties, licences and operating subsidies granted, excluding taxes, net of rebates and discounts and after elimination of inter-company sales.

The rebates granted to customers under customer loyalty programmes are also deducted from revenue as and when sales are recognised.

In the event of deferred payment beyond the usual credit terms that is not supported 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 should the transaction be 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, revenue can be reliably measured and recovery is reasonably assured.

Following the sale of goods, and depending on the contractual clauses attached to these sales, provisions may be deducted from revenue to cover potential returns likely to occur after the balance sheet date.

Services, such as warranty extensions or services directly related to the sale of goods, are recognised on a straight-line basis during the period in which the services are rendered.

Revenue recognition in respect of Printemps concession contracts depends on the nature of the transaction: in the case of contracts where Printemps acts as the principal, sales are recognised in revenue; in the case of contracts where Printemps acts as the agent, only concession commission received is recorded in revenue.

2.18. Earnings per share

Net earnings per share is calculated by dividing net income (attributable to equity holders of the parent) by the weighted average number of outstanding shares during the year, after deduction of the weighted average number of own shares held by consolidated companies.

Diluted net earnings per share is calculated by adjusting net income attributable to equity holders 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 PPR 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 savings in interest expense that would be realised in the event of conversion, net of tax;
- when the proceeds are received at the time the rights are exercised (e.g. share subscription options), the dilution attached to the options is determined using the share purchase 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, net earnings per share excluding non-recurring items is calculated by adjusting net income attributable to equity holders of the parent for non-recurring items net of taxes and minority 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.

2.19. Non-current assets (and disposal groups) held for sale

The Group has adopted IFRS 5 – *Non-current assets held for sale and discontinued operations* since January 1, 2004 which requires the specific recognition and presentation of assets (or disposal groups) held for sale and operations discontinued, sold or to be sold.

Non-current assets, or groups of assets and liabilities directly associated with those assets, are considered as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale and its sale must be highly probable. 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. The 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 Group's balance sheet, without restatement for previous periods.

An operation discontinued, sold or to be sold is defined as a component of an entity comprising cash flows that can be clearly distinguished from the rest of the entity and representing a separate major line of business or geographical area of operations. The result of these activities is presented under a separate income statement heading, "Discontinued operations", and is restated in the cash flow statement and the income statement over all published periods.

2.20. Segment reporting

In accordance with IAS 14, Group segment reporting is presented at two levels. The choice of these levels and the breakdown reflects the organisational structure of the Group and how management evaluates the performance of its segments according to their risk exposure and profitability.

A business segment is a distinguishable component of the Group that is engaged in providing products or services and is exposed to risks and returns that are different from those of other business segments. It constitutes the primary reporting format and represents a company or brand for the Group: for Retail, given the partial sale of Printemps, the segments are now Conforama, Fnac, Redcats, CFAO and, for Luxury Goods, Gucci, Bottega Veneta, Yves Saint Laurent, YSL Beauté and Other brands.

A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of other business segments operating in other economic environments. It constitutes the secondary reporting format and represents a geographical area for the Group: France, Europe (excluding France), North and South America, Africa, Oceania, Asia.

2.21. Financial information presentation

Operating income and recurring operating income

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.

Recurring operating income is an analytical balance that should facilitate the understanding of the entity's operating performance. It corresponds to operating income before impairment of goodwill and other operating income and expenses defined as follows:

- gains or losses on disposals of property, plant and equipment and intangible assets, operating assets or investments;
- restructuring costs and costs relating to worker retraining measures;
- non-recurring items corresponding to revenue and expenses that are unusual due to their frequency, nature or amount.

Consolidated balance sheet

Assets and liabilities are classified according to their nature in current or non-current items. Current items are assets and liabilities which will be realised or settled, sold or consumed within the normal operating cycle of the entity or for which the expected date of recovery or settlement is within twelve months of the balance sheet date.

Cash flow statement

The Group cash flow statement is prepared in accordance with IAS 7 – *Cash flow statements*. The Group prepares its cash flow statement using the indirect method.

Definition of Group consolidated net indebtedness

The concept of net indebtedness used by the Group comprises gross indebtedness less net cash, as defined by French National Accounting Council recommendation 2004-R.02 of October 27, 2004. For fully consolidated consumer credit companies, the financing of customer loans is presented in borrowings. Group net indebtedness excludes the financing of customer loans by consumer credit businesses.

NOTE 3. AMENDMENTS TO PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS

In 2006, the Group identified operations discontinued, sold or to be sold as eligible for IFRS 5 – *Non-current assets held for sale and discontinued operations*. In accordance with this IFRS, previously published income and cash flow statements were restated. The impacts of these restatements are presented in Note 14 of this document.

NOTE 4. HIGHLIGHTS

4.1. Changes in Group structure

The PPR Group consolidated financial statements for the year ended December 31, 2006 include the financial statements of the companies listed in Note 37.

4.1.1. Takeover of Sodice Expansion

Conforama strengthened its position as market leader in France when it acquired majority control of the Sodice Expansion group, its principal franchisee, in which it held 32.0% and which was listed on the Paris stock exchange.

The takeover was completed in three stages:

- acquisition on March 8, 2006 of SAS du Parc, which held 51.4% of the share capital of Sodice Expansion;
- acquisition on April 10, 2006 of an additional 15.3% of the share capital following a simplified public offer for Sodice Expansion at a price of €150 per share;
- acquisition in December 2006 of an additional 1.3% of the share capital following the mandatory withdrawal for the remaining Sodice Expansion shares at a price of €150 per share.

Following these transactions, Conforama held all the company's shares.

In 2006, Sodice Expansion was consolidated under the equity method at a rate of 32.0% until February 28, 2006 and has been fully consolidated since March 1, 2006.

4.1.2. Acquisition of The Sportsman's Guide

On May 4, 2006, Redcats entered into an agreement for the purchase of the NASDAQ-listed US company, *The Sportsman's Guide*. The Sportsman's Guide Group specialises in the distribution over the Internet and by catalogue of leisure and sports goods. The transaction was finalized on August 30, 2006, upon approval from the regulatory authorities.

The Sportsman's Guide has been fully consolidated since September 1, 2006.

4.1.3. Impact of entries into the scope of consolidation in 2006

The impacts of entries into the scope of consolidation on the consolidated balance sheet were as follows:

(in € million)	Sodice Expansion	The Sportman's Guide	Total
Non-current assets	61.3	51.8	113.1
Current assets excluding cash and cash equivalents	44.5	44.6	89.1
Cash and cash equivalents	12.9	5.7	18.6
Long-term borrowings	(6.4)		(6.4)
Other non-current liabilities	(10.7)	(13.3)	(24.0)
Short-term borrowings	(2.5)		(2.5)
Other current liabilities	(56.3)	(36.4)	(92.7)
Goodwill	63.0	157.7	220.7
Disbursements for the business combinations	**105.8**	**210.1**	**315.9**

The recognition of these business combinations is provisional and will likely be changed according to the definitive fair values allocated to the assets, liabilities and contingent liabilities and the cost of the business combinations.

4.1.4. Partial sale of Printemps

On June 20, 2006, the Group announced that it had received from RREEF (Deustche Bank Group), in association with the Borletti group, an offer for the purchase of France Printemps. Following the transaction's approval by the competition authorities, the parties announced, in October 2006, the sale of control in France Printemps. The transaction took place in two phases: the immediate sale of 51% of the shares, then, in order to ease the change of share ownership as part of an orderly and gradual transition, the sale of the remaining interest in 2007.

Printemps was 99.96% fully consolidated until September 30, 2006 and has been 48.96% consolidated under the equity method since that date.

Due to its highly probable sale on the date the financial statements for the first half of 2006 were prepared, Printemps has been considered as an "operation sold or to be sold" since that date (Note 14).

4.1.5. Sale of YSL Beauté Recherche et Industrie (Bernay)

On April 5, 2006, YSL Beauté submitted a project for the reorganisation of its industrial services to the works council of its Bernay industrial plant and on March 24, 2006 received an offer to purchase the plant from an industrialist in its sector.

After obtaining the approval of the works council, the parties proceeded with the sale of the YSL Beauté Recherche et Industrie shares on July 1, 2006.

Due to its highly probable sale on the date the financial statements for the first half of 2006 were prepared, YSL Beauté Recherche has been considered as an "operation sold or to be sold" since that date (Note 14).

4.1.6. Sale of Orcanta

On July 7, PPR announced that it had entered into exclusive discussions with the Chantelle Group with a view to selling Orcanta. On July 21, 2006, the parties signed a sales agreement and transferred the shares on August 1, 2006.

Due to its highly probable sale on the date the financial statements for the first half of 2006 were prepared, Orcanta has been considered as an "operation sold or to be sold" since that date (Note 14).

4.1.7. Other changes in Group structure

The other changes in the Group's structure did not have a material impact on the 2006 consolidated financial statements.

4.2. Strengthening of the financial structure – conversion of the 2003 OCEANE bonds

In October 2006, PPR decided to proceed with the early redemption of all outstanding 2.5% OCEANE bonds maturing in January 1, 2008, and issued in May 2003 in the nominal amount of €1,079.5 million. The transaction was very successful, as virtually all bondholders exercised their PPR share allotment rights.

In order to maximise value for its shareholders, PPR redeemed the bonds by issuing 4,155,911 existing shares and 8,333,106 new shares, while the balance was redeemed in cash.

This transaction increased the Group's consolidated equity by €719.6 million and reduced the Group's net indebtedness by €687.9 million.

NOTE 5. 2004 PRO FORMA ACCOUNTING FIGURES

The 2004 comparative financial statements published in this document include the consolidation of the Luxury Goods companies for the 14-month period from November 1, 2003 to December 31, 2004.

Given the Group's decision to harmonise the period-ends of all its subsidiaries in fiscal year 2004, the pro forma figures, including an income statement, balance sheet and cash flow statement, take into account the consolidation of the Luxury Goods companies for the 12-month period from January 1, to December 31, 2004.

INCOME STATEMENT

(in € million)	IFRS 2004	Luxury Goods (1)	Pro forma 2004
CONTINUING OPERATIONS			
Revenue	**16,660.5**	**(489.7)**	**16,170.8**
Cost of sales	(9,337.0)	155.4	(9,181.6)
Gross profit	**7,323.5**	**(334.3)**	**6,989.2**
Payroll expenses	(2,413.9)	57.0	(2,356.9)
Other recurring operating income and expenses	(3,843.3)	177.6	(3,665.7)
Recurring operating income (loss)	**1,066.3**	**(99.7)**	**966.6**
Other non-recurring operating income and expenses	93.3	1.8	95.1
Operating income	**1,159.6**	**(97.9)**	**1,061.7**
Finance costs	(293.2)	0.4	(292.8)
Income before taxes	**866.4**	**(97.5)**	**768.9**
Income taxes	(317.0)	8.8	(308.2)
Share in earnings of associates	14.4		14.4
Net income from continuing operations	**563.8**	**(88.7)**	**475.1**
o/w attributable to equity holders of the parent	504.5	(65.1)	439.4
o/w attributable to minority interests	59.3	(23.6)	35.7
DISCONTINUED OPERATIONS			
Net income from discontinued operations	**613.0**		**613.0**
o/w attributable to equity holders of the parent	560.6		560.6
o/w attributable to minority interests	52.4		52.4
Net income of consolidated companies	**1,176.8**	**(88.7)**	**1,088.1**
o/w attributable to equity holders of the parent	1,065.1	(65.1)	1,000.0
o/w attributable to minority interests	111.7	(23.6)	88.1
Net income attributable to equity holders of the parent	**1,065.1**		**1,000.0**
Earnings per share (in €)	8.94		8.40
Fully diluted earnings per share (in €)	8.21		7.72
Net income from continuing operations attributable to equity holders of the parent	**504.5**		**439.4**
Earnings per share (in €)	4.24		3.69
Fully diluted earnings per share (in €)	4.01		3.53
Net income from continuing operations excluding non-recurring items attributable to equity holders of the parent	**536.1**		**468.9**
Earnings per share (in €)	4.50		3.94
Fully diluted earnings per share (in €)	4.25		3.75

(1) Impact of the change in the Luxury Goods Division consolidation period.

CASH FLOW STATEMENT

(in € million)	IFRS 2004	Luxury Goods (1)	Proforma 2004
Cash flow from (used in) operating activities	**954.3**	**(119.3)**	**835.0**
Interest paid/received	259.2	0.4	259.6
Dividends received	(26.0)		(26.0)
Net income tax payable	147.0	4.3	151.3
Cash flow from (used in) operating activities before tax, dividends and interest	**1,334.5**	**(114.6)**	**1,219.9**
Change in working capital requirement	(5.2)	(47.3)	(52.5)
Change in customer loans	28.6		28.6
Income tax paid	(204.9)	26.3	(178.6)
Net cash from (used in) operating activities	**1,153.0**	**(135.6)**	**1,017.4**
Purchases of property, plant and equipment and intangible assets	(369.7)	16.9	(352.8)
Proceeds from sale of property, plant and equipment and intangible assets	26.3		26.3
Acquisitions of subsidiaries, net of cash acquired	(2,688.0)	1.7	(2,686.3)
Proceeds from disposals of subsidiaries net of cash transferred	2,305.5		2,305.5
Purchases of other financial assets	(233.6)		(233.6)
Proceeds from sale of other financial assets	158.5	(2.6)	155.9
Interest and dividends received	59.2	(4.1)	55.1
Net cash from (used in) investing activities	**(741.8)**	**11.9**	**(729.9)**
Share capital increase/decrease	(0.2)	0.2	
Treasury share transactions	100.4		100.4
Dividends paid to parent company shareholders	(278.9)		(278.9)
Dividends paid to minority interests	(19.9)	0.3	(19.6)
Changes in borrowing	1,305.1	208.6	1,513.7
Interest paid and equivalent	(315.0)	3.5	(311.5)
Net cash from (used in) financing activities	**791.5**	**212.6**	**1,004.1**
Net cash from discontinued operations	80.4		80.4
Impact of exchange rate variations	38.7	9.8	48.5
Net increase (decrease) in cash and cash equivalents	**1,321.8**	**98.7**	**1,420.5**
Cash and cash equivalents at beginning of the year	**2,722.9**	**(98.7)**	**2,624.2**
Cash and cash equivalents at end of the year	**4,044.7**		**4,044.7**

(1) Impact of the change in the Luxury Goods Division consolidation period.

NOTE 6. SEGMENT REPORTING

Primary segment information of the Group is presented by brand and secondary segment information is presented by geographical area. They are described in Note 2.20.

Segment information is prepared in accordance with the same accounting rules and methods as those adopted for the preparation of the consolidated financial statements and presented in the notes to the financial statements.

The performance of each brand is measured based on recurring operating income.

Charges to depreciation, amortisation and provisions on non-current operating assets correspond to net charges to depreciation, amortisation and provisions on intangible assets and property, plant and equipment recorded in recurring operating income.

Purchases of property, plant and equipment and intangible assets correspond to gross asset purchases, including cash timing differences but excluding assets purchased under finance leases.

Segment assets comprise goodwill, intangible assets, property, plant and equipment, other non-current assets, inventories, trade receivables, customer loans and other current assets.

Segment liabilities comprise deferred tax liabilities on brands, other non-current liabilities, customer loan financing, trade payables and other current liabilities.

6.1. Information by company

(in € million)	Gucci	Bottega Veneta	Yves Saint Laurent	YSL Beauté	Other
As of December 31, 2006					
Revenue	2,100.9	266.9	193.6	626.3	380.5
• non-Group	2,100.5	266.9	193.6	624.3	379.1
• Group	0.4			2.0	1.4
Recurring operating income (loss)	**611.8**	**54.6**	**(49.4)**	**32.2**	**(84.0)**
Share in earnings of associates					
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets	65.0	11.2	13.7	19.3	22.5
Other non-cash recurring operating expenses					(1.0)
Purchases of property, plant & equipment and intangible assets, gross	93.1	13.6	4.9	22.0	23.5
Segment assets	**7,311.4**	**411.6**	**582.3**	**1,104.1**	**1,195.1**
Segment liabilities	**1,590.8**	**73.8**	**161.1**	**376.5**	**372.7**
Investments in associates					
As of December 31, 2005					
Revenue	1,807.1	159.7	162.0	611.4	294.2
• non-Group	1,806.3	159.7	162.0	608.2	294.2
• Group	0.8			3.2	
Recurring operating income (loss)	**485.4**	**13.7**	**(65.8)**	**17.9**	**(59.2)**
Share in earnings of associates					
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets	64.2	8.5	15.1	16.6	23.3
Other non-cash recurring operating expenses	0.4		(0.1)	(0.7)	(0.1)
Purchases of property, plant & equipment and intangible assets, gross	63.5	8.9	4.3	14.9	21.1
Segment assets	**7,266.2**	**291.4**	**582.4**	**1,149.7**	**1,220.2**
Segment liabilities	**1,549.6**	**54.4**	**166.1**	**339.7**	**240.4**
Investments in associates					
As of December 31, 2004					
Revenue	1,902.6	113.3	196.4	721.3	265.9
• non-Group	1,902.6	113.3	196.4	719.2	265.9
• Group				2.1	
Recurring operating income (loss)	**537.7**	**(8.7)**	**(79.9)**	**29.4**	**(87.7)**
Share in earnings of associates					
Net recurring charges to depreciation, amortisation and provisions on non-current operating assets	72.3	8.2	18.9	24.0	28.8
Other non-cash recurring operating expenses	2.7	(0.3)	(0.1)	(5.0)	(1.3)
Purchases of property, plant & equipment and intangible assets, gross	63.3	15.2	9.6	24.6	22.8
Segment assets	**7,275.6**	**259.3**	**583.3**	**1,159.7**	**1,136.1**
Segment liabilities	**1,462.7**	**57.7**	**156.1**	**323.7**	**227.5**
Investments in associates					

	Luxury Goods	Redcats	Fnac	Conforama	Cfao	Retail	Eliminations and other	Consolidated Total
	3,568.2	4,332.2	4,538.0	3,274.9	2,219.4	**14,364.5**	(1.8)	**17,930.9**
	3,564.4	4,327.9	4,538.0	3,271.9	2,219.4	**14,357.2**	9.3	**17,930.9**
	3.8	4.3		3.0		**7.3**	(11.1)	
	565.2	**225.1**	**170.2**	**181.7**	**182.4**	**759.4**	**(50.1)**	**1,274.5**
			(1.8)	1.2	2.8	**2.2**		**2.2**
	131.7	50.0	84.8	60.5	26.5	**221.8**	2.0	**355.5**
	(1.0)	(4.3)	2.8	(1.5)	(4.0)	**(7.0)**	8.7	**0.7**
	157.1	46.1	78.4	61.6	69.9	**256.0**	1.8	**414.9**
	10,604.5	**3,077.2**	**1,605.1**	**2,706.2**	**1,205.8**	**8,594.3**	**322.4**	**19,521.2**
	2,574.9	**1,316.3**	**1,116.3**	**1 094.1**	**582.6**	**4,109.3**	**344.6**	**7,028.8**
			2.4	3.9	13.0	**19.3**		**19.3**
	3,034.4	4,377.3	4,354.1	3 140.0	2,034.3	**13,905.7**	(2.2)	**16,937.9**
	3,030.4	4,373.3	4,353.8	3,136.7	2,034.3	**13,898.1**	9.4	**16,937.9**
	4.0	4.0	0.3	3.3		**7.6**	(11.6)	**(0.0)**
	392.0	**231.3**	**154.0**	**177.1**	**167.0**	**729.4**	**(58.8)**	**1,062.6**
			(1.8)	3.4	1.8	**3.4**		**3.4**
	127.7	47.1	84.8	60.0	26.2	**218.1**	2.4	**348.2**
	(0.5)	(2.6)	2.1	1.7	(5.0)	**(3.8)**	7.0	**2.7**
	112.7	56.6	61.5	62.4	44.9	**225.4**	6.4	**344.5**
	10,509.9	**2,995.4**	**1,622.7**	**2,582.2**	**1,173.6**	**8,373.9**	**1,334.1**	**20,217.9**
	2,350.2	**1,321.1**	**1,053.8**	**1,148.7**	**557.3**	**4,080.9**	**699.9**	**7,131.0**
			4.2	27.8	12.0	**44.0**		**44.0**
	3,199.5	4,403.4	4,095.9	3,096.9	1,859.4	**13,455.6**	5.4	**16,660.5**
	3,197.4	4,400.0	4,095.1	3,093.4	1,855.3	**13,443.8**	19.3	**16,660.5**
	2.1	3.4	0.8	3.5	4.1	**11.8**	(13.9)	
	390.8	**231.2**	**138.9**	**206.8**	**158.9**	**735.8**	**(60.3)**	**1,066.3**
		8.7		2.7	3.0	**14.4**		**14.4**
	152.2	45.4	81.2	58.6	24.7	**209.9**	2.3	**364.4**
	(4.0)	(7.1)	6.4	(1.6)	2.3		7.9	**3.9**
	135.5	41.6	77.0	75.0	36.9	**230.5**	3.7	**369.7**
	10,414.0	**2,921.2**	**1,692.8**	**2,573.7**	**1,009.6**	**8,197.3**	**1,371.3**	**19,982.6**
	2,227.7	**1,351.0**	**1,098.4**	**1,112.1**	**471.5**	**4,033.0**	**741.3**	**7,002.0**
				26.9	20.0	**46.9**		**46.9**

6.2. Information by geographical area

Segment information is presented by geographical area based on the geographical location of customers for revenue and the geographical location of assets for segment assets.

(in € million)	France	Europe, excl. France	North and South America	Africa	Oceania	Asia	Consolidated Total
As of December 31, 2006							
Revenue	8,029.6	4,484.9	2,293.7	1,751.4	197.2	1,174.1	**17,930.9**
Purchases of property, plant & equipment and intangible assets, gross	161.7	98.8	41.1	58.9	3.6	50.8	**414.9**
Segment assets	6,847.5	9,913.9	1,505.9	778.9	79.3	395.7	**19,521.2**
As of December 31, 2005							
Revenue	7,819.8	4,232.9	2,084.5	1,595.4	182.5	1,022.8	**16,937.9**
Purchases of property, plant & equipment and intangible assets, gross	147.8	106.8	27.1	35.8	3.9	23.1	**344.5**
Segment assets	7,819.5	9,868.4	1,361.7	784.2	76.3	307.8	**20,217.9**
As of December 31, 2004							
Revenue	7,655.8	4,233.3	2,119.1	1,419.6	193.8	1,038.9	**16,660.5**
Purchases of property, plant & equipment and intangible assets, gross	160.5	103.7	42.6	30.0	3.1	29.8	**369.7**
Segment assets	7,956.7	9,816.3	1,138.5	664.4	66.2	340.5	**19,982.6**

6.3. Reconciliation of segment assets and liabilities

The reconciliation of segment assets and total Group assets is as follows:

(in € million)	12/31/2006	12/31/2005	12/31/2004
Goodwill	5,609.3	5,545.9	5,396.6
Other intangible assets	6,602.7	6,605.0	6,618.4
Property, plant and equipment	1,900.6	2,538.7	2,623.5
Other non-current assets	13.9	11.6	14.4
Inventories	2,744.2	2,827.2	2,632.6
Trade receivables	1,116.4	1,125.6	1,052.5
Customer loans	397.7	416.6	419.1
Other current assets	1,136.4	1,147.3	1,225.5
Segment assets	**19,521.2**	**20,217.9**	**19,982.6**
Investments in associates	19.3	44.0	46.9
Other non-current financial assets	216.0	240.8	241.2
Deferred tax	692.8	585.6	425.7
Current tax receivables	56.8	52.0	46.2
Other current financial assets	74.1	50.1	146.5
Short-term receivables on divestments			2,181.8
Cash and cash equivalents	1,555.6	1,813.2	2,106.3
Assets classified as held for sale	253.5		
Total assets	**22,389.3**	**23,003.6**	**25,177.2**

The reconciliation of segment liabilities and total Group liabilities is as follows:

(in € million)	12/31/2006	12/31/2005	12/31/2004
Deferred tax liabilities on brands	1,585.7	1,574.0	1,590.7
Financing of customer loans	397.7	416.6	419.1
Trade payables	2,500.6	2,758.1	2,643.8
Other current liabilities	2,544.8	2,382.3	2,348.4
Segment liabilities	**7,028.8**	**7,131.0**	**7,002.0**
Shareholders' equity	9,124.5	8,134.1	8,019.2
Long-term borrowings	3,140.7	4,398.9	6,103.2
Other non-current financial liabilities		1.8	
Non-current provisions for retirement and similar benefits	248.6	266.1	233.3
Non-current provisions	140.9	142.7	164.8
Other deferred tax liabilities	354.1	391.3	269.0
Short-term borrowings	1,902.7	2,064.2	2,910.2
Other current financial liabilities	44.7	19.5	11.2
Current provisions for retirement and similar benefits	12.1	13.3	14.2
Current provisions	112.5	85.0	183.5
Current tax liabilities	279.7	355.7	266.6
Liabilities associated with assets classified as held for sale			
Total liabilities and shareholders' equity	**22,389.3**	**23,003.6**	**25,177.2**

NOTE 7. REVENUE

(in € million)	12/31/2006	12/31/2005	12/31/2004
Net sales of goods	16,998.3	16,086.3	15,888.1
Net sales of services	386.8	364.5	339.8
Revenue from concessions and licenses	74.6	62.8	60.7
Other revenue	471.2	424.3	371.9
Total	**17,930.9**	**16,937.9**	**16,660.5**

NOTE 8. PAYROLL EXPENSES

Payroll expenses primarily include fixed and variable remuneration, social security charges, charges related to employee profit-sharing and other incentives, training costs, charges relating to share-based payments (Note 9), and expenses related to employee benefits recorded in recurring operating income (Note 27).

(in € million)	12/31/2006	12/31/2005	12/31/2004
Luxury Goods Division	(666.4)	(570.7)	(556.2)
Retail Division	(1,928.7)	(1,856.1)	(1,813.9)
Holding companies and other	(41.4)	(42.7)	(43.8)
Total	**(2,636.5)**	**(2,469.5)**	**(2,413.9)**

Under the heading "Holding companies and other", payroll expenses include a charge relating to the application of IFRS 2 to share subscription and bonus share plans of the entire Group in the amount of €4.7 million in 2006 (€4.5 million in 2005 and €6.7 million in 2004).

The average number of Group employees on a full-time equivalent basis breaks down as follows:

	12/31/2006	12/31/2005	12/31/2004
Luxury Goods Division	12,194	11,550	11,073
Retail Division	57,699	59,171	58,206
Holding companies and other	286	308	330
Total	**70,179**	**71,029**	**69,609**

The total number of Group employees is as follows:

	12/31/2006	12/31/2005	12/31/2004
Luxury Goods Division	13,261	12,426	11,174
Retail Division	64,891	65,152	63,865
Holding companies and other	301	338	329
Total	**78,453**	**77,916**	**75,368**

NOTE 9. SHARE-BASED PAYMENTS

In return for services rendered, the Group grants certain employees share-based plans settled in shares or cash.

The Group recognises its obligation as services are rendered by beneficiaries, over the period from the grant date to the rights vesting date.

- The grant date is the date at which plans were individually approved by the Management Board in the case of plans approved before May 19, 2005 and by the Board of Directors for plans approved after this date.
- The rights vesting date is the date at which all vesting conditions are satisfied.

Rights vested may only be exercised by beneficiaries at the end of a blocked period, the length of which varies depending on the type of plan.

9.1. Equity-settled share-based payment transactions

In accordance with the provisional measures of IFRS 2 on equity-settled plans, the Group has opted to apply the standard solely to those plans issued after November 7, 2002 and for which the rights are not vested as of January 1, 2005.

The nature and principle characteristics of **ineligible plans** (plans issued prior to November 7, 2002) are presented below:

Share option and bonus share plans	1997/1 Plan Subscription options	1997/2 Plan Subscription options	1998 Plan Purchase options	1999/1 Plan Purchase options	1999/2 Plan Purchase options
Grant date	01.22.1997	06.05.1997	06.05.1998	01.20.1999	05.21.1999
Expiry date	03.31.2007	07.31.2007	07.31.2008	03.31.2009	06.30.2009
Number of beneficiaries	9	3	257	36	44
Number of options initially granted	100,000	13,250	347,050	27,495	25,455
Number outstanding as of 01.01.06	25,000	3,250	160,075	4,870	9,220
Number forfeited in 2006			15,975	670	720
Number exercised in 2006					
Number expired in 2006					
Number outstanding as of 12.31.06	25,000	3,250	144,100	4,200	8,500
Number exercisable as of 12.31.06	25,000	3,250	144,100	4,200	8,500
Strike price (€)	61.41	71.16	135.98	154.58	144.83

The nature and principle characteristics of **eligible plans** are presented below:

Share option and bonus share plans	2003/1 Plan Subscription options	2003/2 Plan Subscription options	2004/1 Plan Subscription options	2004/2 Plan Subscription options	2005/1 Plan Subscription options
Grant date	07.09.2003	07.09.2003	05.25.2004	07.07.2004	01.03.2005
Expiry date	07.08.2013	07.08.2013	05.24.2014	07.06.2014	01.02.2015
Vesting of rights	(a)	(a)	(a)	(a)	(a)
Number of beneficiaries	721	18	846	1	13
Number of options initially granted	528,690	5,430	540,970	25,000	25,530
Number outstanding as of 01.01.06	441,604	3,994	485,484	25,000	25,530
Number forfeited in 2006	13,038	325	21,893		
Number exercised in 2006					
Number expired in 2006					
Number outstanding as of 12.31.06	428,566	3,669	463,591	25,000	25,530
Number exercisable as of 12.31.06	-	-	-	-	-
Strike price (€)	66.00	67.50	85.57	84.17	75.29

Under all these plans, shares are blocked for a period of four years from the date of grant.

(a) Options vest at a rate of 25% per full year of presence in the Group, except on retirement (vesting of all rights). If an employee is dismissed for gross negligence or misconduct, all rights are lost, including after the end of the blocked period.

(b) Options vest at a rate of 25% per full year of presence in the Group, except on retirement (vesting of all rights) and on resignation (loss of all rights). If an employee is dismissed for gross negligence or misconduct, all rights are lost, including after the end of the blocked period.

(c) Shares vest fully two years after being granted, except on resignation or dismissal for gross negligence or misconduct (loss of all rights).

1999/3 Plan	2000/1 Plan	2000/2 Plan	2001/1 Plan	2001/2 Plan	2002/1 Plan	2002/2 Plan
Purchase options	Purchase options	Purchase options	Purchase options	Purchase options	Subscription options	Subscription options
12.08.1999	01.26.2000	05.23.2000	01.17.2001	05.18.2001	05.03.2002	05.03.2002
12.26.2009	02.28.2010	06.30.2010	01.31.2011	05.31.2011	05.02.2012	05.02.2002
560	26	125	722	206	1,074	1,053
412,350	12,100	93,100	340,240	87,260	438,296	410,271
217,250	7,700	34,800	227,450	64,062	332,625	315,401
40,500	4,500	2,000	57,120	13,782	9,023	8,503
176,750	3,200	32,800	170,330	50,280	323,602	306,898
176,750	3,200	32,800	170,330	50,280	323,602	306,898
189.19	227.15	202.91	225.01	225.01	128.10	140.50

2005/2 Plan	2005/3 Plan	2005/4 Plan	2005 Plan	2006/1 Plan	2006 Plan
Subscription options	Subscription options	Subscription options	Bonus shares	Purchase options	Bonus shares
05.19.2005	05.19.2005	07.06.2005	07.06.2005	05.23.2006	05.23.2006
05.18.2015	05.18.2015	07.05.2015	N/A	05.22.2016	N/A
(b)	(b)	(b)	(c)	(b)	(c)
458	22	15	338	450	281
333,750	39,960	20,520	23,133	403,417	23,565
329,280	39,960	20,520	22,771	-	-
10,374	1,560	180	108	4,402	115
318,906	38,400	20,340	22,663	399,015	23,450
-	-	-	-	-	-
78.01	78.97	85.05	N/A	101.83	N/A

The value of services rendered by beneficiaries is determined on the grant date of the plans:

- for share subscription plans, by using, for example, the Black & Scholes model with a trinomial algorithm and exercise thresholds,
- notably taking into account the number of options potentially exercisable at the end of the rights vesting period;
- for bonus share plans, by using, for example, the Black & Scholes model with a Monte Carlo algorithm and two underlyings.

Exercise thresholds and probability assumptions for the share subscription plans are as follows:

Threshold as a % of the strike price	Probability of exercise
125%	15%
150%	20%
175%	20%
200%	20%

Based on these assumptions, 25% of beneficiaries do not opt for the early exercise of their options before the expiry date.

The main valuation assumptions for the different plans are summarised below:

Share option and bonus share plans	2003/1 Plan Subscription options	2003/2 Plan Subscription options	2004/1 Plan Subscription options	2004/2 Plan Subscription options	2005/1 Plan Subscription options
Volatility	33.25%	33.25%	25.65%	25.65%	23.75%
Risk-free interest rate	4.08%	4.08%	4.45%	4.37%	3.83%

Share option and bonus share plans	2005/2 Plan Subscription options	2005/3 Plan Subscription options	2005/4 Plan Subscription options	2005 Plan Bonus shares	2006/1 Plan Subscription options	2006 Plan Bonus shares
Volatility	21.00%	21.00%	20.50%	22.50%	23.00%	25.00%
Risk-free interest rate	3.49%	3.49%	3.38%	2.26%	4.08%	3.52%

Volatilities indicated represent the expected volatility of each plan based on maturities and strike prices available at the grant date. Dividends used for valuation purposes are those expected by the market at the grant date.

The risk-free interest rate corresponds to the 1 to 10 year interest rate curve, at the grant date, for interbank swaps.

The total charge recognised in 2006 in respect of share subscription plans and bonus share plans is €5.0 million (€4.7 million in 2005), including €0.3 million presented under the heading "Discontinued operations" (€0.2 million in 2005).

9.2. Cash-settled share-based payment transactions

The Group (Gucci Group) also grants certain employees Share Appreciation Rights (SARs) which constitute cash-settled share-based plans.

The **nature and principle characteristics** of these plans are presented below:

SAR Plans	2006	2005
SARs outstanding as of January 1,	3,875,996	3,152,714
Weighted average exercise price (in €)	50.01	54.82
SARs granted during the year	165,000	1,329,882
Weighted average exercise price (in €)	53.27	40.44
SARs exercised during the year	1,032,192	57,907
Weighted average exercise price (in €)	46.89	44.73
SARs expired/forfeited during the year	275,131	548,693
Weighted average exercise price (in €)	56.00	57.48
SARs covered by the early buyback programme in 2006	2,094,359	
SARs outstanding as of December 31, (not covered by the early buyback programme in 2006)	639,314	3,875,996
Weighted average exercise price (in €)	46.22	50.01
SARs exercisable as of December 31, (not covered by the early buyback programme in 2006)	39,560 *	987,930
Weighted average exercise price (in €)	71.93	54.08

* *of which 37,460 exercisable in the next 6 months and related to employee departures.*

SAR plans granted prior to 2006 had a term of 10 years as of the grant date, while the 2006 plans have a term of 6 years.

SARs vest at a rate of 20% per full year of presence, except on redundancy (excluding dismissal for gross negligence or misconduct), when all rights vest immediately. If an employee is dismissed for gross negligence or misconduct, all rights are lost.

The SAR exercise price is determined by applying price-earnings ratios for a basket of comparable companies to the results of the Luxury Goods Division.

The value of services rendered by beneficiaries is recalculated at each balance sheet date by an independent expert using an option valuation model corresponding to the intrinsic value, to which is added a time value.

The total charge recognised in recurring operating income in 2006 with respect to SARs is €46.4 million (€12.7 million in 2005).

In addition, the Group has committed to an early buy-back programme for 2.1 million SARs. Accordingly, an expense of €52.0 million was recorded in "Other non-recurring operating income and expenses".

For the SARs outstanding as of December 31, 2006 and not subject to an early buy-back programme, the exercise price is between €36.1 and €82.26 (€31.75 and €103.96 in 2005) and the weighted average remaining contractual term is 7.7 years (7.8 years in 2005).

The carrying amount of the liability for SARs not subject to an early buy-back programme is €10.7 million as of December 31, 2006 with an intrinsic value of €10.4 million (€22.7 million and €12.2 million, respectively, as of December 31, 2005).

NOTE 10. RECURRING OPERATING INCOME

Recurring operating income is the primary indicator of the Group's operating performance. It breaks down by division as follows:

(in € million)	12.31.2006	12.31.2005	12.31.2004
Gucci	611.8	485.4	537.7
Bottega Veneta	54.6	13.7	(8.7)
Yves Saint Laurent	(49.4)	(65.8)	(79.9)
YSL Beauté	32.2	17.9	29.4
Other	(84.0)	(59.2)	(87.7)
Luxury Goods Division	**565.2**	**392.0**	**390.8**
Redcats	225.1	231.3	231.2
Fnac	170.2	154.0	138.9
Conforama	181.7	177.1	206.8
Cfao	182.4	167.0	158.9
Retail Division	**759.4**	**729.4**	**735.8**
Holding companies and other	**(50.1)**	**(58.8)**	**(60.3)**
Total	**1,274.5**	**1,062.6**	**1,066.3**

Group recurring operating income is €1,274.5 million for 2006 (€1,062.6 million in 2005). The 2004 recurring operating income of €1,066.3 million represents, for Luxury Goods, the 14-month period from November 1, 2003 to December 31, 2004. Based on pro forma figures, Group recurring operating income is €966.6 million for the period January 1, 2004 to December 31, 2004, including €291.1 million for the Luxury Goods Division.

Depreciation, amortisation and charges to provisions on non-current operating assets included in recurring operating income amount to €355.5 million in 2006 (€348.2 million in 2005). Other non-cash operating income and expenses total €0.7 million in 2006 (€2.7 million in 2005).

NOTE 11. OTHER NON-RECURRING OPERATING INCOME AND EXPENSES

(in € million)	12.31.2006	12.31.2005	12.31.2004
Non-recurring operating expenses	**(165.7)**	**(104.3)**	**(223.2)**
Restructuring costs	(56.4)	(34.8)	(66.6)
Asset impairment	(29.5)	(57.7)	(147.5)
SARs early buyback programme	(52.0)		
Other	(27.8)	(11.8)	(9.1)
Non-recurring operating income	**165.6**	**107.4**	**316.5**
Capital gains on divestments	148.6	90.2	299.1
Other	17.0	17.2	17.4
Total	**(0.1)**	**3.1**	**93.3**

Other Group non-recurring operating income and expenses amounted to €(0.1) million for 2006. The heading includes non-recurring operating income of €165.6 million, of which net gains on the disposal of operating and financial assets for €148.6 million, primarily involving the sale of real estate assets and non-recurring operating expenses of 165.7 million. These expenses primarily include €52.0 million relating to the SAR early buy-back programme, €29.5 million for asset impairment (Note 19) and €56.4 million for restructuring costs, mainly for the reorganisation of the YSL Beauté activities.

In 2005, this heading totalled €3.1 million and comprised non-recurring operating income of €107.4 million, including pre-tax capital gains of €90.2 million on the sale of operating and financial assets (of which a capital gain of €70.3 million recorded on the sale of the Group's interest in Facet) and non-recurring operating expenses of €104.3 million, including restructuring costs of €34.8 million and asset impairments of €57.7 million.

NOTE 12. FINANCE COSTS

Finance costs breakdown as follows:

(in € million)	12.31.2006	12.31.2005	12.31.2004
Cost of net financial indebtedness	**(241.5)**	**(256.5)**	**(266.7)**
Income from cash and cash equivalents	26.5	11.5	29.1
Cost of gross financial indebtedness	(268.0)	(268.0)	(295.8)
Other financial income and finance costs	**(48.5)**	**(50.9)**	**(26.5)**
Dividends received	1.2	14.9	24.1
Foreign exchange gains and losses	1.5	(1.1)	(0.4)
Gains and losses on derivative instruments not qualifying for hedge accounting (foreign exchange and interest rate)	(23.4)	(6.6)	(3.7)
Impact of discounting assets and liabilities	(6.8)	(10.1)	(9.4)
Other finance costs	(21.0)	(48.0)	(37.1)
Total	**(290.0)**	**(307.4)**	**(293.2)**

The 2006 finance cost includes €54.5 million for the 2003 OCEANE bonds, which were converted in advance in October 2006. This notional one-off expense arises solely from the application of IAS 32 and IAS 39 and does not give rise to any cash disbursement. Excluding this technical impact, finance costs totalled €235.5 million in 2006.

NOTE 13. INCOME TAXES

13.1. Analysis of the income tax expense in respect of continuing operations

13.1.1. Income tax expense

(in € million)	2006	2005	2004
Income before tax	**984.4**	**758.3**	**866.4**
Taxes paid out of operating income	(245.9)	(207.1)	(147.0)
Other taxes payable not impacting operating cash flow	(16.8)	(35.4)	(77.9)
Income tax payable	(262.7)	(242.5)	(224.9)
Deferred tax income/(expense)	2.8	55.5	(92.1)
Total tax charge	**(259.9)**	**(187.0)**	**(317.0)**
Effective tax rate	**26.40%**	**24.66%**	**36.59%**

13.1.2. Reconciliation of the tax rate

(as a % of pre-tax income)	2006
Tax rate applicable in France	**34.43%**
Impact of taxation of foreign subsidiaries	-9.12%
Theoretical tax rate	**25.31%**
Effect of items taxed at reduced rates	-0.82%
Effect of permanent differences	1.48%
Effect of temporary differences not recognised	-0.12%
Effect of tax losses carried forward not recognised	-2.30%
Effect of changes in tax rates	-0.03%
Other	2.88%
Effective tax rate	**26.40%**

The income tax rate applicable in France is equal to the base rate of 33.33% plus the social surtax of 3.3%, for a total of 34.43% (34.93% in 2005).

13.1.3. Recurring income tax rate

Excluding non-recurring items, the Group income tax rate is as follows:

(in € million)	2006	2005	2004
Income before tax	984.4	758.3	866.4
Non-recurring items	(0.1)	3.1	93.3
Recurring income before tax	**984.5**	**755.2**	**773.1**
Total tax charge	(259.9)	(187.0)	(317.0)
Tax on non-recurring items	(19.0)	1.4	(130.0)
Recurring tax charge	**(240.9)**	**(188.4)**	**(187.0)**
Recurring tax rate	**24.47%**	**24.95%**	**24.19%**

13.2. Movements in balance sheet headings

13.2.1. Income tax payable

(in € million)	12.31.2004	12.31.2005	Net income	Cash outflows from operating activities
Current tax receivables	46.2	52.0		
Current tax liabilities	(266.6)	(355.7)		
Net current tax liabilities	**(220.4)**	**(303.7)**	**(245.9)**	**198.0**

13.2.2. Deferred tax

(in € million)	12.31.2004	12.31.2004	Net income
Deferred tax assets	425.7	585.6	
Deferred tax liabilities	(1,859.7)	(1,965.3)	
Deferred tax liabilities	**(1,434.0)**	**(1,379.7)**	**2.8**

(in € million)	12.31.2005	Net income
Intangible assets	(1,586.8)	(18.2)
Property, plant and equipment	(175.1)	(29.5)
Other non-current assets	(28.5)	14.3
Other current assets	131.5	29.1
Shareholders' equity	(27.3)	2.7
Borrowings	16.5	0.8
Provisions for retirement and similar benefits	73.0	8.3
Provisions	34.7	3.4
Other current liabilities	100.7	12.8
Tax losses and tax credits not utilised	81.6	(20.9)
Net deferred tax assets/(liabilities)	**(1,379.7)**	**2.8**
Deferred tax assets	585.6	
Deferred tax liabilities	(1,965.3)	
Deferred tax	**(1,379.7)**	**2.8**

Cash outflows from investing activities	Assets classified as held for sale and operations disposed of or to be sold	Changes in Group structure	Other items recognised directly in shareholders' equity	12.31.2006
				56.8
				(279.7)
105.6	**1.0**	**7.3**	**14.8**	**(222.9)**

	Assets classified as held for sale and operations disposed of or to be sold	Changes in Group structure	Other items recognised directly in shareholders' equity	12.31.2006
				692.8
				(1,939.8)
	121.4	**(3.0)**	**11.5**	**(1,247.0)**

	Assets classified as held for sale and operations disposed of or to be sold	Changes in Group structure	Other items recognised directly in shareholders' equity	12.31.2006
	(1.9)		2.9	(1,604.0)
	128.0	(7.6)	4.5	(79.7)
	(0.7)		(0.8)	(15.7)
	(1.2)	1.7	(10.0)	151.1
	3.5	(0.6)	0.4	(21.3)
	0.1	0.2	(11.4)	6.2
	(6.4)		0.8	75.7
	1.7	0.5	(0.3)	40.0
	(1.7)	4.4	2.6	118.8
		(1.6)	22.8	81.9
	121.4	**(3.0)**	**11.5**	**(1,247.0)**
				692.8
				(1,939.8)
	121.4	**(3.0)**	**11.5**	**(1,247.0)**

13.3. Deferred tax not recognised

Tax losses and tax credits in respect of which no deferred tax asset was recognised totalled €1,115.5 million as of December 31, 2006 (€1,213.2 million as of December 31, 2005).

Changes in tax losses and tax credits not utilised during the year and the associated expiry schedule are presented below:

(in € millions)

As of December 31, 2004	**1,181.5**
Losses generated during the year	222.6
Loss utilised and time barred during the year	(225.2)
Effect of changes in Group structure and exchange rate adjustments	34.3
As of December 31, 2005	**1,213.2**
Losses generated during the year	121.0
Loss utilised and time barred during the year	(165.6)
Effect of changes in Group structure and exchange rate adjustments	(53.1)
As of December 31, 2006	**1,115.5**
Ordinary tax loss carry-forwards	**587.9**
Expiring in less than five years	248.0
More than five years	339.9
Indefinite carry-forwards	**527.6**
Total	**1,115.5**

Deductible temporary differences in respect of which no deferred tax asset was recognised totalled €45.1 million as of December 31, 2006 (€38.4 million as of December 31, 2005).

There were no unrecognized deferred taxes in respect of temporary differences relating to investments in subsidiaries, associates and joint ventures as of December 31, 2006.

NOTE 14. ASSETS CLASSIFIED AS HELD FOR SALE, OPERATIONS DISCONTINUED, SOLD OR TO BE SOLD

As of December 31, 2006, operations discontinued, sold or to be sold include the activities of Printemps, Orcanta, YSL Beauté Recherche et Industrie and Fnac Service.

In 2004, Rexel was also presented as an "operation sold or to be sold".

14.1. Description of operations discontinued, sold or to be sold

14.1.1. Operations sold or to be sold

The operations of Printemps, Orcanta, and YSL Beauté Recherche et Industrie are considered as "sold or to be sold" since the 2006 first-half closing (Note 4.1).

Pursuant to IFRS 5, the Group ceased depreciating these asset groups and all their assets as of June 30, 2006.

The net income of these activities is presented under a separate income statement heading, "Discontinued operations", and is restated in the cash flow statement and the income statement over all published periods. For 2006, net cash flows relating to discontinued operations in the Group cash flow statement represent opening cash net of inter-company flows for the period. For 2005 and 2004, they represent all cash flows net of inter-company flows for the period.

The assets and liabilities arising from "operations sold or to be sold" are presented on separate lines in the Group's balance sheet, without restatement for previous periods (Note 2.19).

14.1.2. Discontinued operations

Due to the worldwide decline in the printing market for film, Fnac Service has, since May 2006, discontinued its activities and closed all its stores, excluding franchisees. This decision was accompanied by a job protection plan.

Given this decision to close its remaining 49 stores as of the closing date for the 2006 first half, Fnac Service is considered as a "discontinued operation" in the Group consolidated financial statements since this date.

The result of this activity is presented under a separate income statement heading, "Discontinued operations", and is restated in the cash flow statement over all published periods. Net cash flows relating to discontinued operations in the Group cash flow statement represent, for the various periods published, all cash flows net of inter-company flows for the period.

Assets and liabilities arising from the "discontinued operation" are not presented on separate lines in the Group's balance sheet (Note 2.19).

14.2.Impact on the financial statements

The income and cash flow statements for operations discontinued, sold or to be sold are as follows:

(in € million)	12.31.2006	12.31.2005	12.31.2004
Revenue	**553.6**	**827.8**	**7,356.4**
Cost of sales	(289.8)	(433.3)	(5,317.8)
Gross profit	**263.8**	**394.5**	**2,038.6**
Payroll expenses	(138.5)	(192.4)	(998.7)
Other recurring operating income and expenses	(123.0)	(180.6)	(689.8)
Recurring operating income	**2.3**	**21.5**	**350.1**
Other non-recurring operating income and expenses	(58.0)	(13.1)	(9.8)
Operating income	**(55.7)**	**8.4**	**340.3**
Finance costs, net	(3.5)	(4.2)	(59.0)
Income before tax	**(59.2)**	**4.2**	**281.3**
Income tax	10.1	(5.2)	(59.6)
Share in earnings of associates	13.1		
Net income on the disposal of discontinued operations	41.4		391.3
Net income	**5.4**	**(1.0)**	**613.0**
o/w attributable to equity holders of the parent	5.6	(1.0)	560.6
o/w attributable to minority interests	(0.2)		52.4

(in € million)	12.31.2006	12.31.2005	12.31.2004
Net cash from (used in) operating activities	(41.6)	71.9	145.9
Net cash used in investing activities	(17.2)	(34.6)	(31.8)
Net cash from (used in) financing activities	19.8	(12.6)	(139.3)
Impact of exchange rate fluctuations			(0.4)
Net cash flows	**(39.0)**	**24.7**	**(25.2)**
Cash at beginning of the year and change inter-company flows	94.9	7.7	105.6
Net cash from discontinued operations[1]	**55.9**	**32.4**	**80.4**

(1) Line item in the Group consolidated cash flow statement.

Revenue for Printemps stood at €508.5 million for the period from January 1 to September 30, 2006 (€751.8 million for 2005), while net income amounted to €17.9 million for fiscal year 2006 (€7.0 million for 2005).

Net income of YSL Beauté Recherche et Industrie amounted to €(39.9) million for 2006 (€(2.5) million for 2005).

Net income of Orcanta stood at €(1.1) million for 2006 (€0.5 million for 2005).

Net income for Fnac "discontinued operations" was €(12.9) million for 2006, primarily due to closing costs (€(6.0) million for 2005).

Operations sold or to be sold impacted the Group consolidated financial statements for the following amounts:

(in € million)	12.31.2006	12.31.2005	12.31.2004
Assets classified as held for sale	**253.5**		
Liabilities associated with assets classified as held for sale			

As of December 31, 2006, assets classified as held for sale exclusively concern Printemps for the amount of the Group's interest in this equity-accounted company.

NOTE 15. EARNINGS PER SHARE

Net earnings per share is calculated based on the weighted average number of shares outstanding, after deduction of the weighted average number of shares held by consolidated companies.

Pursuant to IAS 33, revised, the weighted average number of shares outstanding was adjusted at the opening date of the first period presented (i.e. January 1, 2004), for share cancellation transactions having occurred since January 1, 2004. These transactions mainly covered the cancellation of 2,000,000 shares on March 30, 2005 and 394,062 shares in 2006.

Fully diluted net earnings per share is based on the weighted average number of shares as defined above for the calculation of basic earnings per share, increased for the weighted average number of potentially dilutive ordinary shares. Net income is adjusted for the theoretical interest charge, net of tax, in respect of convertible and exchangeable instruments.

15.1. Earnings per share

EARNINGS PER SHARE AS OF DECEMBER 31, 2006

(in € million)	Consolidated Group	Continuing operations	Discontinued operations
Net income attributable to ordinary shareholders	**685.3**	**679.7**	**5.6**
Weighted average number of ordinary shares outstanding	121,527,915	121,527,915	121,527,915
Weighted average number of treasury shares	(106.952)	(106,952)	(106,952)
Weighted average number of ordinary shares	**121,420,963**	**121,420,963**	**121,420,963**
Basic earnings per share (in €)	**5.64**	**5.60**	**0.04**
Net income attributable to ordinary shareholders	**685.3**	**679.7**	**5.6**
Share subscription options			
Diluted net income attributable to equity holders of the parent	**685.3**	**679.7**	**5.6**
Weighted average number of ordinary shares	121,420,963	121,420,963	121,420,963
Share subscription options	324,246	324,246	324,246
Weighted average number of diluted ordinary shares	**121,745,209**	**121,745,209**	**121,745,209**
Fully diluted earnings per share (in €)	**5.63**	**5.58**	**0.05**

The other instrument likely to dilute earnings per share, i.e. the Océane bonds issued on November 8, 2001, was not taken into account in the weighted average number of diluted shares given its anti-dilutive impact on net earnings per share as of December 31, 2006.

The October 2006 capital increase to cover the unhedged portion of the Océane bonds issued in 2003 created 8.3 million additional shares. It was taken into account on a time proportion basis in 2006.

EARNINGS PER SHARE AS OF DECEMBER 31, 2005

(in € million)	Consolidated Group	Continuing operations	Discontinued operations
Net income attributable to ordinary shareholders	**535.4**	**536.4**	**(1.0)**
Weighted average number of ordinary shares outstanding	120,045,439	120,045,439	120,045,439
Weighted average number of treasury shares	(1,300,919)	(1,300,919)	(1,300,919)
Weighted average number of ordinary shares	**118,744,520**	**118,744,520**	**118,744,520**
Basic earnings per share (in €)	**4.51**	**4.52**	**(0.01)**
Net income attributable to ordinary shareholders	**535.4**	**536.4**	**(1.0)**
Share subscription options			
2004 long-term borrowing	3.4	3.4	
2003 convertible bond issue	44.0	44.0	
Diluted net income attributable to equity holders of the parent	**582.8**	**583.8**	**(1.0)**
Weighted average number of ordinary shares	118,744,520	118,744,520	118,744,520
Share subscription options	98,674	98,674	98,674
2004 long-term borrowing	1,168,224	1,168,224	1,168,224
2003 convertible bond issue	12,500,000	12,500,000	12,500,000
Weighted average number of diluted ordinary shares	**132,511,418**	**132,511,418**	**132,511,418**
Fully diluted earnings per share (in €)	**4.40**	**4.40**	**0.00**

The other instrument likely to dilute earnings per share, i.e. the Océane bonds issued on November 8, 2001, was not taken into account in the weighted average number of diluted shares given its anti-dilutive impact on net earnings per share as of December 31, 2005.

The 2004 long-term borrowing representing a dilutive instrument was repaid in cash on February 6, 2006.

EARNINGS PER SHARE AS OF DECEMBER 31, 2004 *

(in € million)	Consolidated Group	Continuing operations	Discontinued operations
Net income attributable to ordinary shareholders	**1,065.1**	**504.5**	**560.6**
Weighted average number of ordinary shares outstanding	120,027,590	120,027,590	120,027,590
Weighted average number of treasury shares	(943,168)	(943,168)	(943,168)
Weighted average number of ordinary shares	**119,084,422**	**119,084,422**	**119,084,422**
Basic earnings per share (in €)	**8.94**	**4.24**	**4.70**
Net income attributable to ordinary shareholders	**1,065.1**	**504.5**	**560.6**
Share subscription options			
2001 convertible bond issue	1.5	1.5	
2004 long-term borrowing	1.9	1.9	
2003 convertible bond issue	28.6	28.6	
Diluted net income attributable to equity holders of the parent	**1,097.1**	**536.5**	**560.6**
Weighted average number of ordinary shares	119,084,422	119,084,422	119,084,422
Share subscription options	75,970	75,970	75,970
2001 convertible bond issue	991,605	991,605	991,605
2004 long-term borrowing	1,050,125	1,050,125	1,050,125
2003 convertible bond issue	12,500,000	12,500,000	12,500,000
Weighted average number of diluted ordinary shares	**133,702,122**	**133,702,122**	**133,702,122**
Fully diluted earnings per share (in €)	**8.21**	**4.01**	**4.20**

* *Gucci is consolidated for a 14-month period from November 2003 to December 2004.*

15.2. Earnings per share from continuing operations excluding non-recurring items

Non-recurring items consist of the income statement line item "Other non-recurring operating income and expenses" net of tax and minority interests.

(in € million)	2006	2005	2004*
Net income attributable to ordinary shareholders	**679.7**	**536.4**	**504.5**
Other non-recurring operating income and expenses	(0.1)	3.1	93.3
Income tax on other non-recurring operating income and expenses	(19.0)	1.4	(130.0)
Minority interests in other non-recurring operating income and expenses	0.8	0.9	5.1
Net income excluding non-recurring items	**698.0**	**531.0**	**536.1**
Weighted average number of ordinary shares outstanding	121,527,915	120,045,439	120,027,590
Weighted average number of treasury shares	(106,952)	(1,300,919)	(943,168)
Weighted average number of ordinary shares	121,420,963	118,744,520	119,084,422
Basic earnings per share excluding non-recurring items (in €)	**5.75**	**4.47**	**4.50**
Net income excluding non-recurring items	**698.0**	**531.0**	**536.1**
Share subscription options			
2001 convertible bond issue			1.5
2004 long-term borrowing		3.4	1.9
2003 convertible bond issue		44.0	28.6
Diluted net income attributable to equity holders of the parent	**698.0**	**578,4**	**568.1**
Weighted average number of ordinary shares	121,420,963	118,744,520	119,084,422
Share subscription options	324,246	98,674	75,970
2001 convertible bond issue			991,605
2004 long-term borrowing		1,168,224	1,050,125
2003 convertible bond issue		12,500,000	12,500,000
Weighted average number of diluted ordinary shares	**121,745,209**	**132,511,418**	**133,702,122**
Fully diluted earnings per share (in €)	**5.73**	**4.36**	**4.25**

* *Gucci is consolidated for a 14-month period from November 2003 to December 2004.*

NOTE 16. GOODWILL

(in € million)	Gross	Impairment losses	Net
Goodwill as of January 1, 2004	**5,147.8**	**(157.2)**	**4,990.6**
Acquisitions	491.7		491.7
Disposals	(27.5)		(27.5)
Impairment losses		(21.0)	(21.0)
Translation adjustments	(47.8)	10.6	(37.2)
Goodwill as of December 31, 2004	**5,564.2**	**(167.6)**	**5,396.6**
Impact of application of IAS 32/39	88.8		88.8
Goodwill as of January 1, 2005	**5,653.0**	**(167.6)**	**5,485.4**
Acquisitions	27.0		27.0
Impairment losses		(31.2)	(31.2)
Call options granted to minority interests	(4.9)		(4.9)
Translation adjustments	92.4	(22.8)	69.6
Goodwill as of December 31, 2005	**5,767.5**	**(221.6)**	**5,545.9**
Acquisitions	236.9		236.9
Assets classified as held for sale and operations disposed of or to be sold	(226.0)		(226.0)
Impairment losses (Note 19)		(14.9)	(14.9)
Call options granted to minority interests	134.0		134.0
Translation adjustments	(78.0)	16.8	(61.2)
Other movements	(5.4)		(5.4)
Goodwill as of December 31, 2006	**5,829.0**	**(219.7)**	**5,609.3**

All goodwill recognised in 2006 was allocated to cash generating units at the balance sheet date.

The application of IAS 32/39 as of January 1, 2005 concerned call options granted to minority interests.

NOTE 17. OTHER INTANGIBLE ASSETS

(in € million)	Brands	Other intangible assets	Total
Gross carrying amount as of January 1, 2004	**6,255.5**	**756.2**	**7,011.7**
Acquisitions		67.0	67.0
Disposals		(8.1)	(8.1)
Translation adjustments	(0.1)	(13.6)	(13.7)
Gross carrying amount as of December 31, 2004	**6,255.4**	**801.5**	**7,056.9**
Amortisation & impairment losses as of January 1, 2004	**(9.3)**	**(321.9)**	**(331.2)**
Disposals		5.1	**5.1**
Amortisation	(1.8)	(90.5)	**(92.3)**
Impairment losses	(14.6)	(14.7)	**(29.3)**
Translation adjustments	0.4	8.8	**9.2**
Amortisation & impairment losses as of December 31, 2004	**(25.3)**	**(413.2)**	**(438.5)**
Net carrying amount as of January 1, 2004	**6,246.2**	**434.3**	**6,680.5**
Acquisitions		67.0	**67.0**
Disposals		(3.0)	**(3.0)**
Amortisation	(1.8)	(90.5)	**(92.3)**
Impairment losses	(14.6)	(14.7)	**(29.3)**
Translation adjustments	0.3	(4.8)	**(4.5)**
Net carrying amount as of December 31, 2004	**6,230.1**	**388.3**	**6,618.4**

(in € million)	Brands	Other intangible assets	Total
Gross carrying amount as of December 31, 2004	**6,255.4**	**801.5**	**7,056.9**
Changes in Group structure		0.5	0.5
Acquisitions		72.1	72.1
Disposals		(19.0)	(19.0)
Translation adjustments	1.0	10.4	11.4
Gross carrying amount as of December 31, 2005	**6,256.4**	**865.5**	**7,121.9**
Amortisation & impairment losses as of December 31, 2004	**(25.3)**	**(413.2)**	**(438.5)**
Disposals		18.6	18.6
Amortisation	(2.6)	(66.1)	(68.7)
Impairment losses	(2.0)	(17.5)	(19.5)
Translation adjustments	(0.9)	(7.9)	(8.8)
Other movements	0.4	(0.4)	
Amortisation & impairment losses as of December 31, 2005	**(30.4)**	**(486.5)**	**(516.9)**
Net carrying amount as of December 31, 2004	**6,230.1**	**388.3**	**6,618.4**
Changes in Group structure		0.5	0.5
Acquisitions		72.1	72.1
Disposals		(0.4)	(0.4)
Amortisation	(2.6)	(66.1)	(68.7)
Impairment losses	(2.0)	(17.5)	(19.5)
Translation adjustments	0.1	2.5	2.6
Other movements	0.4	(0.4)	
Net carrying amount as of December 31, 2005	**6,226.0**	**379.0**	**6,605.0**

(in € million)	Brands	Other intangible assets	Total
Gross carrying amount as of December 31, 2005	**6,256.4**	**865.5**	**7,121.9**
Changes in Group structure	34.2	12.4	46.6
Acquisitions	1.5	64.0	65.5
Assets classified as held for sale and operations disposed of or to be sold	(0.2)	(92.9)	(93.1)
Other disposals		(52.4)	(52.4)
Translation adjustments	(1.6)	(8.9)	(10.5)
Other movements		6.4	6.4
Gross carrying amount as of December 31, 2006	**6,290.3**	**794.1**	**7,084.4**
Amortisation & impairment losses as of December 31, 2005	**(30.4)**	**(486.5)**	**(516.9)**
Changes in Group structure		(3.4)	(3.4)
Assets classified as held for sale and operations disposed of or to be sold	0.2	53.2	53.4
Other disposals		52.3	52.3
Amortisation		(65.9)	(65.9)
Impairment losses (Note 19)	(2.0)	(2.4)	(4.4)
Translation adjustments	0.7	3.4	4.1
Other movements		(0.9)	(0.9)
Amortisation & impairment losses as of December 31, 2006	**(31.5)**	**(450.2)**	**(481.7)**
Net carrying amount as of December 31, 2005	**6,226.0**	**379.0**	**6,605.0**
Changes in Group structure	34.2	9.0	43.2
Acquisitions	1.5	64.0	65.5
Assets classified as held for sale and operations disposed of or to be sold		(39.7)	(39.7)
Other disposals		(0.1)	(0.1)
Amortisation		(65.9)	(65.9)
Impairment losses (Note 19)	(2.0)	(2.4)	(4.4)
Translation adjustments	(0.9)	(5.5)	(6.4)
Other movements		5.5	5.5
Net carrying amount as of December 31, 2006	**6,258.8**	**343.9**	**6,602.7**

NOTE 18. PROPERTY, PLANT AND EQUIPMENT

(in € million)	Land and buildings	Plant and equipment	Other PP&E	Total
Gross carrying amount as of December 31, 2004	**1,991.9**	**2,767.1**	**281.4**	**5,040.4**
Changes in Group structure	(72.4)	(1.5)	0.1	(73.8)
Acquisitions	20.4	186.7	81.6	288.7
Disposals	(22.2)	(83.1)	(9.2)	(114.5)
Translation adjustments	27.5	54.2	6.4	88.1
Other movements	22.3	16.4	(61.4)	(22.7)
Gross carrying amount as of December 31, 2005	**1,967.5**	**2,939.8**	**298.9**	**5,206.2**
Depreciation & impairment losses as of December 31, 2004	**(569.4)**	**(1,717.9)**	**(129.6)**	**(2,416.9)**
Changes in Group structure	(0.7)	1.8	0.1	1.2
Disposals	11.2	74.0	4.6	89.8
Depreciation	(52.9)	(258.8)	(16.9)	(328.6)
Impairment losses	(7.0)			(7.0)
Translation adjustments	(5.7)	(27.4)	(1.1)	(34.2)
Other movements	5.1	27.9	(4.8)	28.2
Depreciation & impairment losses as of December 31, 2005	**(619.4)**	**(1,900.4)**	**(147.7)**	**(2,667.5)**
Net carrying amount as of December 31, 2004	**1,422.5**	**1,049.2**	**151.8**	**2,623.5**
Changes in Group structure	(73.1)	0.3	0.2	(72.6)
Acquisitions	20.4	186.7	81.6	288.7
Disposals	(11.0)	(9.1)	(4.6)	(24.7)
Depreciation	(52.9)	(258.8)	(16.9)	(328.6)
Impairment losses	(7.0)			(7.0)
Translation adjustments	21.8	26.8	5.3	53.9
Other movements	27.4	44.3	(66.2)	5.5
Net carrying amount as of December 31, 2005	**1,348.1**	**1,039.4**	**151.2**	**2 538.7**
o/w assets owned outright	1,101.3	1,039.4	125.0	**2 265.7**
o/w assets held under finance lease	246.8		26.2	**273.0**

(in € million)	Land and buildings	Plant and equipment	Other PP&E	Total
Gross carrying amount as of December 31, 2005	**1,967.5**	**2,939.8**	**298.9**	**5,206.2**
Changes in Group structure	53.7	52.6	3.2	109.5
Acquisitions	19.6	238.6	91.8	350.0
Assets classified as held for sale and operations disposed of or to be sold	(598.2)	(431.7)	(44.8)	(1,074.7)
Disposals	(96.0)	(115.9)	(20.7)	(232.6)
Translation adjustments	(17.6)	(40.0)	(5.1)	(62.7)
Other movements	9.8	24.0	(35.4)	(1.6)
Gross carrying amount as of December 31, 2006	**1,338.8**	**2,667.4**	**287.9**	**4,294.1**
Depreciation & impairment losses as of December 31, 2005	**(619.4)**	**(1,900.4)**	**(147.7)**	**(2,667.5)**
Changes in Group structure	(11.9)	(30.7)	(2.1)	(44.7)
Assets classified as held for sale and operations disposed of or to be sold	130.4	305.7	23.2	459.3
Disposals	11.3	112.3	13.2	136.8
Depreciation	(44.1)	(231.8)	(21.1)	(297.0)
Impairment losses (Note 19)			(10.2)	(10.2)
Translation adjustments	3.6	24.9	1.2	29.7
Other movements	0.2		(0.1)	0.1
Depreciation & impairment losses as of December 31, 2006	**(529.9)**	**(1,720.0)**	**(143.6)**	**(2,393.5)**
Net carrying amount as of December 31, 2005	**1,348.1**	**1,039.4**	**151.2**	**2,538.7**
Changes in Group structure	41.8	21.9	1.1	64.8
Acquisitions	19.6	238.6	91.8	350.0
Assets classified as held for sale and operations disposed of or to be sold	(467.8)	(126.0)	(21.6)	(615.4)
Disposals	(84.7)	(3.6)	(7.5)	(95.8)
Depreciation	(44.1)	(231.8)	(21.1)	(297.0)
Impairment losses (Note 19)			(10.2)	(10.2)
Translation adjustments	(14.0)	(15.1)	(3.9)	(33.0)
Other movements	10.0	24.0	(35.5)	(1.5)
Net carrying amount as of December 31, 2006	**808.9**	**947.4**	**144.3**	**1,900.6**
o/w assets owned outright	590.3	947.4	128.5	**1,666.2**
o/w assets held under finance lease	218.6		15.8	**234.4**

Charges to depreciation are recorded in "Cost of sales" and "Other recurring operating income and expenses" in the Income Statement.

NOTE 19. IMPAIRMENT LOSSES

As a result of annual impairment tests performed in 2006, the Group recognised the following impairment losses:

- a permanent impairment loss on the goodwill of the Bédat cash generating unit (CGU) for €14.9 million. This loss arises from the difference between the net carrying amount of the Bédat CGU and its recoverable amount. The value in use is calculated based on a discount rate of 9.8% and a perpetual growth rate of 3.5%;
- an impairment loss of €4.4 million with respect to other intangible assets of Luxury Goods;
- an impairment loss of €10.2 million with respect to Retail property, plant and equipment.

These impairment losses were recorded in "Other non-recurring operating income and expenses" in the Income Statement.

Impairment tests performed in accordance with the method described in Note 2.7 did not identify any impairment losses in 2006 in respect of intangible assets, property, plant and equipment and goodwill of CGUs, other than those previously described.

The pre-tax discount rates and perpetual growth rates applied to expected estimated cash flows in connection with economic assumptions and forecast operating conditions adopted by the Group are as follows:

	Discount rate			Perpetual growth rate		
	2006	2005	2004	2006	2005	2004
Luxury Goods Division	9.6%-12.4%	9.0%-11.4%	8.0%-13.5%	3.0%-3.5%	2.0%-3.5%	2.0%-5.0%
Retail Division (excl. emerging geographical areas [1])	7.4%-9.8%	7.0%-10.9%	7.3%-13.5%	0.5%-1.5%	0.5%-1.5%	0.5%-2.0%
Emerging geographical areas [1]	9.6%-15.1%	9.4%-15.5%	8.4%-18.8%	2.0%-4.0%	2.0%-5.0%	3.0%-5.0%

(1) Emerging geographical areas include African countries and some of the Latin American and Eastern European countries.

NOTE 20. INVESTMENTS IN ASSOCIATES

	12.31.2006			12.31.2005	12.31.2004
(in € million)	Reserves	Net income	Total	Total	Total
Sodice Expansion	(0.4)	0.4		24.7	24.0
Other	17.5	1.8	19.3	19.3	22.9
Total	**17.1**	**2.2**	**19.3**	**44.0**	**46.9**

NOTE 21. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets break down as follows:

(in € million)	12.31.2006	12.31.2005	12.31.2004
Non-consolidated investments	29.7	40.7	73.6
Derivative financial instruments	27.1	65.3	
Financial assets available for sale	8.1		
Non-consolidated investment loans and receivables	34.2	29.5	29.3
Deposits and guarantees	85.0	80.8	72.7
Other	31.9	24.5	65.6
Total	**216.0**	**240.8**	**241.2**

NOTE 22. INVENTORIES

(in € million)	12.31.2006	12.31.2005	12.31.2004
Commercial inventories	2,850.6	2,911.1	2,720.4
Industrial inventories	273.6	235.1	199.2
Gross carrying amount	**3,124.2**	**3,146.2**	**2,919.6**
Allowances	(380.0)	(319.0)	(287.0)
Net carrying amount	**2,744.2**	**2,827.2**	**2,632.6**

Movements in allowances	
Allowances as of December 31, 2005	(319.0)
(Charge)/reversal	(71.9)
Changes in Group structure	(1.3)
Assets classified as held for sale and operations disposed of or to be sold	3.9
Translation adjustments	8.3
Allowances as of December 31, 2006	**(380.0)**

The net carrying amount of inventories pledged to secure liabilities as of December 31, 2006 was €80.9 million (€89.2 million as of December 31, 2005).

NOTE 23. OTHER CURRENT ASSETS AND LIABILITIES

(in € million)	12.31.2005	Working capital cash flows	Assets classified as held for sale and operations disposed of or to be sold	Other cash flows	Changes in Group structure	Translation adjustments and other	12.31.2006
Inventories	2,827.2	85.6	(149.5)		53.1	(72.2)	2,744.2
Trade receivables	1,125.6	47.2	(13.4)		(18.5)	(24.5)	1,116.4
Other current financial assets and liabilities	30.6	1.1	(0.4)	(1.7)	(0.2)		29.4
Current tax receivables/liabilities	(303.7)		1.0	(47.9)	7.3	120.4	(222.9)
Trade payables	(2,758.1)	51.3	199.6		(12.2)	18.8	(2 500.6)
Other current assets and liabilities	(1,235.0)	(228.6)	12.1	206.7	(12.6)	(151.0)	(1,408.4)
Working capital requirements	**(313.4)**	**(43.4)**	**49.4**	**157.1**	**16.9**	**(108.5)**	**(241.9)**
Customer loans	416.6	(26.2)				7.3	397.7

Given the nature of these activities, the Group's exposure to customer default would not have a material impact on the Group's business, financial position or assets.

NOTE 24. OTHER CURRENT FINANCIAL ASSETS

The heading primarily comprises derivative financial instruments.

NOTE 25. CASH AND CASH EQUIVALENTS

25.1. Breakdown by category

This item breaks down as follows:

(in € million)	12.31.2006	12.31.2005	01.01.2005	12.31.2004
Short-term receivables on divestments			2,181.8	2,181.8
Cash	627.2	713.6	684.1	684.3
Cash equivalents	928.4	1,099.6	996.9	1,422.0
Total	**1,555.6**	**1,813.2**	**3,862.8**	**4,288.1**

As of December 31, 2006, cash equivalents include UCITS, certificates of deposit and term deposits with a maturity of less than 3 months.

Following the prospective application of IAS 32 as of January 1, 2005, treasury shares are deducted from consolidated shareholders' equity (impact on "Cash and cash equivalents" of €345.8 million as of the date of first-time adoption).

As of December 31, 2004, short-term receivables on divestments concerned the sale of Rexel for €1,916.7 million and the sale of 10% of the consumer credit business for €265.1 million.

25.2. Breakdown by currency

(in € million)	12.31.2006	%	12.31.2005	%	12.31.2004	%
Euro	973.9	62.6%	1,309.5	72.2%	3,860.7	90.0%
US dollar	329.7	21.2%	321.0	17.7%	202.2	4.7%
Swiss franc	55.3	3.6%	55.1	3.0%	96.0	2.2%
Pound sterling	52.5	3.4%	43.8	2.4%	21.0	0.5%
CFA franc	39.4	2.5%	24.9	1.4%	15.3	0.4%
Other currencies	104.8	6.7%	58.9	3.3%	92.9	2.2%
Total	**1,555.6**		**1,813.2**		**4,288.1**	

NOTE 26. SHAREHOLDERS' EQUITY

As at December 31, 2006, share capital stood at €513,549,096. Share capital comprises 128,387,274 fully paid-up shares with a par value of €4 each (120,448,230 shares with a par value of €4 each as of December 31, 2005).

26.1. Treasury share transactions

The Group cancelled 394,062 treasury shares, of which 124,514 shares on January 11, 2006 and 269,548 shares on May 24, 2006, thus bringing PPR share capital to 120,054,168 shares as of May 24, 2006.

Treasury shares were cancelled in the following amounts:

- 124,514 shares by the Board of Directors on January 11, 2006 in accordance with authorisations granted by the Annual General Shareholders' Meeting of May 19, 2005;
- 269,548 shares by the Board of Directors on May 23, 2006 in accordance with authorisations granted by the Annual General Shareholders' Meeting of May 23, 2006.

PPR decided to proceed with the early redemption of all the 05/03-01/08 2.5% PPR Océane bonds that were outstanding on October 30, 2006. Bondholders could choose between a redemption for cash or an exchange for PPR shares (one (1) PPR share for one (1) bond exchanged).

In 2006, bondholders exercised their share allotments rights for 12,489,018 bonds.

Given the treasury share hedges in place, this transaction gave rise to the exchange of 4,155,911 current shares and the creation of 8,333,106 new shares.

On October 30, 2006, share capital was increased by issuing 8,333,106 new shares, thus bringing PPR share capital to 128,387,274 shares or €513,549,096.

During 2006, the Group also made a net acquisition of 4,400,460 treasury shares as follows:

- 269,548 shares were purchased following the exercise of PPR share purchase options set up in 2005 to hedge stock option plans;
- 3,347,051 shares were purchased under a liquidity contract;
- 3,372,051 shares were sold under a liquidity contract;
- 4,155,912 shares were purchased to hedge exchange requests for 05/03-01/08 2.5% PPR Océane bonds, of which 4,155,911 shares following the exercise of call option hedges set up in 2005 and the first half of 2006 for 3,000,000 and 1,155,911 options, respectively.

Finally, the Group purchased 1,480,000 PPR share purchase options in order to hedge employee stock option plans.

As at December 31, 2006, the Group held 2,520,998 PPR share purchase options to hedge share subscription or purchase option plans.

On May 26, 2004, PPR signed an agreement with a financial broker in order to improve the liquidity of transactions and the stability of share prices.

This contract complies with the provisions of the Professional Code of Conduct established by the *Association française des entreprises d'investissement* (AFEI, French Association of Investment Companies).

The agreement was initially contracted for €40 million, equally divided between cash and PPR shares and was provided with an additional €20 million in cash on September 3, 2004.

As of December 31, 2006, PPR held no treasury shares in connection with the liquidity contract, compared with 25,000 shares as of December 31, 2005.

26.2. Appropriation of 2006 net income

The Board of Directors will propose a dividend distribution of €3.0 per share in respect of 2006, representing a total dividend distribution of €385.2 million, to the Ordinary Shareholders' Meeting held to adopt the financial statements for the year ended December 31, 2006.

A dividend of €2.72 per share was distributed in respect of 2005.

NOTE 27. EMPLOYEE BENEFITS AND EQUIVALENT

In accordance with the laws and practices in each country, Group employees receive long-term or post-employment benefits in addition to 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 above contributions already made. Contributions to these plans are expensed as incurred.

The actuarial valuation for defined benefit plans is conducted by independent experts. The benefits primarily concern retirement termination payments and jubilees in France, complementary pension schemes in the United Kingdom, statutory dismissal compensation in Italy (TFR), and mandatory complementary pension schemes (LPP) in Switzerland.

The Group had no obligations with respect to medical costs.

27.1. Change during the year

The increase in the present value of the obligation in respect of defined benefit plans breaks down as follows:

(in € million)	2006	2005
Present value of obligation as of January 1,	**538.5**	**470.8**
Current service cost	31.0	28.4
Contributions by beneficiaries	3.8	3.3
Interest cost	22.9	22.9
Benefits paid	(22.5)	(22.0)
Past service cost		1.1
Actuarial gains and losses	(1.0)	31.6
Curtailments and settlements	(5.8)	(5.8)
Changes in Group structure	0.7	3.0
Assets classified as held for sale and operations disposed of or to be sold	(18.5)	
Exchange differences	2.6	5.2
Present value of obligation as of December 31,	**551.7**	**538.5**

As of December 31, 2006, the present value of the obligation amounts to €551.7 million, and comprises:

- €106.2 million in respect of fully unfunded plans (€132.4 million in 2005);
- €445.5 million in respect of fully or partially funded plans (€406.1 million in 2005).

The increase in the fair value of defined benefit plan assets breaks down as follows:

(in € million)	2006	2005
Fair value of defined benefit plan assets as of January 1,	**248.6**	**212.2**
Contributions by employer	25.2	25.0
Contributions by beneficiaries	3.8	3.3
Expected return on plan assets	18.2	12.1
Benefits paid	(22.5)	(22.0)
Actuarial gains and losses	4.8	14.0
Settlements		
Changes in Group structure	0.8	
Exchange differences	2.3	4.0
Fair value of defined benefit plan assets as of December 31,	**281.2**	**248.6**

Funded defined benefit plan assets are invested as follows:

- insurance contracts represent 45% of the total fair value of assets (50% in 2005);
- equity instruments represent 28% (27% in 2005);
- debt instruments represent 18% (16% in 2005);
- and other assets represent 9% (7% in 2005).

The reconciliation of balance sheet data with the actuarial obligation in respect of defined benefit plans breaks down as follows:

(in € million)	12.31.2006	12.31.2005	12.31.2004
Present value of the obligation	551.7	538.5	470.8
Fair value of defined benefit plan assets	(281.2)	(248.6)	(212.2)
Funding shortfall/(excess)	**270.5**	**289.9**	**258.6**
Actuarial gains and losses not recognised			
Past service costs not recognised	(9.8)	(10.5)	(11.1)
Amount not recognised in assets			
Fair value of redemption rights			
Provisions (net assets) recognised in the balance sheet	**260.7**	**279.4**	**247.5**
of which provisions	260.7	279.4	247.5
of which net assets			
Experience adjustments on plan liabilities	4.5%	5.9%	7.1%
Experience adjustments on plan assets	1.7%	5.6%	5.9%

The Group expects to pay an estimated €25 million in contributions in 2007.

27.2. Charge recognised in the income statement

The total charge of €32.0 million recognised in respect of defined benefit plans breaks down as follows:

(in € million)	12.31.2006	12.31.2005
Current service cost	31.0	28.4
Interest cost	22.9	22.9
Expected return on plan assets	(18.2)	(12.1)
Actuarial gains/losses recognised in net income		
Past service costs expensed in net income	1.3	1.1
Curtailments and settlements	(5.0)	(5.3)
Total charge	**32.0**	**35.0***
o/w recognised in operating expenses	27.3	25.4
in finance costs	4.7	9.6

* *o/w €0.8 million related to activities classified in accordance with IFRS 5 in 2006.*

In accordance with the option offered by IAS 19, as amended in December 2004, the Group recognises actuarial gains and losses on defined benefit plans directly in equity in the year they arise.

In 2006, these actuarial gains and losses were recognised in the amount of €(5.8) million.

Accumulated actuarial gains and losses recognised in shareholders' equity since January 1, 2004 amount to €30.2 million as of December 31, 2006.

27.3. Actuarial assumptions

The main actuarial assumptions used to estimate the Group's obligations are as follows:

	Total France		Total Switzerland		Total Italy		Total United Kingdom		Total Other	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Discount rate	4.75%	4.50%	3.00%	2.75%	4.75%	4.50%	5.20%	5.00%	4.68%	4.74%
Expected rate of return on plan assets	4.50%	4.75%	4.92%	5.00%			5.64%	6.23%	5.24%	7.00%
Expected rate of increase in salaries	2.89%	2.89%	1.71%	2.00%	3.69%	4.36%	3.50%	3.51%	1.89%	2.84%

NOTE 28. PROVISIONS

(in € million)	12.31.2005	Charge	Reversal used	Reversal unused	Translation adjust-ments	Changes in Group structure	Other	12.31.2006
Provisions for restructuring: non-current	0.8	1.1	(0.5)	(0.6)		(0.1)	0.7	1.4
Provision for claims and litigation: non-current	19.8	1.8	(5.5)	(0.9)	1.2	0.2	(0.3)	16.3
Other provisions non-current	122.1	2.1	(2.7)	(0.1)		1.5	0.3	123.2
Other provisions for contingencies and losses: non-current	**142.7**	**5.0**	**(8.7)**	**(1.6)**	**1.2**	**1.6**	**0.7**	**140.9**
Provisions for restructuring: current	3.5	0.4	(1.2)				(0.5)	2.2
Provision for claims and litigation: current	49.6	21.9	(6.1)	(14.1)		0.8	18.4	70.5
Other provisions: current	31.9	13.8	(0.9)	(5.4)		0.4		39.8
Other provisions for contingencies and losses: current	**85.0**	**36.1**	**(8.2)**	**(19.5)**		**1.2**	**17.9**	**112.5**
Other provisions for contingencies and losses	**227.7**	**41.1**	**(16.9)**	**(21.1)**	**1.2**	**2.8**	**18.6**	**253.4**
Income Statement impact		**(41.1)**		**21.1**				**(20.0)**
- impact on recurring operating income		(10.6)		2.9				(7.7)
- impact on other non-recurring operating income and expenses		(13.4)		18.2				4.8
- impact on financial income								
- impact on income taxes		(12.1)						(12.1)
- impact on income from discontinued operations		(5.0)						(5.0)

Provisions for claims and litigation mainly include employee disputes and litigation with tax authorities in various countries. Other provisions mainly cover risks relating to vendor warranties.

Reversals of unused provisions mainly concern the settlement of tax disputes and the extinction of vendor warranty risks.

NOTE 29. BORROWINGS

29.1. Breakdown of borrowings by maturity

(in € million)	12.31.2006	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond
Long-term borrowings	**3,140.7**		**372.2**	**908.7**	**96.0**	**920.4**	**843.4**
Convertible bonds							
Other bonds	2,118.2		2.4	739.6		789.9	586.3
Confirmed lines of credit	206.8		110.0	96.8			
Other bank borrowings	545.6		236.8	49.3	78.1	114.4	67.0
Obligations under finance leases	110.7		16.5	14.3	6.4	5.7	67.8
Employee profit-sharing	37.0		6.4	8.7	11.5	10.4	
Other borrowings	122.4		0.1				122.3
Short-term borrowings	**2,300.4**	**2 300.4**					
Convertible bonds	149.2	149.2					
Other bonds	402.2	402.2					
Confirmed lines of credit	51.0	51.0					
Draw-downs on unconfirmed lines of credit	113.3	113.3					
Other bank borrowings	130.2	130.2					
Obligations under finance leases	25.9	25.9					
Employee profit-sharing	6.6	6.6					
Bank overdrafts	339.8	339.8					
Commercial paper	811.2	811.2					
Other borrowings	271.0	271.0					
Total	**5,441.1**	**2 300.4**	**372.2**	**908.7**	**96.0**	**920.4**	**843.4**
%		**42.3%**	**6.8%**	**16.7%**	**1.8%**	**16.9%**	**15.5%**

(in € million)	12.31.2005	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond
Long-term borrowings	**4,398.9**		**739.9**	**1,342.3**	**818.4**	**99.3**	**1,399.0**
Convertible bonds	1,201.3		143.3	1,058.0			
Other bonds	2,265.5		402.0	2.4	748.0		1,113.1
Confirmed lines of credit							
Other bank borrowings	607.6		135.2	254.1	48.8	75.3	94.2
Obligations under finance leases	149.5		27.7	17.4	9.0	8.4	87.0
Employee profit-sharing	36.5		6.9	7.4	9.6	12.6	
Other borrowings	138.5		24.8	3.0	3.0	3.0	104.7
Short-term borrowings	**2,480.8**	**2,480.8**					
Other bonds	2.1	2.1					
Confirmed lines of credit	192.5	192.5					
Draw-downs on unconfirmed lines of credit	90.9	90.9					
Other bank borrowings	527.9	527.9					
Obligations under finance leases	28.9	28.9					
Employee profit-sharing	10.4	10.4					
Bank overdrafts	472.9	472.9					
Commercial paper	1,025.2	1,025.2					
Other borrowings	130.0	130.0					
Total	**6,879.7**	**2,480.8**	**739.9**	**1,342.3**	**818.4**	**99.3**	**1,399.0**
%		**36.1%**	**10.8%**	**19.5%**	**11.9%**	**1.4%**	**20.3%**

The application of IAS 32 and IAS 39 as of January 1, 2005 resulted in the recognition of the Océane bonds issued on November 8, 2001 and May 21, 2003 based on their effective interest rate, after allocation of the conversion options component to shareholders' equity.

As of December 31, 2006, all gross borrowings are recognised at amortised cost based on an effective interest rate taking into account any identified issue costs and redemption or issue premiums relating to each liability.

In addition, a fair value adjustment of €16.4 million was recognised as of December 31, 2006 (€19.2 million as of December 31, 2005) in respect of borrowings, mainly in the form of bond issues, partially or fully hedged under fair value hedging relationships.

As of December 31, 2006, bonds, including convertible bonds, represented 49.1% of gross borrowings compared to 50.4% in 2005.

Debts with a maturity of more than one year represented 57.7% of total gross borrowings as of December 31, 2006, compared to 63.9% as of December 31, 2005.

Confirmed lines of credit totalled €5,030.9 million with draw-downs of €257.8 million at the balance sheet date.

Short-term draw-downs on facilities backed by confirmed lines of credit of more than one year are included in long-term debt.

Accrued interest is recorded in "Other borrowings".

The financing of customer loans contributed €397.7 million to gross borrowings as of December 31, 2006.

29.2. Breakdown by repayment currency

(in € million)	12.31.2006	Long-term borrowings	Short-term borrowings	%	12.31.2005	%	12.31.2004	%
Euro	**4,574.7**	2,626.5	1,948.2	84.1%	5,894.1	85.7%	8,439.7	89.4%
Yen	**336.8**	158.5	178.3	6.2%	368.8	5.4%	406.0	4.3%
Pound sterling	**158.9**	156.3	2.6	2.9%	174.0	2.5%	184.9	2.0%
Swiss franc	**116.6**	115.3	1.3	2.1%	0.4	0.0%	90.5	1.0%
US dollar	**86.2**	71.7	14.5	1.6%	132.7	1.9%	129.7	1.4%
CFA franc	**72.2**	3.6	68.6	1.3%	88.7	1.3%	101.6	1.1%
Other currencies	**95.7**	8.8	86.9	1.8%	221.0	3.2%	80.1	0.8%
Total	**5,441.1**	**3,140.7**	**2 300.4**		**6,879.7**		**9,432.5**	

Borrowings denominated in currencies other than the euro are distributed to Group subsidiaries for local financing purposes.

A portion of the euro borrowings is used to hedge assets and liabilities arising from acquisitions outside of the Euro zone or to refinance subsidiaries, mainly American, through hedging transactions largely in the form of currency swaps. As of December 31, 2006, these hedges amounted to €300.2 million based on the year-end exchange rates.

29.3. Breakdown of gross borrowings by category

PPR Group gross borrowings break downs as follows:

(in € million)	12.31.2006	12.31.2005	01.01.2005	12.31.2004
Convertible bonds	149.2	1,201.3	1,158.7	1,228.7
Other bonds	2,520.4	2,267.6	2,818.2	2,792.6
Other bank borrowings	675.8	1,135.5	876.3	876.0
Confirmed lines of credit	257.8	192.5	2,201.9	2,201.9
Draw-downs on unconfirmed lines of credit	113.3	90.9	136.2	136.2
Commercial paper	811.2	1,025.2	1,307.9	1,310.3
Obligations under finance leases	136.6	178.4	196.7	196.7
Employee profit-sharing	43.6	46.9	39.2	39.2
Bank overdrafts	339.8	472.9	255.5	243.4
Other borrowings	393.4	268.5	561.9	407.5
Total	**5,441.1**	**6,879.7**	**9,552.5**	**9,432.5**

Group borrowings primarily consist of bonds, bank borrowings, draw-downs on confirmed lines of credit and commercial paper issues, which account for 88.4% of gross borrowings as of December 31, 2006.

As of December 31, 2006, other borrowings include €266.0 million with respect to put options granted to minority shareholders (Note 2.9).

29.4. Bond issues

BONDS CONVERTIBLE, EXCHANGEABLE OR REDEEMABLE IN SHARES ISSUED BY PPR

(in € million)

Face value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	12.31.2006	12.31.2005	01.01.2005	12.31.2004
149.2 (1)	1.50% fixed	5.72%	11.08.2001	*Euribor 1 month floating rate swap in the amount of €149 million* *Not documented under IFRS*	01.01.2007	**149.2**	143.3	137.6	149.2
1,079.5 (2)	2.50% fixed	6.26%	05.21.2003		Normal redemption 01.01.2008 Early redemption 10.30.2006		1,058.0	1,021.1	1,079.5

(1) Issue price: bonds convertible into new shares and/or exchangeable (OCEANE) issued on November 8, 2001, for €1,380,000,050, represented by 8,492,308 bonds with a face value of €162.50.
Conversion and/or exchange for shares: until December 31, 2001 on the basis of 1.157 shares per bond, and as of January 1, 2002 on the basis of one share per bond.
Normal redemption: in full on January 1, 2007 at a price of €162.50.
Actuarial gross yield to maturity of unconverted bonds: 1.5%.
The balance of 918,225 bonds outstanding as of December 31, 2006 reflects:
- the conversion of 3,077,000 bonds by Artémis in 2001,
- the buyback of 107,422 bonds for €17,456,075 in 2002,
- the buyback of 17,609 bonds for €2,861,462.50 in 2003,
- the early redemption, after the exercise of the investor Put in 2003, of 4,285,376 bonds for €696,373,600,
- the early redemption, after the exercise of the investor Put in 2004, of 86,603 bonds for €14,072,987.50.
Issue swap: the OCEANE issue was swapped in the amount of €149.2 million in order to switch from a fixed rate to a floating rate and to set the maturity. Hedge documentation has not been established for this swap pursuant to IAS 39.
This convertible bond issue was repaid in cash on January 1, 2007.

(2) Issue of bonds convertible into new shares and/or exchangeable (OCEANE) issued on May 21, 2003 represented by 12,500,000 bonds with a face value of €86.36.
Conversion and/or exchange for shares: at any time from May 21, 2003 on the basis of one share for one bond.
Normal redemption: the bonds will be fully redeemed on January 1, 2008 at a price of €91.14 per bond, i.e. approximately 105.535% of the bonds' face value.
Actuarial gross yield to maturity of unconverted bonds: 3.6250%.
PPR decided to proceed with the early redemption of all bonds outstanding on October 30, 2006 at a price of €89.84 per bond plus the interest accrued since January 1, 2006 for a total price of €91.62635 per bond. Bondholders could choose between a redemption for cash or an exchange for PPR shares (one (1) PPR share for one (1) bond exchanged).
In 2006, bondholders exercised their share allotments rights for 12,489,018 bonds.
Given the treasury share hedges in place, this transaction gave rise to the creation of 8,333,106 new shares.
The balance, i.e. 10,982 bonds, was redeemed in cash on October 30, 2006 at a price of €91.62635 including accrued interest.
As of December 31, 2006, all bonds were redeemed through conversion or cash.

Pursuant to the IFRS transition, the Group retrospectively calculated the "financial liability" and "equity" components of these two hybrid instruments at the issue date, and deduced the value of the bond component to be recognised as of January 1, 2005.

The amounts recognised in the balance sheet as of January 1, 2005 have been determined using amortised cost accounting rules based on the effective interest rate, after taking into account the equity component and the reallocation of issue costs and redemption premiums.

(in € million)	12.31.2006	12.31.2005	01.01.2005
Face value of convertible bonds	**149.2**	**1,228.7**	**1,228.7**
Equity component (conversion option)	(25.4)	(120.9)	(120.9)
Debt component (EIR adjustment)	25.4	93.5	50.9
Amortised cost at the balance sheet date, excluding accrued interest	**149.2**	**1,201.3**	**1,158.7**

These amounts are presented before deferred tax.
Accrued interest is recorded in "Other borrowings".

BONDS ISSUED BY PPR

The Group has a EMTN (Euro Medium-Term Note) programme with a ceiling of €4,000 million at the balance sheet date.

As of December 31, 2006, bonds issued under this programme totalled €2,550 million.

All borrowings benefit from the PPR Group rating awarded by Standard & Poor's, which is to say "BBB-" with a stable outlook.

Face value	Issue interest rate	Effective interest rate	Issue date	Documented/ non-documented hedge	Maturity	12.31.2006	12.31.2005	01.01.2005	12.31.2004
750.0 (1)	5.00% fixed	5.20%	07.23.2003	Euribor 3 month floating rate swap in the amount of €500 million *Documented under IFRS*	01.23.2009	**737.3**	745.7	749.0	750.0
800.0 (2)	5.25% fixed	5.34%	03.29.2004	Euribor 3 month floating rate swap in the amount of €650 million *Documented under IFRS*	03.29.2011	**789.9**	814.7	814.1	800.0
400.0 (3)	Euribor 3 month floating +0.50%	-	10.22.2004	-	10.22.2007	**399.9**	399.7	399.6	400.0
600.0 (4)	4.00% fixed	4.08% & 4.79%	06.29.2005 & 06.19.2006	-	01.29.2013	**586.3**	298.4	-	-

(1) Bond issue on July 23, 2003, represented by 750,000 bonds with a face value of €1,000 as part of the EMTN program.
Redemption: in full on January 23, 2009.

(2) Bond issue, represented by 800,000 bonds with a face value of €1,000 as part of the EMTN program, comprising 650,000 bonds issued on March 29, 2004 and 150,000 additional bonds issued on July 23, 2004.
Redemptions: in full on March 29, 2011.

(3) Bond issue on October 22, 2004, represented by 400,000 bonds with a face value of €1,000 as part of the EMTN program.
Redemption: in full on October 22, 2007.

(4) Bond issue, represented by 600,000 bonds with a face value of €1,000 as part of the EMTN program, comprising 300,000 bonds issued on June 29, 2005 and 300,000 additional bonds issued on June 19, 2006.
Redemption: in full on January 29, 2013.

The amounts recognised in the balance sheet as of January 1, 2005 have been determined using amortised cost accounting rules based on the effective interest rate and the fair value adjustment generated by the hedging relationship documented pursuant to application of IAS 39.

Accrued interest is recorded in "Other borrowings".

29.5. Main long and medium-term borrowings and confirmed lines of credit

29.5.1. Breakdown of main long and medium-term borrowings

The Group has the following borrowings:

LONG AND MEDIUM-TERM BORROWINGS CONTRACTED BY PPR FINANCE SNC
(in € million)

Face value	Issue interest rate	Effective tax rate	Issue date	Documented/ non-documented hedge	Maturity	12.31.2006	12.31.2005	01.01.2005	12.31.2004
52.6	Euribor 3 month floating +0.40%	-	06.16.1998	Euribor 3 month floating rate swap for the entire issue *Documented under IFRS*	06.16.2010	**52.6**	52.6	52.6	52.6
30.6	5.45% fixed	5.45%	06.16.1998		06.16.2006		30.6	30.6	30.6
9.1	5.46% fixed	5.46%	06.16.1998		06.16.2006		9.1	9.1	9.1
9.1	5.50% fixed	5.50%	06.16.1998		06.16.2006		9.1	9.1	9.1
15.2	5.20% fixed	5.20%	09.15.1998	Euribor 3 month floating rate swap for the entire issue *Documented under IFRS*	09.15.2006		15.5	15.9	15.2
50.3	5.30% fixed	5.30%	12.01.1998		12.01.2006		50.3	50.3	50.3
17.5	5.39% fixed	5.39%	12.01.1998	Euribor 3 month floating rate swap for the entire issue *Documented under IFRS*	12.01.2006		17.9	18.4	17.5
170.0	Euribor 3 month floating +0.50%	-	09.25.2001	-	09.25.2006		170.0	170.0	170.0
50.0	Euribor 3 month floating +0.20%	-	12.15.2006		12.15.2011	**50.0**	-	-	-

The amounts recognised in the balance sheet as of January 1, 2005 have been determined using amortised cost accounting rules based on the effective interest rate and the fair value adjustment generated by the hedging relationship documented pursuant to application of IAS 39.

Accrued interest is recorded in "Other borrowings".

LONG AND MEDIUM-TERM BORROWINGS CONTRACTED BY REDCATS FINANCE UK
(in € million)

Face value	Issue interest rate	Effective tax rate	Issue date	Documented/ non-documented hedge	Maturity	12.31.2006	12.31.2005	01.01.2005	12.31.2004
160.8 (1)	Market rate floating +0.42%	-	10.28.2003	-	10.28.2008	142.8	154.1	150.3	150.3

(1) Securitisation set up by Redcats Finance UK in the amount of £108 million (€160.8 million). The amount used as of December 31, 2006 is £95.9 million (€142.8 million).

LONG AND MEDIUM-TERM BORROWINGS CONTRACTED BY GUCCI GROUP
(in € million)

Face value	Issue interest rate	Effective tax rate	Issue date	Documented/ non-documented hedge	Maturity	12.31.2006	12.31.2005	01.01.2005	12.31.2004
38.0 (1)	USD Libor floating +1.00%	-	08.08.2003	-	08.15.2013	26.6	33.9	33.0	33.0
35.0 (2)	Euribor floating +0.70%	-	03.29.2004	-	06.30.2014	**33.0**	35.0	35.0	35.0
54.2 (3)	JPY Tibor floating +0.35%	-	09.15.2006	-	09.15.2011	54.2	-	-	-

(1) Redeemable loan contracted by Gucci America Inc. in the amount of US$50 million (€38 million); the outstanding balance on this loan as of December 31, 2005 is US$35 million (€26.6 million).
(2) Loan redeemable as of 2006 initially contracted for €35 million.
(3) Redeemable loan contracted in December 2006 for 8,500 million yen (€54.2 million).

29.5.2. Confirmed lines of credit

As of December 31, 2006, the Group had access to confirmed lines of credit of €5,030.9 million, compared to €5,105.6 million as of December 31, 2005.

The undrawn balance on these confirmed lines of credit as of December 31, 2006 was €4,773.1 million, compared to €4,913.1 million as of December 31, 2005.

The unused confirmed lines of credit back the commercial paper issue programme, which represented total outstandings of €811.2 million as of December 31, 2006, compared to €1,025.2 million as of December 31, 2005.

29.5.3. Breakdown of confirmed lines of credit

PPR AND PPR FINANCE SNC: €4,611 million with the following maturities:

(in € million)	12.31.2006	Maturing in less than one year	Maturing in one to five years	Maturing in more than five years	12.31.2005	12.31.2004
Confirmed lines of credit	4,611.0	15.0	2,309.0	2,287.0	4,611.0	4,775.0

Confirmed lines of credit include the syndicated revolving credit facility of €2,750 million secured in March 2005.

This credit facility has a 5-year term and two options for extending the maturity. Upon the initial request, €2,287 million was extended to March 2012, and €268 million to March 2011. The March 2010 maturity is retained for €195 million.

CONFIRMED LINES OF CREDIT: €419.9 million with the following maturities:

(in € million)	12.31.2006	Maturing in less than one year	Maturing in one to five years	Maturing in more than five years	12.31.2005	12.31.2004
Redcats (1)	197.6	140.7	56.9		283.8	128.5
Gucci Group NV (2)	222.3	113.8	108.5		210.8	516.5
	419.9	254.5	165.4		494.6	645.0

(1) Redcats: of which US$75 million (€56.9 million) and 1,272 million in Swedish krona (€140.7 million).
(2) Gucci Group NV: including CHF150 million (€93.3 million), JPY17,850 million (€113.8 million) and US$20 million (€15.2 million).

The Group's confirmed lines of credit are subject to the standard commitment and default clauses customarily included in this type of agreement: pari passu, negative pledge and cross default.

PPR and PPR Finance SNC confirmed lines of credit comprise a default clause (early repayment) in the event of failure to satisfy the following financial covenant: Consolidated net financial indebtedness/ Consolidated EBITDA less than or equal to 3.75.

The Group was in compliance with all these clauses as of December 31, 2006 and there is no likely risk of default.

NOTE 30. EXPOSURE TO FOREIGN EXCHANGE, INTEREST RATE AND EQUITY RISK

The Group uses derivative financial instruments to manage its exposure to market risks.

The following derivative financial instruments were used by the Group as of December 31, 2006.

30.1. Exposure to interest rate risk

In order to manage interest rate risk on financial assets and liabilities, and particularly borrowings, the PPR Group uses instruments with the following outstanding notional amounts:

(in € million)	12.31.2006	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond	12.31.2005
Swaps: fixed rate lender	1,869.8	719.5	0.3	500.0		650.0		2,311.7
Swaps: fixed rate borrower	118.8	69.1	49.7					306.9
Purchase of collars								42.4
Purchase of caps	975.0	725.0	250.0					1,025.0
Other interest rate instruments (1)	58.7	6.1			52.6			58.7
Total	**3,022.3**	**1,519.7**	**300.0**	**500.0**	**52.6**	**650.0**		**3,744.7**

(1) Including floating/floating rate swaps.

As part of the Group's strategy to hedge interest rate exposure, these instruments are designed to:

- convert fixed-rate bonds into floating-rate debt: the Group entered into interest rate swaps as a fixed-rate lender in the amount of €1,150.0 million to hedge PPR bond issues;
- convert fixed-rate negotiable debt securities, loans and credit-line draw-downs to floating rates: the Group entered into interest rate swaps as a fixed-rate lender in the amount of €561.7 million;
- set the rate of floating-rate borrowings: the Group entered into interest rate swaps as a fixed-rate borrower in the amount of €109.9 million;
- manage interest-rate risk on borrowings via option transactions: the Group entered into swaps in the amount of €975.0 million.

On behalf of Finaref, prior to its disposal, PPR entered into interest rate swaps representing an outstanding nominal amount of only €11.9 million as of December 31, 2006, compared with €41.3 million as of December 31, 2005. These swaps were symmetrically hedged with leading bank counterparties.

Pursuant to application of IAS 39, these financial instruments were analysed with respect to hedge accounting eligibility criteria.

As of December 31, 2006, documented and non-documented financial instruments were as follows:

(in € million)	12.31.2006	Fair value hedge	Cash flow hedge	Hedge relationship not documented
Swaps: fixed rate lender	1,869.8	1,150.0		719.8
Swaps: fixed rate borrower	118.8		109.9	8.9
Purchase of collars				
Purchase of caps	975.0			975.0
Other interest rate instruments	58.7			58.7
Total	**3,022.3**	**1,150.0**	**109.9**	**1,762.4**

These interest rate derivative instruments are recognised in the balance sheet at their year-end market value.

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 derivative instruments designated as fair value hedges, fair value movements are recognised in net income of the period, offsetting in full or in part the revaluation of the hedged debt.

The ineffective portion of the fair value hedge impacts finance costs for the period.

As of December 31, 2006, fair value hedges concerned fixed-rate bonds issued by the Group in July 2003 and March 2004 and hedged by interest rate swaps in the nominal amount of €500 million and €650 million, respectively.

In the case of interest rate derivative instruments designated as cash flow hedges, the effective portion of the fair value movement is initially recognised in equity and reclassified in net income when the hedged position affects net income.

The ineffective portion of the fair value hedge impacts finance costs for the period.

As of December 31, 2006, cash flow hedges concern borrowings issued in Japanese yen and hedged in the amount of JPY17.25 billion (€109.9 million).

Fair value movements in respect of non-documented derivative instruments are recognised directly in net income, with an impact on finance costs for the period.

As of December 31, 2006, these derivative instruments that did not qualify for hedge accounting under IAS 39 criteria primarily comprised optional instruments in the form of caps and collars, negotiated to hedge revolving floating-rate financing.

Before management, the Group's exposure to interest rate risk is presented below, with a distinction made between the following:

- fixed-rate financial assets and liabilities, exposed to a price risk before management:

(in € million)	12.31.2006	2006 maturities			12.31.2005	12.31.2004
		Less than one year	One to five years	More than five years		
Fixed-rate financial assets	**317.4**	**294.1**	**9.7**	**13.6**	**673.5**	**3,247.1**
Bonds	2,269.7	151.5	1,531.9	586.3	3,069.2	3,514.6
Commercial paper	585.7	585.7			859.2	938.0
Other borrowings	209.0	154.1	53.8	1.1	506.9	716.7
Fixed-rate financial liabilities	**3,064.4**	**891.3**	**1,585.7**	**587.4**	**4,435.3**	**5,169.3**

- floating-rate financial assets and liabilities exposed to a cash flow risk before management:

(in € million)	12.31.2006	2006 maturities			12.31.2005	12.31.2004
		Less than one year	One to five years	More than five years		
Floating-rate financial assets	**1,358.0**	**1,344.4**	**0.9**	**12.7**	**2,067.2**	**2,160.2**
Bonds	399.9	399.9			399.7	506.7
Commercial paper	225.5	225.5			166.0	372.3
Other borrowings	1,751.3	783.7	711.6	256.0	1,878.7	3,384.2
Floating-rate financial liabilities	**2,376.7**	**1,409.1**	**711.6**	**256.0**	**2,444.4**	**4,263.2**

After management, and taking into account the above hedging transactions, the Group's exposure to interest rate risk is presented below, with a distinction made between the following:

- fixed-rate financial assets and liabilities exposed to a price risk after management:

(in € million)	12.31.2006	2006 maturities			12.31.2005	12.31.2004
		Less than one year	One to five years	More than five years		
Fixed-rate financial assets	**317.4**	**294.1**	**9.7**	**13.6**	**673.5**	**3,247.1**
Bonds	993.3	2.3	404.7	586.3	2,665.5	1,560.5
Commercial paper	674.0	674.0			246.6	66.0
Other borrowings	643.9	289.7	353.1	1.1	580.9	1,548.0
Fixed-rate financial liabilities	**2,311.2**	**966.0**	**757.8**	**587.4**	**3,493.0**	**3,174.5**

- floating-rate financial assets and liabilities exposed to a cash flow risk after management:

(in € million)	12.31.2006	2006 maturities			12.31.2005	12.31.2004
		Less than one year	One to five years	More than five years		
Floating-rate financial assets	**1,358.0**	**1,344.4**	**0.9**	**12.7**	**2,067.2**	**2,160.2**
Bonds	1,676.3	549.1	1,127.2		803.4	2,460.8
Commercial paper	137.2	137.2			778.6	1,244.3
Other borrowings	1,316.4	648.1	412.3	256.0	1,804.7	2,552.9
Floating-rate financial liabilities	**3,129.9**	**1,334.4**	**1,539.5**	**256.0**	**3,386.7**	**6,258.0**

Financial assets and liabilities consist of interest-bearing balance sheet items.

Given this breakdown between fixed-rate and floating-rate assets and liabilities after the impact of derivative instruments, a 1% increase or decrease in interest rates would have a full-year impact of €24.6 million on Group consolidated net income before tax, excluding fair value adjustments in respect of derivative instruments not qualifying for hedge accounting.

Based on year-end market data, interest rate instruments not qualifying for hedge accounting would have a negative impact on finance costs of €0.4 million in the event of a 1% decrease in interest rates and a positive impact of €7.5 million in the event of a 1% increase in interest rates.

The breakdown of gross debt by type of rate before and after hedging transactions is as follows:

(In € million)	12.31.2006	Before hedging		After hedging	
		Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
Gross debt	**5 441.1**	**3,064.4**	**2,376.7**	**2,311.2**	**3,129.9**
%		56.3%	43.7%	42.5%	57.5%

(In € million)	12.31.2005	Before hedging		After hedging	
		Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
Gross debt	**6,879.7**	**4,435.3**	**2,444.4**	**3,493.0**	**3,386.7**
%		64.5%	35.5%	50.8%	49.2%

(In € million)	12.31.2004	Before hedging		After hedging	
		Fixed-rate	Floating-rate	Fixed-rate	Floating-rate
Gross debt	**9,432.5**	**5,169.3**	**4,263.2**	**3,174.5**	**6,258.0**
%		54.8%	45.2%	33.7%	66.3%

30.2. Exposure to foreign exchange risk

PPR Group uses instruments with the following outstanding notional amounts to manage foreign exchange risk:

(in € million)	12.31.2006	12.31.2005
Currency forwards and currency swaps	(1,255.4)	(1,058.3)
Currency options - tunnels	(253.3)	(454.3)
Purchased currency options	257.3	168.7
Sold currency options	(7.4)	(8.5)
Total	**(1,258.8)**	**(1,352.4)**

The Group primarily uses forward currency contracts and/or 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 can also be required to implement simple options strategies (purchase of options or tunnels) to hedge future exposures.

Pursuant to application of IAS 39, these financial instruments were analysed with respect to hedge accounting eligibility criteria.

As of December 31, 2006, documented and non-documented financial instruments were as follows:

(in € million)	12.31.2006	CHF	EUR	GBP	HKD	HRK
Cash flow hedge						
Forward purchases & forward purchase swaps	486.8		25.2	5.8	28.9	
Forward sales & forward sale swaps	(940.4)	(24.4)	(22.7)	(213.6)	(75.1)	
Currency options - purchases of export tunnels	(253.3)					
Fair value hedge						
Forward purchases & forward purchase swaps	199.8	11.3	0.7	8.0	5.2	
Forward sales & forward sale swaps	(609.3)	(135.0)	(11.1)	(98.0)	(15.4)	
Not documented						
Forward purchases & forward purchase swaps	62.0	0.1	8.5	1.3	3.5	
Forward sales & forward sale swaps	(454.3)	(11.7)	(7.3)	(45.2)	(0.1)	(32.5)
Currency options - purchases	257.3	7.9	0.8	32.5	8.7	
Currency options - sales	(7.4)			(1.7)		
Maturity						
Less than one year						
Forward purchases & forward purchase swaps	747.5	11.4	34.2	15.1	36.7	
Forward sales & forward sale swaps	(1,993.6)	(169.8)	(41.1)	(349.1)	(90.6)	(32.5)
Currency options - purchases of export tunnels	(232.3)					
Currency options - purchases	247.9	7.9	0.8	32.5	8.7	
Currency options - sales	(7.4)			(1.7)		
More than one year						
Forward purchases & forward purchase swaps	1.1		0.2		0.9	
Forward sales & forward sale swaps	(10.4)	(1.3)		(7.7)		
Currency options - purchases of export tunnels	(21.0)					
Currency options - purchases	9.4					
Currency options - sales						

Foreign exchange derivative instruments are recognised in the balance sheet at their year-end market value.

Derivatives qualifying as cash flow hedges are used to hedge highly probable future flows (not yet recognised) based on a budget for the current budget period (season or catalogue, quarter, half-year, etc.) or certain future flows not yet recognised (firm orders).

Derivatives qualifying as fair value hedges are used to hedge items recognised in the Group balance sheet at the year-end or certain future flows not yet recognised (firm orders). These hedges mainly concern the Luxury Goods Division in the case of balance sheet items and certain Retail Division brands in the case of firm commitments.

Certain foreign exchange derivatives managed for hedging purposes are not documented in connection with IAS 39 hedge accounting and, as such, are recorded as derivative instruments, with movements in their fair value impacting finance costs.

These derivatives mainly hedge balance sheet items and future flows which do not satisfy the "highly probable" criteria required by IAS 39.

Based on year-end market data, foreign exchange instruments not qualifying for hedge accounting would have an impact of €0.1 million on finance costs in the event of a 1% change in foreign exchange rates.

As of December 31, 2006, the exposure to foreign exchange risk on the balance sheet is as follows:

(in € million)	12.31.2006	CHF	EUR	GBP	HKD	HRK
Money market assets	1,397.9	185.8	12.3	153.0	20.5	32.2
Money market liabilities	(993.9)	(127.8)	(32.2)	(163.2)	(8.7)	
Group exposure in the balance sheet (before hedging)	**404.0**	**58.0**	**(19.9)**	**(10.2)**	**11.8**	**32.2**
Group exposure in the balance sheet (after hedging)	**(328.0)**	**(77.3)**	**(23.6)**	**(104.0)**	**5.0**	**0.1**

Monetary assets comprise loans and receivables, bank balances, investments and cash equivalents with a maturity of less than three months at the acquisition date.

Monetary liabilities comprise borrowings, operating payables and other payables.

JPY	KRW	NOK	PLN	SEK	TWD	USD	Other	12.31.2005
22.1		0.9				403.2	0.7	772.8
	(17.0)	(42.8)		(21.5)	(27.3)	(476.4)	(19.6)	(1 243.6)
(253.3)								(454.3)
104.4	1.9				1.5	63.6	3.2	180.8
(54.5)	(3.5)				(3.4)	(269.4)	(19.0)	(738.9)
0.2						47.8	0.6	132.2
		(15.5)	(20.4)			(312.3)	(9.3)	(161.8)
		12.2		7.7		187.5		168.7
		(2.4)				(3.3)		(8.5)
126.7	1.9	0.9			1.5	514.6	4.5	1,083.6
(54.5)	(20.5)	(58.3)	(20.4)	(20.1)	(30.7)	(1, 058.1)	(47.9)	(2,129.4)
(232.3)								(395.5)
		9.3		7.7		181.0		162.6
		(2.4)				(3.3)		(8.5)
								2.2
				(1.4)				(14.7)
(21.0)								(58.8)
		2.9				6.5		6.1

JPY	KRW	NOK	PLN	SEK	TWD	USD	Other	12.31.2005	12.31.2004
58.0	3.5	1.4	20.2	6.1	11.5	829.9	63.5	1,272.7	510.0
(403.5)	(1.9)	(0.2)		(14.7)	(4.4)	(225.0)	(12.3)	(1,002.7)	(800.1)
(345.5)	**1.6**	**1.2**	**20.2**	**(8.6)**	**7.1**	**604.9**	**51.2**	**270.0**	**(290.1)**
(295.7)		**1.2**		**(8.5)**	**5.2**	**133.9**	**35.7**	**(335.9)**	**(418.3)**

30.3. Exposure to equity risk

In the normal course of its business, PPR only enters into transactions involving shares in consolidated companies or shares issued by PPR.

Shares held in connection with non-consolidated investments represent a low exposure risk for the Group and are not hedged.

As of December 31, 2006, no equity risk hedging transaction had been recognised as a derivative instrument pursuant to the application of 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 and do not carry any counterparty risk.

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.

30.5. Derivative instruments at market value

As of December 31, 2006, and in accordance with IAS 39, the market value of derivative financial instruments is recognised in balance sheet assets under the headings "Non-current financial assets" and "Other current financial assets" and in balance sheet liabilities under the headings "Other non-current financial liabilities and "Other current financial liabilities".

The fair value of derivatives hedging interest rate risks is recognised in non-current or current assets or liabilities depending on the maturity of the underlying debt to which they are allocated.

The fair value of foreign exchange derivatives is recognised in other current financial assets or liabilities.

(in € million)	12.31.2006	Interest rate risk	Foreign exchange risk	Other market risks	12.31.2005	01.01.2005
Derivative assets	**98.9**	**44.7**	**54.2**		**113.8**	**200.4**
Non-current	**27.1**	**27.1**			**65.3**	**69.1**
At fair value through the Income Statement	0.5	0.5			0.7	4.0
Cash flow hedges						
Fair value hedges	26.6	26.6			64.6	65.1
Current	**71.8**	**17.6**	**54.2**		**48.5**	**131.3**
At fair value through the Income Statement	24.7	17.6	7.1		20.4	46.6
Cash flow hedges	43.0		43.0		25.1	58.9
Fair value hedges	4.1		4.1		3.0	25.7
Derivative liabilities	**39.6**	**11.7**	**27.9**		**15.7**	**90.9**
Non-current					**1.8**	**2.0**
Derivative liabilities - at fair value through the Income Statement					1.8	2.0
Derivative liabilities - cash flow hedges						
Derivative liabilities - fair value hedges						
Current	**39.6**	**11.7**	**27.9**		**13.9**	**88.9**
Derivative liabilities - at fair value through the Income Statement	12.5	11.7	0.8		9.9	39.4
Derivative liabilities - cash flow hedges	20.1		20.1		0.8	44.7
Derivative liabilities - fair value hedges	7.0		7.0		3.2	4.8
Total	**59.3**	**33.0**	**26.3**		**98.1**	**109.5**

Derivatives qualifying for fair value hedge accounting mainly hedge long-term debt issued in the form of bonds and are presented in balance sheet assets in the amount of €26.6 million as of December 31, 2006 and €65.5 million as of December 31, 2005.

The effective portion of derivatives hedging future cash flows is recorded by offsetting against shareholders' equity.

Based on year-end data, movements in the cash flow hedge reserve during 2006 were as follows:

(in € million)	Attributable to equity holders of the parent
Cash flow reserve as of December 31, 2005	**4.9**
Transfer from the cash flow reserve to the Income Statement	33.7
Fair value movements	(5.5)
Cash flow reserve as of December 31, 2006	**33.1**

These amounts are presented before deferred tax.

NOTE 31. NET FINANCIAL INDEBTEDNESS

Group net financial indebtedness breaks down as follows:

(in € million)	12.31.2006	12.31.2005	01.01.2005	12.31.2004
Gross borrowings excluding the financing of customer loans	5,043.4	6,463.1	9,133.4	9,013.4
Fair value hedging derivative instruments (interest rate)	(26.6)	(65.5)	(86.8)	
Cash and cash equivalents	(1,555.6)	(1,813.2)	(3,862.8)	(4,288.1)
Net financial indebtedness	**3,461.2**	**4,584.4**	**5,183.8**	**4,725.3**

As of December 31, 2004, "Cash and cash equivalents" includes short-term receivables on divestments of €2,181.8 million (Note 25).

NOTE 32. MARKET VALUE OF FINANCIAL INSTRUMENTS

The market values of most of the Group's financial instruments are based on estimates, except for investments in non-consolidated listed companies, marketable securities and listed bonds, which are recorded on the basis of their last known price as of December 31, 2006.

	12.31.2006		12.31.2005		12.31.2004	
(in € million)	Net carrying amount	Market value	Net carrying amount	Market value	Net carrying amount	Market value
Assets						
Non-current financial assets - available for sale	37.8	37.8	40.7	40.7	73.6	73.6
Non-current financial assets - amortised cost	151.1	151.1	134.8	134.8	167.6	167.6
Non-current financial assets - derivative assets	27.1	27.1	65.3	65.3		
Other current financial assets - derivative assets	71.8	71.8	48.5	48.5		
Cash and cash equivalents	1,555.6	1,555.6	1,813.2	1,813.2	4,288.1	4,219.1
Liabilities						
Convertible bonds	149.2	150.6	1,201.3	1,426.9	1,228.7	1,337.0
Other bonds	2,520.4	2,559.2	2,267.6	2,345.8	2,792.6	2,883.1
Other bank borrowings	675.8	675.8	1,135.5	1,137.3	876.0	880.4
Confirmed lines of credit	257.8	257.8	192.5	192.5	2,201.9	2,201.9
Draw downs on unconfirmed lines of credit	113.3	113.3	90.9	90.9	136.2	136.2
Commercial paper	811.2	811.2	1,025.2	1,025.2	1,310.3	1,310.3
Obligations under finance leases	136.6	136.6	178.4	178.4	196.7	196.7
Employee profit-sharing	43.6	43.6	46.9	46.9	39.2	39.2
Bank overdrafts	339.8	339.8	472.9	472.9	243.4	243.4
Other borrowings	393.4	393.4	268.5	268.5	407.5	407.5
Other non-current financial liabilities - derivative liabilities			1.8	1.8		
Other current financial liabilities - derivative liabilities	39.6	39.6	13.9	13.9		

The following methods were used:

- **Financial instruments other than derivatives recorded in balance sheet assets**

Net carrying amounts are based on reasonable estimates of market value, with the exception of listed 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, 2006 for the securities listed. Non-current financial assets are described in Note 21.

- **Financial instruments other than derivatives recorded in balance sheet liabilities**

The market value of listed bonds was determined on the basis of the last stock market price at the balance sheet date.

For other borrowings, the market value was calculated using other valuation methods, such as discounted cash flow, taking into account the Group's credit risk and interest rate conditions at the balance sheet date.

- **Derivative financial instruments**

The market value was provided by the financial institutions involved in the transactions or calculated using standard valuation methods that incorporate market conditions at the balance sheet date.

NOTE 33. CASH FLOW STATEMENT

Cash and cash equivalents, net of bank overdrafts, is €1,215.8 million as of December 31, 2006 and corresponds to the amount of cash and cash equivalents presented in the cash flow statement.

(in € million)	12.31.2006	12.31.2005	01.01.2005	12.31.2004
Cash and cash equivalents per the balance sheet	**1,555.6**	**1,813.2**	**3,862.8**	**4,288.1**
Bank overdrafts	(339.8)	(472.9)	(255.4)	(243.4)
Cash and cash equivalents per the cash flow statement	**1,215.8**	**1,340.3**	**3,607.4**	**4,044.7**

As of December 31, 2004, "Cash and cash equivalents" includes short-term receivables on divestments of €2,181.8 million (Note 25).

33.1. Cash from operating activities

Cash flow from operating activities breaks down as follows:

(in € million)	12.31.2006	12.31.2005	12.31.2004
Net income from continuing operations	**726.7**	**574.7**	**563.8**
Net recurring charges to depreciation. amortisation and provisions on non-current operating assets	355.5	348.2	364.4
Calculated charges on share options and equivalent	4.7	4.5	6.7
Impairment losses on non-current operating assets	29.5	57.7	147.5
Net proceeds on asset disposals, net of tax	(142.0)	(75.9)	(221.6)
Net proceeds on treasury shares	0.0	0.0	8.5
Income/(expenses) in respect of fair value movements	62.1	30.5	0.0
Deferred tax	(2.8)	(55.5)	92.1
Share in earnings of associates	(2.2)	(3.4)	(14.4)
Dividends received from associates	1.8	5.4	4.5
Other non-cash income and expenses	79.9	14.6	2.8
Cash flow from operating operations	**1,113.2**	**900.8**	**954.3**

33.2. Acquisitions and disposals of property, plant and equipment and intangible assets

Net purchases of property, plant and equipment and intangible assets break down as follows:

(in € million)	12.31.2006	12.31.2005	12.31.2004
Retail Division	(208.2)	(196.4)	(204.2)
Luxury Goods Division	(150.2)	(112.8)	(135.5)
Holding companies and other	16.0	(2.9)	(3.7)
Total	**(342.4)**	**(312.1)**	**(343.4)**

Purchases of property, plant and equipment under finance leases totalled €3.0 million in 2006 (€3.0 million in 2005 and €6.3 million in 2004).

33.3. Acquisitions and disposals of subsidiaries

(in € million)	12.31.2006	12.31.2005	12.31.2004
Acquisitions of subsidiaries, net of cash acquired	(295.1)	(68.6)	(2,688.0)
Proceeds from disposals of subsidiaries, net of cash transferred	168.6	3.1	2,305.5
Total	**(126.5)**	**(65.5)**	**(382.5)**

For 2006, subsidiary acquisitions primarily concern *The Sportsman's Guide* and the minority interests of Sodice Expansion (Note 4). Disposals essentially comprise Printemps and Orcanta (Note 4) less tax payments on the capital gains arising from the disposals of Rexel, Finaref and Facet.

For 2005, subsidiary acquisitions primarily concern minority interests in certain Group companies. Disposals mainly concerned the sale of the Group's remaining interest in Facet for €87.2 million, the sale of MobilePlanet for €2.1 million and tax payments on the capital gains and expenses arising from the 2004 disposals.

33.4. Treasury share transactions

For 2006, the impact of acquisitions or disposals of treasury shares represents:

- the net acquisition of 244,548 PPR treasury shares for €16.5 million;
- the purchase of 2,635,911 PPR share purchase options in order to hedge employee stock option plans (1,480,000 options) and 05/03-01/08 2.5% PPR Océane bonds (1,155,911 options) for €17.2 million in premiums;
- the cost of the partial hedge (4,155,911 shares) of the 05/03-01/08 2.5% PPR Océane bonds for €31.8 million.

33.5. Debt issues and redemptions

Debt issues primarily concern the €300 million contribution, on June 7, 2006, to the bond tranche maturing on January 29, 2013 and bearing interest at 4%.

Debt redemptions primarily include:

- the February 6, 2006 redemption of the €125.0 million borrowing issued on February 6, 2004;
- the early redemption, in October 2006, of the 05/03-01/08l 2.5% PPR Océane bonds for €1,079.5 million;
- the redemption of various medium and long-term borrowings contracted by PPR Finance SNC for €302.5 million.

NOTE 34. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS NOT RECOGNISED AND RISKS

34.1. Compulsory buy-out of Gucci shares

Following the delisting of Gucci shares from the New York Stock Exchange on June 14, 2004 and on July 1, 2004 from the Amsterdam Euronext, the Group is preparing a compulsory buy-out process to take place before the Dutch courts, a mandatory withdrawal process covering the Gucci ordinary shares that it did not hold following the April 2004 takeover bid. Accordingly, as of December 31, 2006, the Group valued its maximum commitment at €45 million.

34.2. Commitments given and received following asset disposals

The vendor warranties given on the sale of Guilbert, Pinault Bois & Matériaux, Rexel, Orcanta and France Printemps are as follows:

Disposals	Vendor warranties
May 2003	
Sale of Guilbert "Contract" to Office Depot	Standard 2-year asset warranties which expired in April 2005, except for tax-related warranties granted for a period equal to the legal time limits.
June 2003	
Sale of Pinault Bois & Matériaux to Wolseley	The warranties granted by Saprodis on the sale of Pinault Bois & Matériaux to Wolseley in June 2003 have expired. However, one specific warranty for certain damages relating to the environment, health and safety are still in effect. This warranty will expire on July 7, 2017 and is capped at €100 million and €50 million, respectively, for all claims presented after July 7, 2008. As of today, this warranty has not been triggered.
December 2004	
Sale of Rexel	On December 10, 2004, the Group signed a definitive agreement with the consortium comprising Clayton, Dubilier & Rice, Eurazeo and Merrill Lynch Global Private Equity ("Ray Consortium") for the sale of its 73.45% interest in Rexel. Limited vendor warranties excluding from their scope property, intellectual property, supplier relations and the environment were granted to the purchasing consortium. These warranties are capped at €50 million.
July 2006	
Sale of Orcanta	On July 21, 2006, Discodis sold its entire interest in Rouafi to Chantelle. Discodis granted standard vendor warranties, expiring on February 28, 2008 (excluding warranties related to tax, social security and customs claims as well as any claims relating to violation of anti-trust and tariff transparency rules) and capped at €5 million, in addition to assuming certain litigation currently underway relating to the sale and indemnification of the buyer in the event of early termination of certain commercial leases.
August 2006	
Sale of France Printemps	On August 2, 2006, PPR signed an agreement on the sale of Printemps shares to RREEF Global Opportunities Fund in partnership with the Borletti Group which took place in two phases (sale of the 51% majority interest completed by October 31, 2007 and the sale of the remaining interest in 2007). PPR granted standard vendor warranties, with warranties covering tax-related claims expiring on December 31, 2009, and all other warranties relating to other claims expiring on March 31, 2008. The maximum indemnification is capped at €65 million except for certain warranties relating notably to real estate, which are subject to a minimum of €250,000 per individual claim and are only indemnified when all eligible individual claims exceed €2 million, in the amount of the excess.

Excluding the vendor warranties described above, vendor warranty agreements with standard terms were set up for the purchasers of the other companies sold by the Group.

34.3. Other commitments given

34.3.1. Contractual obligations

The table below shows all the Group's contractual commitments and obligations, excluding employee benefit obligations presented in the preceding notes.

	Payments due by period				
(in € million)	Less than one year	One to five years	More than five years	12.31.2006	12.31.2005
Long-term borrowings (Note 29)	-	2,297.3	843.4	3,140.7	4,398.9
Operating lease agreements	393.6	1,087.1	1,145.6	2,626.3	2,282.0
Binding purchase obligations	211.3	2.0	-	213.3	205.0
Total commitments given	**604.9**	**3,386.4**	**1,989.0**	**5,980.3**	**6,885.9**
Total commitments received					

Operating lease agreements

The amount of contractual obligations presented on the line "Operating lease agreements" represents minimum future lease payments under operating lease agreements for the period in which they cannot be cancelled by the lessee. These mainly include rental payments which cannot be cancelled in respect of stores, logistic hubs and other buildings (head offices and administrative offices).
As of December 31, 2006, total minimum future lease payments which the Group expects to receive under non-cancellable sub-lease agreements total €2.9 million (€9.5 million as of December 31, 2005).

The 2006 rental charge in respect of minimum lease payments is €361.0 million (€365.0 million in 2005) and the charge for contingent payments is €196.5 million (€173.7 million in 2005), based on actual sales.

Sub-lease revenue totalled €1.7 million in 2006 (€4.4 million in 2005).

Finance leases

The present value of future minimum lease payments included in "Borrowings" and relating to capitalised assets satisfying the finance lease definition in accordance with IAS 17 is as follows:

(in € million)	12.31.2006	12.31.2005
Less than one year	37.7	46.8
Maturing in one to five years	72.0	115.6
Maturing in more than five years	109.1	92.0
	218.8	**254.4**
Finance costs included	(82.1)	(76.0)
Present value of minimum lease payments	**136.7**	**178.4**

As of December 31, 2006, total minimum future lease payments which the Group expects to receive under non-cancellable sub-lease agreements total €19.6 million (€21.0 million as of December 31, 2005).

34.3.2. Other commitments

Other commitments break down as follows:

	Payments due by period				
(in € million)	Less than one year	One to five years	More than five years	12.31.2006	12.31.2005
Confirmed lines of credit (Note 29)	269.5	2,474.4	2,287.0	5,030.9	5,105.6
Letters of credit	9.2	0.1	10.5	19.8	6.7
Other guarantees received	9.8	2.3	8.9	21.0	20.9
Total commitments received	**288.5**	**2,476.8**	**2,306.4**	**5,071.7**	**5,133.2**
Guarantees given to banks ensuring cash pooling	17.1	0.1	11.1	28.3	46.9
Rent guarantees, property guarantees	100.8	3.0	8.6	112.4	109.4
Guarantees on lease agreements	1.4	3.3	0.1	4.8	10.4
Other commitments (o/w customs warranties)	97.1	19.6	57.9	174.6	176.9
Total commitments given	**216.4**	**26.0**	**77.7**	**320.1**	**343.6**

Other commitments mainly comprise customs warranties and operating guarantees.

Other guarantees received mainly comprise documentary credits.

34.3.3. Guarantees and other collateral

Guarantees and other collateral granted by the Group break down as follows:

(in € million)	Pledge start date	Pledge expiry date	Amount of the asset pledged 12.31.2006	Balance sheet total (NCA)	Corresponding %	Amount of the asset pledged 12.31.2005
Intangible assets			-	6,602.7	0.0%	
Property, plant and equipment	10.13.2003	03.30.2016	260.3	1,900.6	13.7%	258.5
Non-current financial assets			-	216.0	0.0%	
Total non-current assets pledged as collateral			**260.3**	**8,719.3**	**3.0%**	**258.5**

34.3.4. Other commitments given

To the best of the Group's knowledge, there are no other significant commitments given or contingent liabilities.

34.4. Group dependence on patents, licenses and supply contracts

Brylane, a subsidiary of Redcats in the United States, has a trademark licence agreement for the use of the *Lane Bryant* and *Lerner* brands without the payment of royalties until October 2007. These catalogues generated revenue of €346.2 million in 2006 (€346.0 million in 2005). The transition from the brand name *Lerner* to *Metrostyle* (in-house brand) began in the fourth quarter of 2005. The process was completed at the end of 2006, and the *Lerner* brand name has now been totally replaced by *Metrostyle*. The transition from the *Lane Bryant* brand name to *Woman Within* (in-house brand), which began in the fourth quarter of 2006, was completed in October 2007.

Brylane also had an exclusive license (until 2005) for the distribution of select Brylane products included in the *Women's View*, *Smart Choice* and *Big and Tall* catalogues to individuals listed in the Sear's customer file. These catalogues realised sales of €11.6 million in 2005 (€42.9 million in 2004). The exclusive license was not renewed beyond May 31, 2005.

Aside from the two licenses referred to above, the Group is not significantly dependent on any patents, licenses or supply contracts.

34.5. Claims and litigation

Group companies are involved in a number of lawsuits or disputes that arise in the normal course of business, including litigation with tax, social welfare or customs authorities. Reserves for contingencies and losses have been set aside for the probable costs, as estimated by the Group's entities and their legal 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. Although the future consequences of claims and litigation cannot presently be foreseen, the Group believes there is no known litigation likely to have a potential material impact on the Group's assets, operating results or financial position that is not adequately covered by provisions recorded at the balance sheet date.
No individual claim is material to the Company or the Group.

To the Group's knowledge, no dispute or arbitration has had in the recent past or is likely to have in the future a significant impact on the financial position, activity or net income of the Company or the Group.

NOTE 35. TRANSACTIONS WITH RELATED PARTIES

35.1. Related party controlling the Group

PPR is controlled by Artémis, which in turn is wholly owned by Société Financière Pinault. As of December 31, 2006, Artémis Group held 40.2% of PPR's capital and 55.4% of the voting rights.

The main transactions carried out between the consolidated companies of the PPR Group and Artémis in 2006 are as follows:

- payment of the 2005 dividend of €140.4 million (€130.1 million for 2004);
- payment of a fee of €6.6 million for 2006 (€6.8 million in 2005) for business development consulting services, support in connection with complex transactions, and the supply of development opportunities, new business and cost reduction initiatives. This remuneration was subject to an agreement that was reviewed and authorized 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.

The main transactions with associates are summarised in the following table:

(in € million)	12.31.2006	12.31.2005
Non-current receivables and loans to non-consolidated investments		0.9
Trade receivables	8.0	28.6
Other current assets		0.5
Other current liabilities		0.4
Sales of goods and services	21.5	62.0
Other operating income and expenses		1.2

The change in relation to December 31, 2005 is primarily related to the acquisition of minority interests in Sodice Expansion (a company consolidated using the equity method until February 28, 2006 and subsequently fully consolidated).

35.3. Management compensation

The remuneration for members of the Board of Directors and the Group's Executive Committee is as follows:

(in € million)	12.31.2006	12.31.2005
Salaries and other short-term benefits	16.5	26.3
Other long-term benefits	2.4	3.5
Options and shares granted	1.5	1.3
Total	**20.4**	**31.1**

Remuneration and other short-term benefits represent amounts paid, while other long-term benefits and option and share allocations represent amounts that were expensed.

A list of the members of the Board of Directors and Executive Committee is presented in the "Corporate Governance" section of the Reference Document.

NOTE 36. SUBSEQUENT EVENTS

On February 25, 2007, PPR received a firm offer from Accor for the acquisition of all the share capital of Kadeos for €210 million.

PPR has accepted this offer and entered into exclusive negotiations with Accor in order to finalize the preparation of the legal documentation for the transaction, which is expected to close in or around mid-March.

This transaction will inaugurate a partnership with the Accor group in France and internationally. This means that the gift card and voucher activity will be confided to a leader of the sector. It will also ensure the long-term continuity of the Kadeos commercial agreements with all Group companies.

NOTE 37. LIST OF CONSOLIDATED SUBSIDIARIES AS OF DECEMBER 31, 2006

The list of Group subsidiaries is as follows:

Full consolidation : F
Equity method : E

Companies	% interest 2006		% interest 2005	
PPR	**Parent Company**			
GUCCI				
GUCCI GROUP NV (NETHERLANDS)	F	99.49	F	99.48
France				
LUXURY GOODS FRANCE SA	F	100.00	F	100.00
GG FRANCE HOLDING SARL	F	100.00	F	100.00
GUCCI GROUP WATCHES FRANCE, SAS	F	100.00	F	100.00
YVES SAINT LAURENT SAS	F	100.00	F	100.00
BOUCHERON SAS	F	100.00	F	100.00
BOUCHERON HOLDING SA	F	100.00	F	100.00
PARFUMS ET COSMÉTIQUES INTERNATIONAL SAS	F	100.00	F	100.00
BOUCHERON PARFUMS (SAS)	F	100.00	F	100.00
C. MENDES SA	F	100.00	F	100.00
YVES SAINT LAURENT BOUTIQUE FRANCE SAS	F	100.00	F	100.00
YVES SAINT LAURENT SERVICES SAS	F	100.00	F	100.00
YSL BEAUTÉ (SAS)	F	100.00	F	100.00
ROGER & GALLET (SAS)	F	100.00	F	100.00
YSL BEAUTÉ RECHERCHE ET INDUSTRIES (SAS)		Sale	F	100.00
YSL B2	F	100.00		Creation
PARFUMS DU PARC (Formely PARFUMS VAN CLEEF AND ARPELS SA)	F	100.00	F	100.00
YVES SAINT LAURENT PARFUMS LASSIGNY (SAS)	F	100.00	F	100.00
YVES SAINT LAURENT PARFUMS SAS	F	100.00	F	100.00
PARFUMS STERN (SAS)	F	100.00	F	100.00
BALENCIAGA SA	F	91.00	F	91.00
BOTTEGA VENETA FRANCE HOLDING SAS	F	86.28	F	86.28
BOTTEGA VENETA FRANCE SA	F	86.28	F	86.28
ALEXANDER MCQUEEN PARFUMS (SAS)	F	100.00	F	100.00
CLASSIC PARFUMS (SAS)	F	100.00	F	100.00
PARFUMS BALENCIAGA (EURL)	F	100.00	F	100.00
STELLA MCCARTNEY PARFUMS (SAS)	F	100.00	F	100.00
STELLA MCCARTNEY FRANCE SAS	F	50.00	F	50.00
Germany				
GG LUXURY GOODS GMBH	F	100.00	F	100.00
YVES SAINT LAURENT GERMANY GMBH	F	100.00	F	100.00
YSL BEAUTÉ GMBH	F	100.00	F	100.00
BOTTEGA VENETA GERMANY GMBH	F	86.28	F	86.28
Austria				
GUCCI AUSTRIA GMBH	F	100.00	F	100.00
YSL BEAUTÉ HGMBH	F	100.00	F	100.00
Belgium				
GUCCI BELGIUM SA	F	100.00	F	100.00
LA MERIDIANA FASHION SA	F	100.00	F	100.00
YSL BEAUTÉ SA NV	F	100.00	F	100.00
YVES SAINT LAURENT BELGIUM SPRL	F	100.00	F	100.00
Spain				
LUXURY GOODS SPAIN SL	F	100.00	F	100.00
LUXURY TIMEPIECES ESPAÑA SL	F	100.00	F	100.00
YVES SAINT LAURENT SPAIN SA	F	100.00	F	100.00
YSL BEAUTÉ SA	F	100.00	F	100.00
FILDEMA XXI S.L.		Merger	F	100.00
BOTTEGA VENETA ESPANA SL	F	86.28	F	86.28
NOGA LUXE SLU	F	100.00		Creation
United Kingdom				
GUCCI LIMITED	F	100.00	F	100.00
GUCCI SERVICES LIMITED	F	100.00	F	100.00
LUXURY TIMEPIECES (UK) LTD.	F	100.00	F	100.00
YVES SAINT LAURENT UK LTD.	F	100.00	F	100.00
YSL BEAUTÉ LTD.	F	100.00	F	100.00
SERGIO ROSSI UK LIMITED	F	100.00	F	100.00
BOUCHERON UK LTD.	F	100.00	F	100.00
BOTTEGA VENETA UK CO. LIMITED	F	86.28	F	86.28
AUTUMNPAPER LIMITED	F	51.00	F	51.00
BIRDSWAN SOLUTIONS LTD.	F	51.00	F	51.00
PAINTGATE LIMITED	F	100.00	F	100.00
ALEXANDER MCQUEEN TRADING LTD.	F	51.00	F	51.00
STELLA MCCARTNEY LIMITED	F	50.00	F	50.00
JOHN FIELD LTD.	F	51.00	F	51.00
Greece				
YSL BEAUTÉ AEBE	F	51.00	F	51.00
Ireland				
GUCCI IRELAND LIMITED	F	100.00	F	100.00
Italy				
GUCCIO GUCCI SPA	F	100.00	F	100.00
CAPRI GROUP SRL	F	75.00	F	75.00
GUCCI IMMOBILLARE LECCIO SRL	F	64.00	F	64.00
LUXURY GOODS ITALIA SPA	F	100.00	F	100.00
GUCCI LOGISTICA SPA	F	100.00	F	100.00
LUXURY GOODS OUTLET SRL	F	100.00	F	100.00
GUCCI VENEZIA SPA	F	51.00	F	51.00
G.F. LOGISTICA SRL	F	100.00	F	100.00
G.F. SERVICES SRL	F	100.00	F	100.00
ANFIO SPA (Formely FENDI PROFUMI SPA)	F	100.00	F	100.00
G COMMERCE EUROPE SPA (Formely FLORBATH PROFUMI DI PARMA SPA)	F	100.00	F	100.00
YSL BEAUTÉ ITALIA SPA	F	100.00	F	100.00
SERGIO ROSSI SPA	F	100.00	F	100.00
ASCOT SRL	F	100.00	F	100.00
B.V ITALIA SRL	F	86.28	F	86.28
BOTTEGA VENETA SRL	F	86.28	F	86.28
BV SERVIZI SRL	F	86.28	F	86.28
REGAIN 1957 SRL	F	70.00	F	70.00
CONCERIA BLU TONIC SPA	F	51.00	F	51.00
CARAVEL PELLI PREGIATE SRL	F	51.00	F	51.00

Companies	% interest 2006	2005
DESIGN MANAGEMENT SRL	F 100.00	F 100.00
BARUFFI SRL	F 67.00	F 67.00
PAOLETTI SRL	F 51.00	F 51.00
TIGER FLEX SRL	F 75.00	F 75.00
PIGINI SRL	F 70.00	F 70.00
GAUGUIN SRL	F 100.00	F 100.00
GUCCI FINANZIARIA SPA	F 100.00	F 100.00
GG ITALIA HOLDINGS SPA	F 100.00	F 100.00
REXCOURTA SPA	F 100.00	F 100.00
Luxembourg		
GUCCI LUXEMBOURG SA	F 100.00	F 100.00
SERGIO ROSSI INTERNATIONAL SARL	F 100.00	F 100.00
BOUCHERON LUXEMBOURG SARL	F 100.00	F 100.00
BOTTEGA VENETA INTERNATIONAL SARL	F 86.28	F 86.28
Monaco		
GUCCI SAM	F 100.00	F 100.00
BOUCHERON SAM	F 100.00	F 100.00
SAM YVES SAINT LAURENT MONACO SAM	F 100.00	F 100.00
The Netherlands		
GUCCI INTERNATIONAL NV	F 100.00	F 100.00
GUCCI NETHERLANDS BV	F 100.00	F 100.00
GUCCI PARTICIPATION BV	F 100.00	F 100.00
GUCCI ASIAN HOLDING BV	F 100.00	F 100.00
GEMINI ARUBA NV	F 100.00	F 100.00
YVES SAINT LAURENT FASHION BV	F 100.00	F 100.00
YVES SAINT LAURENT FRANCE BV	F 100.00	F 100.00
YSL BEAUTÉ NEDERLAND BV	F 100.00	F 100.00
SERGIO ROSSI NETHERLANDS BV	F 100.00	F 100.00
BOTTEGA VENETA BV	F 86.28	F 86.28
BOTTEGA VENETA ASIAN TRADE BV	F 86.28	F 86.28
Portugal		
YSL BEAUTÉ SA	F 51.00	F 51.00
Russia		
YSL BEAUTÉ VOSTOK	F 100.00	Creation
Switzerland		
LUXURY GOODS INTERNATIONAL SA	F 100.00	F 100.00
LUXURY TIMEPIECES INTERNATIONAL SA	F 100.00	F 100.00
LUXURY GOODS LOGISTIC SA	F 100.00	F 100.00
LUXURY TIMEPIECES DESIGN SA	F 100.00	F 100.00
LUXURY TIMEPIECES MANUFACTURING SA	Merger	F 100.00
YSL BEAUTÉ SUISSE	F 100.00	F 100.00
BOUCHERON INTERNATIONAL SA	F 100.00	F 100.00
BEDAT & CO. SA	F 100.00	F 100.00
BEDAT GROUP HOLDING SA	Merger	F 100.00
LUXURY GOODS OPERATIONS (LGO) SA	F 51.00	F 51.00
Canada		
LUXURY TIMEPIECES (CANADA) INC.	F 100.00	F 100.00
GUCCI SHOPS OF CANADA INC.	Liquidation	F 100.00
GUCCI BOUTIQUES, INC.	F 100.00	F 100.00
YSL BEAUTÉ CANADA INC.	F 100.00	F 100.00
United States		
GUCCI AMERICA INC.	F 100.00	F 100.00
GUCCI NORTH AMERICA HOLDINGS INC.	F 100.00	F 100.00
YVES SAINT LAURENT AMERICA INC.	F 100.00	F 100.00
YVES SAINT LAURENT OF SOUTH AMERICA INC.	F 100.00	F 100.00
YVES SAINT LAURENT AMERICA HOLDING INC.	F 100.00	F 100.00
YSL BEAUTÉ INC.	F 100.00	F 100.00
YSL BEAUTÉ MIAMI INC.	F 100.00	F 100.00
SERGIO ROSSI USA INC.	F 100.00	F 100.00
BOUCHERON US LTD.	F 100.00	F 100.00
BOUCHERON JOAILLERIE (USA) INC.	F 100.00	F 100.00
BALENCIAGA AMERICA INC.	F 91.00	F 91.00
BEDAT & CO. USA LLC	F 100.00	F 100.00
BOTTEGA VENETA INC.	F 86.28	F 86.28
STELLA MCCARTNEY AMERICA INC.	F 50.00	F 50.00
GUCCI GROUP WATCHES INC.	F 100.00	F 100.00
GUCCI MEXICO SA DE CV	F 100.00	Creation
GUCCI IMPORTACIONES SA DE CV	F 100.00	Creation
LUXURY RETAIL SERVICES SA DE CV	F 100.00	Creation
GUCCI CARIBBEAN INC.	F 100.00	Creation
Australia		
YSL BEAUTÉ AUSTRALIA PTY LTD.	F 100.00	F 100.00
GUCCI AUSTRALIA PTY LIMITED	F 100.00	F 100.00
New Zealand		
YSL BEAUTÉ NZ LTD.	F 100.00	F 100.00
China		
GUCCI GROUP (HONG KONG) LIMITED	F 100.00	F 100.00
LUXURY TIMEPIECES (HONG KONG) LIMITED	F 100.00	F 100.00
YSL BEAUTÉ HONG KONG LTD.	F 100.00	F 100.00
BOTTEGA VENETA HONG KONG LIMITED	F 86.28	F 86.28
Korea		
GUCCI GROUP KOREA LTD.	F 100.00	F 100.00
SERGIO ROSSI KOREA LTD.	Liquidation	F 100.00
BOTTEGA VENETA KOREA LTD.	F 86.28	F 86.28
United Arab Emirates		
YSL BEAUTÉ MIDDLE EAST FZCO	F 66.76	F 66.76
Guam		
GUCCI GROUP GUAM INC.	F 100.00	F 100.00
BOTTEGA VENETA GUAM	F 86.28	F 86.28
Japan		
GUCCI GROUP JAPAN LIMITED	F 100.00	F 100.00
GUCCI GROUP JAPAN HOLDING LIMITED	F 100.00	F 100.00
LUXURY TIMEPIECES JAPAN LIMITED	F 100.00	F 100.00
YUGEN KAISHA GUCCI	F 100.00	F 100.00
SERGIO ROSSI JAPAN LIMITED	F 100.00	F 100.00
YVES SAINT LAURENT FASHION JAPAN LTD.	F 100.00	F 100.00
YVES SAINT LAURENT PARFUMS KK	F 100.00	F 100.00
BOUCHERON JAPAN	F 100.00	F 100.00
BOTTEGA VENETA JAPAN LIMITED	F 86.28	F 86.28
Malaysia		
GUCCI (MALAYSIA) SDN BHD	F 100.00	F 100.00
BOTTEGA VENETA MALAYSIA SDN BHD	F 86.28	F 86.28

Companies	% interest 2006		% interest 2005	
Singapore				
GUCCI SINGAPORE PTE LIMITED	F	100.00	F	100.00
YSL BEAUTÉ SINGAPORE PTE LTD.	F	100.00	F	100.00
BOTTEGA VENETA SINGAPORE PRIVATE LIMITED	F	86.28	F	86.28
Taiwan				
GUCCI TAIWAN LIMITED	F	100.00	F	100.00
GUCCI GROUP WATCHES TAIWAN LIMITED	F	100.00	F	100.00
BOUCHERON TAIWAN CO. LTD.	F	100.00	F	100.00
Thailand				
GUCCI THAILAND CO. LTD.	F	100.00	F	100.00
CONFORAMA				
CONFORAMA	F	99.95	F	99.95
France				
CENTRE TECHNIQUE DE L'EST	F	100.00	F	100.00
COGEDEM	F	100.00	F	100.00
CONFORAMA FRANCE	F	100.00	F	100.00
CONFORAMA MANAGEMENT	F	100.00	F	100.00
CONFO ON LINE		Merger	F	100.00
IHTM FRANCE	F	100.00	F	100.00
RABINEAU	F	67.01	F	67.01
SODICE EXPANSION	F	100.00	E	31.98
SAS DU PARC	F	100.00		Acquisition
Croatia				
FLIBA DOO	F	100.00	F	100.00
Spain				
BRICO HOGAR	F	100.00	F	100.00
Italy				
CONFORAMA ITALIA	F	100.00	F	100.00
CREDIRAMA	E	49.00	E	49.00
IHTM ITALIE	F	100.00	F	100.00
Luxembourg				
CONFORAMA LUXEMBOURG	F	100.00	F	100.00
Poland				
CONFORAMA POLSKA	F	100.00	F	100.00
IHTM POLOGNE	F	100.00	F	100.00
Romania				
IHTM ROUMANIE	F	100.00	F	100.00
Portugal				
HIPERMOVEL	F	100.00	F	100.00
Switzerland				
IHTM	F	100.00	F	100.00
CONFORAMA SUISSE	F	100.00	F	100.00
Hong-Kong				
CONFORAMA TRADING LIMITED	F	100.00	F	100.00
Singapore				
CONFORAMA ASIA	F	100.00	F	100.00
Vietnam				
IHTM VIETNAM	F	100.00	F	100.00
FNAC				
FNAC SA	F	100.00	F	100.00
France				
ATTITUDE	F	100.00	F	100.00
BILLETEL	F	100.00	F	100.00
BILLETTERIE DISTRIBUTION	F	54.99	F	54.99
BILLETTERIE HOLDING	F	100.00	F	100.00
FNAC DIRECT	F	100.00	F	100.00
FNAC DISTRIBUTION SA		Merger	F	100.00
FNAC ÉVEIL ET JEUX	F	100.00	F	100.00
FNAC LOGISTIQUE SAS	F	100.00	F	100.00
FNAC PARIS SA	F	100.00	F	100.00
FNAC SERVICE SARL	F	100.00	F	100.00
FNAC TOURISME SARL	F	100.00	F	100.00
MSS	F	100.00	F	100.00
SAS RELAIS FNAC	F	100.00	F	100.00
SFL (ALIZÉ)	F	100.00	F	100.00
SNC CODIREP	F	100.00	F	100.00
SOCIÉTÉ DU 67	F	100.00		Creation
SURCOUF	F	100.00	F	100.00
Belgium				
FNAC BELGIUM	F	100.00	F	100.00
Brazil				
FNAC BRÉSIL	F	100.00	F	100.00
Spain				
FNAC ESPANA SA	F	100.00	F	100.00
Greece				
FMB GENERAL COMMERCIAL SA	E	50.00	E	50.00
Italy				
FNAC ITALIA SPA	F	100.00	F	100.00
Monaco				
SAM FNAC MONACO	F	100.00	F	100.00
Portugal				
FNAC PORTUGAL	F	100.00	F	100.00
Switzerland				
FNAC SUISSE	F	100.00	F	100.00
PRINTEMPS				
FRANCE PRINTEMPS	E	48.96	F	99.96
France				
FERALIS *	F	100.00	F	100.00
MADE IN SPORT *	F	100.00	F	100.00
MAGASINS RÉUNIS DE L'EST *	F	94.86	F	94.86
PRINTEMPS DESIGN *	F	100.00	F	100.00
PRINTEMPS VOYAGE *	F	100.00	F	100.00
PRINTEMPS.COM *	F	100.00	F	100.00
PROFIDA *	F	100.00	F	100.00
SA DE LOGISTIQUE PRINTEMPS *	F	100.00	F	100.00
SA MAGASINS REUNIS *	F	95.34	F	95.34
SAPAC PRINTEMPS *	F	100.00	F	100.00
USSELOISE *	F	100.00	F	100.00

* *Companies in the PRINTEMPS group structure are fully consolidated in the PRINTEMPS sub-consolidation level and 48.96% consolidated under the equity method at PPR.*

Companies	% interest 2006	% interest 2005
REDCATS		
REDCATS	F 100.00	F 100.00
France		
CYRILLUS SA	F 100.00	F 100.00
DIAM SA	F 100.00	F 100.00
2.I.D.	F 100.00	F 100.00
REDCATS INTERNATIONAL HOLDING SARL (Formely HAVRAFI)	F 100.00	F 100.00
LA MAISON DE VALÉRIE	F 100.00	F 100.00
LA REDOUTE	F 100.00	F 100.00
LES AUBAINES VPC	F 100.00	F 100.00
LES AUBAINES MAGASINS	F 100.00	F 100.00
LES DÉFIS	F 100.00	F 100.00
MOVITEX	F 100.00	F 100.00
REDCATS INTERNATIONAL	F 100.00	F 100.00
REDCATS MANAGEMENT SERVICES	F 100.00	F 100.00
REDINVEST	Merger	F 100.00
REDOUTE MAG	F 100.00	Creation
RÉFÉRENCE BRÉSIL	F 100.00	F 100.00
SADAS	F 100.00	F 100.00
SNC LES TROUVAILLES	F 100.00	F 100.00
SOGEP	F 100.00	F 100.00
SOMEWHERE	F 100.00	F 100.00
STE NVELLE D'EXPANSION REDOUTE (SNER)	F 100.00	F 100.00
THOMAS INDUSTRIES	F 100.00	F 100.00
VBMAG	F 100.00	F 100.00
Germany		
FNAC DEUTSCHLAND GMBH	F 100.00	F 100.00
MOVITEX ALLEMAGNE	F 100.00	F 100.00
Austria		
REDOUTE AUTRICHE	F 100.00	F 100.00
REDCATS BETEILIGUNG GMBH	F 100.00	F 100.00
Belgium		
CYRILLUS BENELUX	F 100.00	F 100.00
MOVITEX BELGIQUE	F 100.00	F 100.00
REDOUTE CATALOGUE BENELUX	F 100.00	F 100.00
Denmark		
ELLOS AS DK	F 100.00	F 100.00
Spain		
REDCATS CATALOGO SA	F 100.00	F 100.00
Estonia		
ELLOS ESTONIE OY	F 100.00	F 100.00
Finland		
ELLOS HOME ENTERTAINEMENT	F 100.00	F 100.00
ELLOS TILI OY	F 100.00	F 100.00
REDCATS OY	F 100.00	F 100.00
United Kingdom		
CYRILLUS UK	F 100.00	F 100.00
EMPIRE STORES GROUP PLC	F 100.00	F 100.00
MOVITEX UK	F 100.00	F 100.00
REDOUTE UK	F 100.00	F 100.00
REDCATS FINANCE UK	F 100.00	F 100.00
VERTBAUDET UK	F 100.00	F 100.00
Greece		
REDOUTE HELLAS	F 100.00	F 100.00
Norway		
ELLOS HOLDING AS	F 100.00	F 100.00
ELLOS KONTO A/S	F 100.00	F 100.00
JOTEX NORGE AS	Merger	F 100.00
REDCATS AS	F 100.00	F 100.00
REDOUTE NORGE AS	F 100.00	F 100.00
The Netherlands		
REDCATS INT. HOLDING BV	F 100.00	F 100.00
Portugal		
REDOUTE PORTUGAL	F 100.00	F 100.00
VERTBAUDET PORTUGAL	F 100.00	F 100.00
Russia		
REDOUTE RUSSIE	F 100.00	Creation
Sweden		
ALVSREDS POSTORDER AB	Merger	F 100.00
ELLOS AB	F 100.00	F 100.00
JOTEX AB HOLDING COMPANY	F 100.00	F 100.00
JOTEX SVERIDGE AB	Merger	F 100.00
REDCATS NORDIC AB	F 100.00	F 100.00
REDOUTE SCANDINAVIE	F 100.00	F 100.00
REDCATS FINANS AB	Merger	F 100.00
OY MOBINIA AB	F 100.00	F 100.00
VARNAMO INKASSO	Merger	F 100.00
REDCATS TREASURY AB	F 100.00	F 100.00
Switzerland		
CYRILLUS SUISSE SA	F 99.75	F 99.75
REDOUTE CH. SA	F 100.00	F 100.00
Brazil		
REDCATS DO BRASIL	F 100.00	F 100.00
United States		
REDCATS USA, INC.	F 100.00	F 100.00
REDCATS USA LLC	F 100.00	F 100.00
THE GOLF WAREHOUSE	F 100.00	Acquisition
THE SPORTSMAN'S GUIDE	F 100.00	Acquisition
Hong Kong		
REDCATS ASIA	F 100.00	F 100.00
Japan		
CYRILLUS JAPON	F 100.00	F 100.00
Turkey		
REDCATS TURKEY	F 100.00	F 99.50
ORCANTA		
ORCANTA	Sale	F 100.00

Companies	% interest 2006		% interest 2005	
CFAO				
CFAO	F	99.94	F	99.93
France				
CONTINENTAL PHARMACEUTIQUE	F	72.98	F	73.22
COTAFI	F	100.00	F	100.00
CYCLEX		Merger	F	99.99
DEPHI	F	99.68	F	99.67
DOMAFI	F	100.00	F	100.00
EPDIS	F	99.68	F	99.68
EURAPHARMA	F	99.68	F	99.68
GEREFI	F	100.00	F	100.00
HOLDEFI	E	24.27	E	24.27
HOLDINTER	F	100.00	F	100.00
SECA	F	99.68	F	99.68
SEI	F	100.00	F	100.00
SEP	E	49.00	E	49.00
SEROM	F	99.90	F	99.90
SFCE	F	100.00	F	100.00
CIDER-ACDM	F	98.68	Acquisition	
PROMOTION DT	F	98.68	Creation	
United Kingdom				
EURAFRIC TRADING	F	100.00	F	100.00
MASSILIA HOLDING	F	100.00	F	100.00
Switzerland				
EURALAB	F	99.65	F	99.68
CIDER PROMOTION INTERNATIONAL	F	98.68	Acquisition	
French overseas departments and territories				
CMM (RÉUNION)	F	98.02	F	98.02
CMM UD (RÉUNION)	E	45.00	E	45.00
LABOREX SAINT-MARTIN (WEST INDIES)	F	63.09	F	63.10
LOCAUTO (NEW CALEDONIA)	E	48.99	E	48.99
MENARD FRÈRES (NEW CALEDONIA)	F	99.98	F	99.98
NCCIE (GUIANA)	F	100.00	F	100.00
OCDP (NEW CALEDONIA)	E	33.11	E	33.11
SEIGNEURIE OCÉAN INDIEN (RÉUNION)	E	49.00	E	49.00
ALMAMETO (NEW CALEDONIA)	F	50.00	F	50.00
SOCIÉTÉ PHARMACEUTIQUE DES CARAÏBES (WEST INDIES)	F	78.08	F	78.10
SOREDIP (RÉUNION)	F	67.16	F	67.80
SPA (WEST INDIES)	F	46.13	F	46.13
SPG (GUYANE)	F	57.65	F	57.66
TAHITI PHARM (FRENCH POLYNESIA)	F	88.05	F	93.66
C GENERAL IMPORT (RÉUNION)	F	98.02	Creation	
C TECHNO (RÉUNION)	F	98.02	Creation	
INTERMOTORS (NEW CALEDONIA)	F	99.80	Creation	
Algeria				
PHARMA ALGERIE	F	59.80	Acquisition	
ALBM/CFAO TECHNO	F	99.84	F	75.00
DIAMAL	F	60.00	F	60.00
BAVARIA MOTORS ALGERIE	F	100.00	Creation	
Benin				
PROMOPHARMA	F	51.34	F	50.27
CFAO MOTORS BENIN (Formely SOBEPAT)	F	99.27	F	88.56
Burkina Faso				
CFAO BURKINA	F	73.09	F	73.09
LABOREX BURKINA	F	85.31	F	85.31
CFAO TECHNOLOGIES BURKINA	F	99.99	F	99.99
SIFA	F	58.71	F	58.71
Cameroon				
CAMI	F	67.10	F	67.49
CEP	E	24.19	E	24.19
COMETAL	E	50.00	E	50.00
ICRAFON	F	52.23	F	52.23
LABOREX CAMEROUN	F	64.98	F	65.65
SOCADA	F	100.00	F	100.00
CFAO TECHNOLOGIES CAMEROUN (Formely SOPHITEK)	F	84.92	F	85.10
SUPERDOLL	E	45.00	E	45.00
Central African Republic				
CFAO CENTRAFRIQUE	F	100.00	F	100.00
Congo				
CFAO CONGO	F	100.00	F	100.00
LABOREX CONGO	F	72.61	F	72.94
BRASSERIES DU CONGO	F	50.00	F	50.00
Ivory Coast				
CFAO CÔTE D'IVOIRE	F	96.38	F	96.38
CIDP	F	100.00	F	100.00
COPHARMED	F	51.79	F	56.96
MIPA	F	99.98	F	99.98
SARI	F	89.77	F	89.77
CFAO TECHNOLOGIES	F	96.37	F	96.38
Egypt				
IBN SINA LABOREX		Sale	F	68.14
SICEP	E	30.77	E	30.77
Gabon				
CFAO GABON	F	96.87	F	96.87
PHARMAGABON	F	53.36	F	54.73
SPLV	F	100.00	F	100.00
CFAO TECHNOLOGIES GABON	F	99.98	F	99.99
Gambia				
CFAO (GAMBIA) LIMITED	F	78.98	F	78.99
Ghana				
CFAO GHANA	F	88.21	F	88.21
PENS & PLASTICS	F	100.00	F	100.00
Guinea-Conakri				
LABOREX GUINEE	F	81.85	F	81.85
CFAO GUINEE	F	100.00	Creation	
Equatorial Guinea				
SEGAMI	F	100.00	F	100.00
Kenya				
DT DOBIE KENYA	F	100.00	F	100.00
EPDIS KENYA LIMITED	F	99.68	F	99.68

Companies	% interest 2006		% interest 2005	
HML KENYA (Formely HOWSE AND MCGEORGE LABOREX)	F	99.68	F	99.68
TRIDECON	F	100.00	F	100.00
Malawi				
CFAO MALAWI LIMITED	F	99.99	F	99.99
Mali				
CFAO TECHNOLOGIES MALI (Formely COPREXIM INTERNATIONALE)	F	95.58	F	95.58
CFAO MOTORS MALI (Formely DIAMA)	F	90.00	F	90.00
IMACY	F	100.00	F	100.00
LABOREX MALI	F	54.49	F	54.44
Morocco				
COMAMUSSY	F	84.20	F	84.20
DAF INDUSTRIES MAROC	F	100.00	F	100.00
DIMAC	F	99.91	F	99.91
FANTASIA	F	84.20	F	84.20
CFAO MOTORS MAROC (Formely INTER MOTORS)	F	100.00	F	100.00
MUSSY BOIS	F	84.19	F	84.19
MANORBOIS	F	84.20	F	84.20
SUD PARTICIPATIONS	F	84.20	F	84.20
Mauritania				
CFAO MOTORS MAURITANIE	F	99.60	Creation	
Niger				
CFAO NIGER	F	99.85	F	99.85
CENTRALPHARM	F	52.84	F	50.43
Nigeria				
GROUPE CFAO NIGERIA	F	100.00	F	65.33
ALLIANCE AUTO NIGERIA	F	99.90	Creation	
Democratic Republic of Congo				
AFRIMA	F	100.00	F	100.00
AFRIMTRANSIT	F	99.00	F	99.00
CFAO MOTORS RDC (Formely AUTO ONE)	F	100.00	F	100.00
Senegal				
CFAO SENEGAL	F	84.94	F	84.94
LABOREX SENEGAL	F	58.86	F	58.40
CFAO TECHNOLOGIES SENEGAL (Formely POINT MICRO)	F	100.00	F	100.00
PM II	F	100.00	F	100.00
ABM	F	99.99	Acquisition	
Tanzania				
DT DOBIE TANZANIA	F	100.00	F	100.00
Tchad				
CFAO MOTORS TCHAD	F	97.71	F	97.70
LABOREX TCHAD	F	63.36	F	67.30
Togo				
CFAO TOGO	F	69.72	F	69.72
STOCA	Liquidation		E	27.22
TOGO UNIPHART	F	88.89	Acquisition	
Uganda				
HML OUGANDA (Formely HOWSE ANS MC GEORGE UGANDA)	F	99.68	F	99.68
Zambia				
CFAO ZAMBIA	F	100.00	F	100.00
Mauritius				
CAPSTONE CORPORATION	F	100.00	F	100.00
CAPSTONE INTERNATIONAL	F	60.00	Creation	
IMC	F	100.00	F	100.00
MASCAREIGNE DE PARTICIPATION	E	48.99	E	48.99
Madagascar				
AUSTRAL AUTO	E	48.98	E	48.98
NAUTIC ÎLES	E	24.01	E	24.01
SICAM	E	27.39	E	27.39
SIGM	E	48.93	E	49.00
SIRH	E	49.00	E	48.88
SOCIMEX	E	49.00	E	48.79
SOMADA	E	27.43	E	27.43
SOMAPHAR	F	89.02	F	88.86
SME	E	48.50	E	48.50
OTHER				
France				
KADÉOS	F	99.99	F	99.99
HOLDINGS & OTHER				
France				
BUYCO	F	100.00	F	100.00
CAUMARTIN PARTICIPATIONS	F	100.00	F	100.00
CFP	F	100.00	F	100.00
CONSEIL ET ASSISTANCE	F	100.00	F	100.00
DISCODIS	F	100.00	F	100.00
FINANCIÈRE MAROTHI	F	100.00	F	100.00
GECCA	Merger		F	100.00
LOCUTION	Merger		F	100.00
PPR IMPORT SERVICE (Formely MANAGECO)	F	100.00	F	100.00
PPR FINANCE	F	100.00	F	100.00
PPR INTERACTIVE	Merger		F	100.00
PPR PURCHASING	F	100.00	F	100.00
SAPARDIS	F	100.00	F	100.00
SAPRODIS	F	100.00	F	100.00
SFGM	F	100.00	F	100.00
Luxembourg				
PPR INTERNATIONAL	F	100.00	F	100.00
PRINTEMPS RÉASSURANCE	F	100.00	F	100.00
The Netherlands				
SCHOLEFIELD GOODMAN BV	F	100.00	F	100.00
Switzerland				
PPR MARKETING SERVICES	F	100.00	F	100.00

Statutory Auditors' report
on the consolidated financial statements (for the year ended December 31, 2006)

Mr Chairman,

In accordance with our appointment as statutory auditors we hereby report to you on the accompanying consolidated financial statements of PPR for the year ended December 31, 2006.

The 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.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position and the assets and liabilities of the Group as of December 31, 2006 and the results of its operations for the year then ended in accordance with IFRS as adopted in the European Union.

II. Justification of assessments

Pursuant to Article L.823-9 of the French Commercial Code governing the justification of our assessments, we draw your attention to the following:

In the second half of the financial year, your Company systematically performs impairment tests on goodwill and assets with indefinite lives and also assesses if there is an indication of an impairment loss for its long-term assets in accordance with the terms and conditions described in note 2.7 to the consolidated financial statements. We have reviewed the methods by which these impairment tests are performed as well as the projected cash flows and assumptions used.

Your Company recognises provisions as described in note 2.15 to the consolidated financial statements. Our procedures consisted in assessing the information and assumptions on which these estimates were based, reviewing the calculations performed by the Company and examining the procedures used by management to approve these estimates. We have, on these bases, assessed the reasonableness of these estimates.

Note 2.16 sets forth the methods for measuring employee benefits. External actuaries have measured these obligations. Our procedures consisted in reviewing the information used, assessing the assumptions adopted and verifying that note 27 to the consolidated financial statements provides appropriate disclosure.

These assessments were performed as part of our audit approach for the consolidated financial statements taken as a whole and contributed to the expression of the opinion in the first part of this report.

III. Specific procedures

We have also performed certain procedures on the information given in the Group's management report in accordance with professional standards applicable in France. We have no matters to report regarding the fairness of this information or its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Paris-La Défense, March 12, 2007

The Statutory Auditors

Deloitte & Associés		KPMG Audit *Departement of KPMG SA*	
Jean-Paul Picard	Antoine de Riedmatten	Patrick-Hubert Petit	Hervé Chopin

This is a free translation of the original French text for information purposes only.

Parent company financial statements

PARENT COMPANY BALANCE SHEET AS OF DECEMBER 31, 2006, 2005 AND 2004

Assets *(in € million)*	2006	2005	2004
Non-current assets			
Investments in operating companies:			
GUCCI	2,515.1	2,514.2	2,508.7
REDCATS	1,232.5	1,232.5	1,232.5
CONFORAMA	252.3	252.3	252.3
France PRINTEMPS	41.7	132.4	132.4
Investments in intermediary holding companies:			
FINANCIÈRE MAROTHI	4,648.1	2,685.5	2,685.5
SAPRODIS	568.8	568.8	568.8
DISCODIS	299.7	299.7	299.7
Other	142.6	146.0	167.8
Other long-term investments [1]	2.9	18.1	56.2
Provisions for impairment	(20.1)	(21.9)	(38.4)
	9,683.6	7,827.6	7,865.5
Other non-current assets	14.7	19.8	19.7
Depreciation, amortisation and impairment	(9.0)	(13.1)	(12.5)
	5.7	6.7	7.2
Total non-current assets	**9,689.3**	**7,834.3**	**7,872.7**
Current assets			
Receivables [2] [3]	179.6	313.9	198.7
Marketable securities	67.4	64.3	345.8
Cash	6.7	714.7	732.
Total current assets	**253.7**	**1,092.9**	**1,276.5**
Total assets	**9,943.0**	**8,927.2**	**9,149.2**
(1) o/w due within less than one year:	*0.0*	*13.8*	*0.4*
(2) o/w due within more than one year:	*7.9*	*15.9*	*0.0*
(3) o/w concerning associates:	*24.8*	*181.5*	*29.5*

Liabilities and shareholders' equity *(in € million)*	2006	2005	2004
Shareholders' equity			
Share capital	513.5	481.8	489.7
Additional paid-in capital	2,285.6	1,635.7	1,789.6
Reserves	1,586.4	1,586.2	1,591.0
Retained earnings	862.5	681.3	423.2
Net income for the year	840.7	506.8	559.5
Total shareholders' equity	**6,088.7**	**4,891.8**	**4,853.0**
Provisions for contingencies and losses	**157.2**	**80.5**	**144.1**
Liabilities			
Convertible bonds [1]	149.2	1,228.7	1,228.7
Bonds [1]	2,550.0	2,250.0	2,454.0
Other borrowings [1]	905.5	240.2	288.8
Other liabilities [2] [3]	92.4	236.0	180.6
	3,697.1	**3,954.9**	**4,152.1**
Total liabilities and shareholders' equity	**9,943.0**	**8,927.2**	**9,149.2**
(1) o/w due within more than one year:	*2,150.0*	*3,478.7*	*3,303.7*
(2) o/w due within more than one year:	*1.4*	*3.8*	*1.3*
(3) o/w concerning associates:	*27.6*	*44.3*	*49.2*

PARENT COMPANY INCOME STATEMENT AND STATEMENT OF CASH FLOW

AS OF DECEMBER 31, 2006, 2005 AND 2004

Income Statement *(in € million)*	2006	2005	2004
Operating income	53.5	50.2	42.4
Operating expenses	(62.1)	(64.1)	(64.0)
Net operating income	**(8.6)**	**(13.9)**	**(21.6)**
Dividends received	758.1	483.2	541.8
Other financial income and expenses	(102.7)	(135.1)	(113.3)
Net financial income	**655.4**	**348.1**	**428.5**
Operating income before non-recurring items and tax	**646.8**	**334.2**	**406.9**
Non-recurring items	116.4	37.3	70.7
Employee profit-sharing	(1.4)	(1.3)	(1.3)
Tax consolidation benefit	101.1	245.5	107.4
Income tax	(22.2)	(108.9)	(24.2)
Net income for the year	**840.7**	**506.8**	**559.5**

Statement of cash flow *(in € million)*	2006	2005	2004
Dividends received	758.1	483.2	541.8
Interest on borrowings	(114.3)	(135.3)	(139.5)
Income tax	78.9	136.6	83.2
Cancellation of 2,000,000 treasury shares		(162.4)	
Other	37.6	(135.8)	(131.5)
Net cash from operating activities	**760.3**	**186.3**	**354.0**
(Acquisitions)/disposals of operating assets	3.0	2.0	(3.4)
Change in investments	(2,094.8)	(27.4)	(2,096.6)
Net cash used in investing activities	**(2,091.8)**	**(25.4)**	**(2,100.0)**
Change in borrowings [1]	232.6	(161.0)	(20.8)
Share capital increase [1]	719.6	0.6	1.4
Exit Tax			
Dividends paid by PPR	(325.6)	(299.3)	(278.9)
Net cash from/(used in) financing activities	**626.6**	**(459.7)**	**(303.3)**
Net change in cash and cash equivalents	**(704.9)**	**(298.8)**	**(2,049.3)**
Cash and cash equivalents at the beginning of the year	**779.0**	**1,077.8**	**3,127.1**
Cash and cash equivalents at the end of the year	**74.1**	**779.0**	**1,077.8**

(1) O/w €719.6 million within no impact on cash movements in 2006.

STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY OF THE PARENT COMPANY

(in € million) (Before appropriation of net income)	Number of shares	Share capital	Additional paid-in capital	Reserves and retained earnings	Net income for the year	Shareholders' equity
As of December 31, 2004	**122,434,480**	**489.7**	**1,789.6**	**2,014.2**	**559.5**	**4,853.0**
Appropriation of 2004 net income				559.5	(559.5)	
Dividend paid				(299.3)		(299.3)
Cancellation of 2,000,000 treasury shares	(2,000,000)	(8.0)	(154.4)			(162.4)
Exercise of share options	13,750	0.1	0.5			0.6
Changes in tax-driven provisions				0.1		0.1
Provision for retirement termination payments [1]				(7.0)		(7.0)
2005 net income					506.8	506.8
As of December 31, 2005	**120,448,230**	**481.8**	**1,635.7**	**2,267.5**	**506.8**	**4,891.8**
Appropriation of 2005 net income				506.8	(506.8)	
Dividend paid				(325.6)		(325.6)
Early conversion of 2003 OCEANE bonds	8,333,106	33.3	686.3			719.6
Cancellation of 394,062 treasury shares	(394,062)	(1.6)	(36.4)			(38.0)
Changes in tax-driven provisions				0.2		0.2
2006 net income					840.7	840.7
As of December 31, 2006	**128,387,274**	**513.5**	**2,285.6**	**2,448.9**	**840.7**	**6,088.7**

(1) On July 22, 2004, the French National Accounting Council (CNC) authorised French companies to transfer to shareholders' equity unamortised actuarial gains and losses in respect of retirement termination payments. The application of this exceptional treatment to actuarial gains and losses existing as of January 1, 2005 enabled the absorption of the difference between the IFRS accounting provision and the provision previously recorded in the parent company accounts.

NOTES TO THE FINANCIAL STATEMENTS

1. Highlights

During the year, PPR:

- performed a €300 million bond issue on June 19, 2006 (300,000 bonds with a face value of €1,000 each), maturing January 29, 2013 and with a coupon of 4%. This transaction was performed as part of the EMTN (Euro Medium Term Note) programme;
- sold 1,880,523 France-Printemps shares to REEF in October 2006;
- proceeded with the early conversion in October 2006 of the Océane bonds (bonds convertible into and/or exchangeable for new or existing shares) issued on May 21, 2003, by issuing 4,155,911 existing shares and 8,333,106 new shares and redeeming 10,982 bonds for cash.

2. Accounting rules and methods

The company financial statements are prepared in accordance with the provisions of French Accounting Regulation Committee (CRC) Regulation No. 99.03 of April 29, 1999 on the amendment of the General Chart of Accounts and the new accounting rules concerning assets introduced by CRC Regulation No. 2002-10, as amended by CRC Regulation No. 2003-07 and CRC Regulation No. 2004-06. The application of the new regulations had no impact on equity as of January 1, 2005.

In addition, the Company seized the opportunity offered by the preparation of the consolidated financial statements in accordance with international accounting standards (IFRS), to bring the accounting methods used to prepare the company financial statements into line with international standards, where such changes are compatible with French GAAP applicable to company financial statements. This concerned particularly the accounting methods adopted for the measurement and recognition of Company commitments and the presentation of accrued interest payable on borrowings.

The impact of the first-time adoption of the preferred method for recognising company commitments was recognised in Retained earnings as of January 1, 2005, in accordance with the French National Accounting Council (CNC) recommendation 2003-R.01 of April 1, 2003 and the CNC communiqué issued on July 22, 2004 on pension obligations and similar benefits. The impact as of January 1, 2005 of this change in method was €7 million.

2.1. Long-term investments

Equity Investments

Investments classified as "Equity Investments" are those considered useful to the Company's activity, particularly because the Company has an influence over the issuing company or can control it.

The gross value of Investments is recorded at cost less purchasing expenses, except for certain investments that underwent a legal revaluation in 1976.

At the year-end, the gross value of investments is compared with their value in use to the Company, determined according to the subsidiary's estimated value and in consideration of the purpose of the original transaction. This value in use is determined based on the Group's percentage interest in shareholders' equity or revalued net assets of the Company.

An impairment loss is recognised when this value is lower than the gross value.

Other investments

Other investments are those that the Company plans or is required to retain on a permanent basis, but the ownership of which is not deemed necessary for the Company's activity.

The gross value is equal to acquisition cost less purchasing expenses.

An impairment loss is recognised based on the value in use of these investments for the Company.

Shares bought back by PPR are classified as other investments.

At the year-end, the cost is compared with the average market price during the last month of the fiscal year.

An impairment loss is recognised if this price is less than the carrying amount.

2.2. Marketable securities and money market securities

Other shares

Shares are recorded at cost. An impairment loss is recognised if the year-end price is less than the carrying amount.

Bonds

Bonds are recognised on the acquisition date at their face value adjusted for the premium or discount. Accrued interest at the acquisition date and at the year end is recorded under "related receivables".

At the year end, the cost is compared with the market price during the last month without accounting for accrued interest. Where this value is less than the gross carrying amount, an impairment loss is recognized.

SICAV

Shares in mutual funds (SICAVs) are stated at cost excluding subscription fees. At the year end, they are estimated at their net asset value. Impairment losses are recognised in respect of any

unrealised capital losses. Any unrealised capital gains are not taken into account.

Negotiable certificates of deposit, certificates of deposit and financing company notes

These money market securities are purchased on the primary or secondary market. They are stated at cost after deduction of accrued interest at the acquisition date, if acquired on the secondary market.

Prepaid interest is credited to interest income on an accruals basis.

Financial instruments

All exchange and interest rate positions are taken through instruments listed on exchange-traded or over-the-counter markets representing minimal counterparty risk. Any income or loss generated by financial instruments used in hedging transactions is offset against any income or loss on hedged items.

If the financial instruments do not qualify as hedges, any gains or losses arising from changes in market price are recorded in the income statement, except for over-the-counter transactions. For these transactions, a provision is recognised for any unrealised losses, while unrealised gains are not recognised.

Currency transactions

Currency income and expenses are recorded at their foreign currency equivalent at the transaction date. Borrowings, receivables and liquidity positions are translated at the exchange rate on the last day of the fiscal year.

The foreign exchange difference resulting from the valuation of currency borrowings and receivables is recorded in accruals accounts, as an asset for an unrealised loss and as a liability for an unrealised gain. A contingency provision is recorded to cover unhedged unrealised losses.

2.3. Bond issue and capital increase fees, Bond redemption premiums

Bond issuance fees are recorded as expenses at the issue date.

Costs associated with increases in capital, mergers or restructuring are charged against the additional paid-in capital arising from the merger or restructuring.

Bond issues are recorded at their nominal value for ordinary and convertible bonds and at their indexed value for indexed bonds.

Any issue or redemption premiums are assigned to the relevant balance sheet item and amortised over the term of the bond. For convertible bonds, the redemption premium is spread over the term of the bond, in accordance with preferential accounting methods.

2.4. Employee benefits

Pension and retirement termination payment obligations are provided in full.

3. Net long-term investments

(in € million)	Equity investments	Other investments	Loans	Other	Total
As of December 31, 2005	**7,811.2**	**14.7**	**0.8**	**0.9**	**7,827.6**
Increases					
Subscription to FINANCIERE MAROTHI share capital increase	1,962.5				1,962.5
Acquisition of GUCCI shares	0.8				0.8
Acquisition of PPR PURCHASING shares	0.4				0.4
Acquisition of KADEOS shares	0.2				0.2
Rental guarantee				0.3	0.3
Decreases					
France PRINTEMPS dividends (share capital repayment)	(44.8)				(44.8)
Sale of France PRINTEMPS shares	(45.9)				(45.9)
Sale of BARYUM shares	(2.7)				(2.7)
Sale of GECCA shares	(1.0)				(1.0)
Treasury shares (1)					
Early conversion of OCEANE 2003 bonds					
Issue of 8,333,106 shares		719.6			719.6
Exercise of 4,155,911 calls		424.6			424.6
Delivery of shares		(1,144.2)			(1,144.2)
Acquisitions under the liquidity contract		349.9			349.9
Sales under the liquidity contract		(352.2)			(352.2)
Acquisition of 269,548 shares in the course of cancellation		26.5			26.5
Cancellation of 394,062 shares		(38.0)			(38.0)
As of December 31, 2006	**9,680.7**	**0.9**	**0.8**	**1.2**	**9,683.6**
(1) The amount corresponding to treasury shares is blocked in tax-driven reserves:					
2005		13.8			13.8
2006		-			-
o/w concerning associates:					
2005	7,811.2	-	-	-	7,811.2
2006	9,680.7	-	-	-	9,680.7

Acquisitions or sales of treasury shares

PPR cancelled 394,062 treasury shares, of which 124,514 shares were cancelled on January 11, 2006 (Board of Directors' Meeting of January 11, 2006) and 269,548 shares were cancelled on May 24, 2006 (Board of Directors' Meeting of May 23, 2006).

PPR decided to proceed with the early redemption of all the 05/03-01/08 2.5% PPR OCEANE bonds that were outstanding on October 30, 2006. Bondholders could choose between redemption for cash or exchange for PPR shares (one (1) PPR share for one (1) bond).

In 2006, bondholders exercised their share allotment rights for 12,489,018 bonds.

Given the treasury share hedges in place, this transaction gave rise to the exchange of 4,155,911 current shares and the creation of 8,333,106 new shares.

During 2006, the Group also made a net acquisition of 4,400,460 treasury shares as follows:

- 269,548 shares were purchased following the exercise of PPR call options set up in 2005 to hedge share option plans;
- 3,347,051 shares were purchased under the liquidity contract;
- 3,372,051 shares were sold under the liquidity contract;
- 4,155,912 shares were purchased to hedge exchange requests for 05/03-01/08 2.5% PPR OCEANE bonds, of which 4,155,911 shares following the exercise of call option hedges set up in 2005 and the first half of 2006 for 3,000,000 and 1,155,911 options, respectively.

As of December 31, 2006, PPR held no treasury shares in connection with the liquidity contract, compared with 25,000 shares as of December 31, 2005.

4. Other non-current assets

Movements in other non-current assets break down as follows:

(in € million)	Land and buildings	Plant and equipment	Other	Total
Gross carrying amount				
December 31, 2005	**7.4**	**0.5**	**11.9**	19.8
Additions			0.7	0.7
Disposals	(4.4)		(1.4)	(5.8)
Account transfers				
December 31, 2006	**3.0**	**0.5**	**11.2**	**14.7**
Depreciation and provisions				
December 31, 2005	(5.1)	(0.4)	(7.6)	(13.1)
Charge	(0.4)		(1.4)	(1.8)
Disposals	3.2		1.4	4.6
Reversal of impairment	1.3			1.3
December 31, 2006	**(1.0)**	**(0.4)**	**(7.6)**	(9.0)
Net carrying amount				
December 31, 2005	2.3	0.1	4.3	6.7
December 31, 2006	**2.0**	**0.1**	**3.6**	5.7

5. Receivables

Receivable break down as follows:

(in € million)	12.31.2006	12.31.2005
Tax consolidation current account	19.8	174.4
Swap suspense account	45.3	49.3
Prepaid expenses	20.0	41.4
Receivable in respect of the sale of France PRINTEMPS shares	55.1	
Exceptional dividend withholding	15.9	23.8
Other	23.5	25.0
RECEIVABLES	179.6	313.9
o/w concerning associates:	24.8	181.5

6. Marketable securities and cash

These items break down as follows:

(in € million)	12.31.2006	12.31.2005
Listed shares	67.4	64.3
Marketable securities	**67.4**	**64.3**
Bank deposits and fund transfers	6.7	0.4
Cash current accounts in debit		712.6
Interest on cash current accounts in debit		1.7
Cash	**6.7**	**714.7**
CASH AND CASH EQUIVALENTS	74.1	779.0
o/w concerning associates:		
Cash current accounts in debit including interest	-	714.3

7. Reserves

Reserves of the parent company, before appropriation of net income, break down as follows:

(in € million)	12.31.2006	12.31.2005
Legal reserve	49.0	49.0
Tax-driven reserves	1,293.6	1,293.6
Other reserves	240.3	240.3
Reserves	**1,582.9**	**1,582.9**
Revaluation differences	0.2	0.2
Tax-driven provisions	3.3	3.1
TOTAL	**1,586.4**	**1,586.2**

8. Provisions

(in € million)	As of 01.01.2006	Charge	Utilization	Reversal	As of 12.31.2006
Provisions for claims with authorities	10.8	106.3			117.1
Provisions for claims with third parties	8.4		0.4		8.0
Provisions for subsidiary risk	12.1	0.6		5.5	7.2
Provisions for retirement termination payments and equivalent	18.8	4.4		5.8	17.4
Other provisions	30.4	7.1	6.9	23.1	7.5
PROVISIONS	**80.5**	**118.4**	**7.3**	**34.4**	**157.2**

9. Borrowings

Bond issues

(in € million)	Interest rate	Issue date	Hedge	Maturity	12.31.2006	12.31.2005
Bonds convertible and/or exchangeable for new or existing shares (OCEANE) (1)	1.50% fixed	11.08.2001	Euribor 1 month floating-rate swap of €149 million	01.01.2007	149.2	149.2
Bonds convertible and/or exchangeable for new or existing shares (OCEANE) (2)	2.50% fixed	05.21.2003	-	Normal redemption 01.01.2008- Early redemption 10.30.2006	-	1,079.5
Bond issue (3)	5.00% fixed	07.23.2003	Euribor 3 month floating-rate swap of €500 million	01.23.2009	750.0	750.0
Bond issue (4)	5.25% fixed	03.29.2004	Euribor 3 month floating-rate swap of €650 million	03.29.2011	800.0	800.0
Bond issue (5)	Euribor 3 months + 0.50% floating	10.22.2004	-	10.22.2007	400.0	400.0
Bond issue (6)	4.00% fixed	06.29.2005 & 06.19.2006	-	01.29.2013	600.0	300.0

(1) Issue price: bonds convertible and/or exchangeable for shares (OCEANE) issued on November 8, 2001 for €1,380,000,050 represented by 8,492,308 bonds with a face value of €162.50.
Conversion and/or exchange for shares: until December 31, 2001 on the basis of 1.157 shares for one bond and from January 1, 2002 on the basis of one share for one bond.
Normal redemption: in full on January 1, 2007 at a price of €162.50.
Gross yield to maturity of unconverted bonds: 1.5%.
The balance of 918,225 bonds outstanding as of December 31, 2006 reflects:
- the conversion of 3,077,000 bonds by Artémis in 2001,
- the buyback of 107,422 bonds for €17,456,075 in 2002,
- the buyback of 17,609 bonds for €2,861,462,50 in 2003,
- the early redemption after the exercise of the investor Put in 2003 of 4,285,376 bonds with a face value of €696,373,600
- the early redemption after the exercise of the investor Put in 2004 of 86,603 bonds with a face value of €14,072,987.50.

(2) Issue price: issue of bonds convertible and/or exchangeable for shares (OCEANE) issued on May 21, 2003 represented by 12,500,000 bonds with a face value of €86.36.
Conversion and/or exchange for shares: at any time from May 21, 2003 on the basis of one share for one bond.
Normal redemption: the bonds will be fully redeemed on January 1, 2008 at a price of €91.14 per bond, i.e. approximately 105.535% of the bonds' face value
Gross yield to maturity of unconverted bonds: 3.6250%.
PPR decided to proceed with the early redemption of all bonds outstanding on October 30, 2006, at a price of €89.84 per bond plus accrued interest since January 1, 2006, giving a total price of €91.62635 per bond. Bondholders could choose between redemption for cash or exchange for PPR shares (one (1) PPR share for one (1) bond).
In 2006, bondholders exercised their share allotment rights for 12,489,018 bonds.
Given the treasury share hedges in place, this transaction gave rise to the creation of 8,333,106 new shares.
The residual balance of 10,982 bonds were redeemed for cash on October 30, 2006 at a price of €91.62635 including accrued interest.
As of December 31, 2006, all bonds had been either converted into shares or redeemed for cash.

(3) Issue price: bond issue on July 23, 2003, represented by 750,000 bonds with a face value of €1,000 each as part of the EMTN programme.
Redemption: in full on January 23, 2009.

(4) Issue price: bond issue, represented by 800,000 bonds with a face value of €1,000 each as part of the EMTN programme, comprising 650,000 bonds issued on March 29, 2004 and 150,000 additional bonds issued on July 23, 2004, raising the issue to 800,000 bonds
Redemption: in full on March 29, 2011.

(5) Issue price: bond issue on October 22, 2004, represented by 400,000 bonds with a face value of €1,000 each as part of the EMTN programme.
Redemption: in full on October 22, 2007.

(6) Issue price: bond issue, represented by 600,000 bonds with a face value of €1,000 each as part of the EMTN programme, comprising 300,000 bonds issued on June 29, 2005 and 300,000 additional bonds issued on June 19, 2004, raising the issue to 600,000 bonds
Redemption: in full on January 29, 2013.

9.1. Breakdown by category

(in € million)	12.31.2006	12.31.2005
Convertible bonds	**149.2**	**1,228.7**
Other bonds	**2,550.0**	**2,250.0**
Interest on convertible bonds	2.2	29.2
Interest on other bonds	92.5	75.4
ABN-AMRO loan		125.0
Interest on ABN-AMRO loan		2.9
Short-term bank loans and overdrafts	3.6	4.0
Brokers		3.2
Cash current accounts	805.5	0.5
Interest on cash current accounts	1.7	
Other borrowings	**905.5**	**240.2**
TOTAL	**3 604.7**	**3,718.9**
o/w concerning associates:		
Cash current accounts in credit	805.5	0.5
Interest on cash current accounts in credit	1.7	

As of December 31, 2006 and 2005, no borrowings were secured by collateral.

9.2. Breakdown by maturity

(in € million)	12.31.2006	12.31.2005
Maturing in less than one year	1,454.7	240.2
Maturing in one to five years	1,550.0	2,378.7
Maturing in more than five years	600.0	1,100.0
Total	**3,604.7**	**3,718.9**

9.3. Net financial indebtedness

(in € million)	12.31.2006	12.31.2005
Borrowings	3,604.7	3,718.9
Marketable securities	(67.4)	(64.3)
Cash	(6.7)	(714.7)
NET FINANCIAL INDEBTEDNESS	**3,530.6**	**2,939.9**

9.4. Information on interest rates

	12.31.2006	12.31.2005
Average rate of interest for the year	**4.39%**	**3.91%**
% average fixed-rate debt	34%	56%
% average floating-rate debt	66%	44%

The increase in the average interest rate in 2006 compared with 2005 is mainly due to the increase in the benchmark indices of floating-rate debt and the reduced contribution of fixed-rate debt, primarily following the early redemption in October 2006 of the OCEANE bonds issued in 2003, with a normal redemption date of January 1, 2008.

10. Other liabilities

Other liabilities break down as follows:

(in € million)	12.31.2006	12.31.2005
Income tax	16.7	125.6
Tax consolidation current account	16.2	30.5
Provision for tax losses to be forfeited to subsidiaries	20.9	14.0
Tax and employee-related liabilities	6.8	18.2
France Printemps strategic transaction costs	10.1	
Guilbert, Rexel, Gucci strategic transactions costs	1.4	5.3
Guilbert pension plan warranties		17.8
Other	20.3	24.6
OTHER LIABILTIES	**92.4**	**236.0**
o/w concerning associates:	27.6	44.3

11. Off-balance sheet commitments

11.1. Exposure to equity risk

PPR uses options to manage its exposure to equity risk. Option commitments are as follows:

	12.31.2006	Y + 1	Y + 2	Y + 3	Y + 4	Y + 5	Beyond	12.31.2005
Purchase of PPR call options								
Number of shares	2,520,998	800,000	595,125	344,050	429,180	352,643		4,310,546
PPR maximum commitment *(in € million)*	336.0	74.3	66.4	64	51.9	79.4		**468.0**

As of December 31, 2006, PPR held the following call options:

- 1,390,998 call options, including 1,040,998 call options set up in September 2004 and 350,000 call options set up in June 2006, to enable PPR to present shares on the exercise of share purchase option plans granted to employees;
- 1,130,000 call options set up in June 2006, in order to partially manage the exercise of share subscription plans granted to employees.

At the year-end share price and given trends in the PPR share price, the market value of the call options exceeded their net carrying amount.

11.2. Interest rate hedging instruments

(in € million)	12.31.2006	Y + 1	Y + 2	Y + 3	Y + 4	Y + 5	Beyond	12.31.2005
SWAPS: Fixed-rate lender	1,299.2	149.2	0.0	500.0	0.0	650.0	0.0	1,424.2

In accordance with the Group's policy on the hedging of interest rate risk, PPR set up interest rate swaps to back the various bond issues:

- bond issue convertible and/or exchangeable for new or existing shares (OCEANE) maturing in January 2007, €149.2 million of which was swapped versus 1-month Euribor;
- bond issue maturing in January 2009, €500 million of which was swapped versus 3-month Euribor;
- bond issue maturing in March 2011, €650 million of which was swapped versus 3-month Euribor.

All other off-balance sheet transactions designed to hedge against interest rate risk were performed by PPR Finance.

11.3. Other off-balance sheet commitments

(in € million)	12.31.2006	12.31.2005
Endorsements and guarantees in favour of:		
Associates	-	-
Non-Group third parties	3.3	3.1
Endorsements and guarantees	**3.3**	**3.1**
Collateral: in favour of subsidiaries	**-**	**-**
in favour of third parties	**-**	**-**

12. Operating income

Operating income breaks down as follows:

(in € million)	12.31.2006	12.31.2005
Group management fees	42.3	39.9
Property rental income	8.1	8.6
Payroll expenses	(14.4)	(16.1)
External purchases and expenses and taxes	(42.8)	(42.6)
Depreciation, amortisation and provisions	(4.1)	(4.5)
Other income and expenses	2.3	0.8
TOTAL	**(8.6)**	**(13.9)**

13. Net financial income

Net financial income of the parent company breaks down as follows:

(in € million)	12.31.2006	12.31.2005
Net interest expense	**(102.7)**	**(135.1)**
Expenses and interest on non-Group debt	(99.4)	(151.7)
Interest on inter-company current accounts	(3.3)	16.6
Income and expenses on long-term investments	**758.1**	**483.2**
Dividends received	758.1	483.2
TOTAL	**655.4**	**348.1**
o/w concerning associates		
Interest on inter-company current accounts	(3.3)	16.6
Dividends received	758.1	483.2

14. Non-recurring income

Non-recurring income breaks down as follows:

(in € million)	12.31.2006	12.31.2005
Net proceeds from the sale of operating intangible assets and PP&E	4.9	3.3
Net proceeds from the sale of investments, impairment losses and related transactions	112.9	57.4
Income from assets	**117.8**	**60.7**
Cost of claims, litigation and restructuring	(2.9)	(20.9)
Other non-recurring income/(expenses)	1.5	(2.5)
TOTAL	116.4	37.3

15. Income tax

The Income tax expense breaks down as follows:

(in € million)	12.31.2006	12.31.2005
Tax consolidation benefit	101.1	245.5
Income tax expense	(20.4)	(126.3)
(Charge to)/reversal of provision for tax losses to be forfeited to subsidiaries	(6.8)	17.4
Other	5.0	
Income tax	**(22.2)**	**(108.9)**
TOTAL	78.9	136.6

Under a tax consolidation agreement which came into effect on January 1, 1988, PPR pays the tax due by the members of the consolidated group and fulfils all tax obligations on its behalf.

The tax consolidated structure comprised 108 companies in 2006, versus 111 in 2005. Each subsidiary records in its accounts the amount of tax that it would have paid on a stand-alone basis. The tax savings achieved by the Group through consolidation are retained by PPR, as parent company of the consolidated group.

16. Other information

Average number of employees

PPR had an average of 109 employees in 2006 compared to 119 employees in 2005.

Consolidating company

PPR is controlled by Artémis which holds 40.2% of its share capital. Artémis is in turn wholly owned by Financière Pinault.

SUBSIDIARIES AND ASSOCIATES

(in € thousand)		Share capital	Shareholders' equity excl. capital and income	% interest
I – Detailed information				
A – Subsidiaries (more than 50% of share capital)				
Caumartin Participations	10, avenue Hoche – 75008 Paris	6,132	75,186	99.98
Conforama Holding	80, boulevard du Mandinet – Lognes 77432 Marne-la-Vallée	73,805	330,427	92.89
Club de développement PPR	10, avenue Hoche – 75008 Paris	4,460	316	60.00
Discodis	10, avenue Hoche – 75008 Paris	153,567	23,863	100.00
Financière Marothi	10, avenue Hoche – 75008 Paris	2,351,188	1,964,726	99.99
MP Europe	10, avenue Hoche – 75008 Paris	897	(685)	99.00
Redcats	110 rue de Blanchemaille – 59100 Roubaix	61,300	335,737	99.99
Saprodis	10, avenue Hoche – 75008 Paris	619,798	166,635	82.09
SFGM	10, avenue Hoche – 75008 Paris	4,500	5,623	99.50
B – Associates (less than 50% of share capital)				
France Printemps	102, rue de Provence – 75009 Paris	56,047	14,344	46.35
Gucci Group NV	The Rembrandt tower Amstelplain 1096 ha Amsterdam-Netherlands	108,246	3,130,243	33.02
II – Summary information				
A – Subsidiaries not listed in I				
a) French subsidiaries (total)				
b) Foreign subsidiaries				
PPR Luxembourg	25, route d'Esch – Luxembourg			
Au Printemps Réassurances	19, rue de Bitbourg - Luxembourg			
Other (total)				
B – Associates not listed in I				
a) French companies (total)				
b) Foreign companies (total)				

Financial information							
Carrying amount of shares		Outstanding loans granted by the Company	Guarantees given by the company	Last published net sales	Last published net income/ (loss)	Dividends received during the year	Comments
Gross	Net						
82,348	82,348				44,930	30,655	
252,348	252,348			11,437	109,427	64,269	
9,147	2,925				2		
299,735	299,735				181,492	36,502	
4,648,062	4,648,062				(18,075)		
5,794	229				286		
1,232,521	1,232,521			45,063	47,901	88,317	
568,830	568,830				20,542	385,673	
7,313	7,313				67	30	Revaluation difference +180
41,737	41,737			928,486	4,180	66,184	
2,515,104	2,515,104			40,409	345,503	80,587	
10,557	8,830					4,196	
14,416	9,803						
10,188	10,188						
1,968	0						
3	3					4	
757	757					1,474	
9,700,828	9,680,733						

SECURITIES PORTFOLIO AS OF DECEMBER 31, 2006

Company name *(in € thousand)*	Interest				
	Number of shares	%	Gross carrying amount	Impairment	Net carrying amount
1 – Long- and short-term investments in French companies with a carrying amount by category of securities equal to or in excess of €15,000:					
Balzan	2,994	99.80	48.7		**48.7**
Caumartin Participations	875,750	99.98	82,348.4		**82,348.4**
Club de développement PPR	599,994	60.00	9,146.9	6,222.0	**2,924.9**
Conforama Holding	4,284,632	92.89	252,348.2		**252,348.2**
Discodis	3,199,302	100.00	299,734.9		**299,734.9**
Financière Marothi	102,218,410	99.99	4,648,061.5		**4,648,061.5**
France Printemps	1,709,125	46.35	41,736.5		**41,736.5**
Kadeos	45,000	50.00	519.9		**519.9**
Melitte	2,994	99.80	45.6		**45.6**
MP Europe	386,100	99.00	5,793.9	5,564.6	**229.3**
PPR Finance	9,990	99.90	152.3		**152.3**
Prodistri	14,994	99.96	228.6		**228.6**
PPR Purchasing	843,750	75.00	3,527.5		**3,527.5**
Redcats	400,630	99.99	1,232,521.0		**1,232,521.0**
Sapardis	630,001	100.00	4,005.6	38.0	**3,967.6**
Saprodis	33,920,229	82.09	568,830.2		**568,830.2**
Savoisienne	129,690	99.00	1,977.1	1,689.8	**287.3**
Société Financière de Grands Magasins	298,506	99.50	7,313.5		**7,313.5**
TREMI	2,994	99.80	48.7		**48.7**
2 – Long- and short-term investments in French companies with a carrying amount by category of less than €15,000.			5.7		5.7
3 – Other service, property and other companies					
Sicav AGF			61,627.3		**61,627.3**
Poltrona Frau			5,775.0		**5,775.0**
Other			934.2	1.0	**933.2**
4 – Shares in foreign companies					
Gucci Group NV	35,044,406	33.02	2,515,104.2		**2,515,104.2**
Other			27,334.3	6,585.9	20,748.4
TOTAL			**9,769,169.7**	**20,101.3**	**9,749,068.4**

Parent company management report

The Company's revenue consists primarily of dividends received from subsidiaries, rental revenue from real estate holdings, financial income and advisory and assistance fees received from subsidiaries, determined as a percentage of their sales, in accordance with standard practice.

Financial activity

As part of its EMTN (Euro Medium-Term Note) programme, your Company performed a new issuance of debt in the amount of €300 million and maturing January 29, 2013, bringing the bond issue performed on June 29, 2005 to €600 million. This debt issuance, which has been rated "BBB-" by Standard & Poor's, seeks to extend the maturity of the Company's debt and diversify the type of financing resources.

PPR also requested an extension of the maturity of the revolving syndicated loan of €2,750 million, set up in March 2005. Following this request, the loan maturity was extended as follows: €2,287 million now matures March 2012, €268 million now matures March 2011 and €195 million retains the initial maturity of March 2010.

In October 2006, your Company decided to proceed with the early redemption of all outstanding 2.5% Océane bonds maturing January 1, 2008 and issued in May 2003 for a nominal amount of €1,079.5 million. The operation was highly successful, with bondholders exercising their share allotment rights in the amount of 99.9%. In order to maximise value creation for its shareholders, PPR redeemed these bonds by delivering 4,155,911 existing shares and 8,333,106 new shares, with the remaining bonds redeemed for cash.

The Company's remaining cash requirements were funded entirely by the medium-term credit lines already in place. Cash surpluses were invested via the current account with PPR Finance, which manages the Group's cash.

Results

The parent company posted an operating loss of €8.6 million in 2006, compared with a loss of €13.9 million last year.

Financial income totalled €655.4 million compared with €348.1 million last year. This includes dividends received from subsidiaries and other debt service charges.

Non-recurring items represented net income of €116.4 million, compared to net income of €37.3 million in 2005.

Your Company, which is the parent company consolidating some of the Group's French subsidiaries for tax purposes, recorded a tax consolidation benefit of €78.9 million, compared to €136.6 million last year.

Overall, your Company reported net income for the year of close to €840.7 million, compared to €506.8 million in 2005.

Income appropriation

We propose a dividend payment of €3.00 per share, payable on June 1, 2007.

The income appropriation recommended by the Board of Directors to the Ordinary General Shareholders' Meeting is as follows:

(in euros)	
Source	
Retained earnings	862,520,557.56
Net income for the year	840,673,126.63
Total for appropriation	1,703,193,684.19
Appropriation	
Legal reserve	2,381,118.00
Dividends	385,161,822.00
Retained earnings	1,315,650,744.19
Total appropriation	1,703,193,684.19

Dividends paid in the last three years:

Year of payment	Net dividend	Granting entitlement to a tax allowance of
2006	€2.72	40%
2005	€2.52	50%

Year of payment	Net dividend	50% Tax credit	Gross dividend
2004	€2.40	€1.20	€ 3.60

Agreements involving Members of the Board of Directors of the Company

Your Company did not enter into any agreements falling within the application scope of Article L. 225-38 of the French Commercial Code (*Code de commerce*) during the fiscal year.

Agreements entered into in previous years with continuing effect during the fiscal year are detailed in the Statutory Auditors' report on agreements and commitments involving Members of the Board of Directors of the Company.

Directorships, positions and remuneration of corporate officers - appointment of a new director

Following the resignation of Mr. Anthony Hamilton from the Board of Directors on August 30, 2006, the Board of Directors appointed Mr. Jean-Philippe Thierry, Chairman and CEO of AGF, as his replacement. Shareholders will be requested to ratify this appointment. The term of office as director of Mr. Thierry shall expire at the end of the Shareholders' Meeting held in 2009 to adopt the 2008 financial statements.

Information regarding the directorships, positions and remuneration of corporate officers is presented in the section "Corporate Governance".

SHARE CAPITAL TRANSACTIONS

The share capital of your Company as of December 31, 2006 is €513,549,096, comprising 128,387,274 fully paid-up shares with a par value of €4 each.

At the balance sheet date, Company and Group employees held 217,530 shares with a par value of €4 each, representing 0.17% of the share capital, pursuant to the provisions of Article L. 225-102 of the French Commercial Code (*Code de Commerce*).

The Board of Directors, pursuant to the various resolutions adopted at the Extraordinary General Shareholders' Meeting, is authorised to carry out the following issues of securities:

Authorisations granted by the General Shareholders' Meeting of May 19, 2005	Amount of equity warrants and/or securities that may be issued	Maximum share capital increase	Duration of authorisation
Capital increase via issue(s), with pre-emptive subscription rights, of shares, equity warrants and/or other share equivalents convertible either immediately or in the future into Company shares or debt securities (1)	€6 billion	€200 million	26 months
Capital increase via issue(s), with waiver of pre-emptive subscription rights, of shares, equity warrants and/or share equivalents, convertible either immediately or in the future into Company shares and which can be used in payment of shares (or debt securities) tendered in a public exchange offer (1)	€6 billion	€200 million	26 months
Capital increase via capitalisation of reserves, earnings or additional paid-in capital (1)		€200 million	26 months
Capital increase in consideration of in-kind contributions up to a maximum of 10% of the share capital (1)		€48.9 million	26 months
Share subscription or purchase option plans for a total amount of 2,500,000 shares (2)		€10 million	38 months
Allocation of bonus shares reserved for employees and corporate officers (3)		€4.8 million	38 months
Share issues reserved for Group employees (1)		€4.8 million	26 months

(1) Authorisations not used.
(2) Authorisation used in 2005 to grant 419,760 options and in 2006 to grant 403,417 options, representing 32.93% of the total authorisation.
(3) Authorisation used to grant 23,133 bonus shares in 2005 and 23,565 bonus shares in 2006, representing 7.27% of the total authorisation.

Furthermore, the Board of Directors was authorised, for a period of 26 months, by the Extraordinary General Shareholders' Meeting of May 19, 2005, to decrease the share capital, under applicable legal conditions, via the cancellation of shares purchased by the Company as part of its share buyback programmes. This authorisation was used once after May 19, 2005 to cancel 124,514 treasury shares on January 11, 2006, thereby decreasing the share capital to €481,294,864, comprising 120,323,716 shares of €4 each and then again on May 24, 2006, to cancel 269,548 treasury shares, decreasing the share capital to 480,216,672, comprising 120,054,168 shares.

As shown in the above table, the Extraordinary General Shareholders' Meeting of May 19, 2005 authorised the Board of Directors to perform various issues of securities conferring immediate or future access to the share capital of the Company and to increase the share capital by capitalising reserves, earnings or additional paid-in capital.

These authorisations were not used during the year. However, as they expire in the near future, shareholders are requested to grant new authorisations to the Board of Directors.

A break down of the share capital and movements therein during the fiscal year are presented in the Section "General Information".

Share capital movements

Year	Description	Additional paid-in capital	Par value change in the share capital	New share capital of the company (as of December 31)	Aggregate number of ordinary shares
2006	Conversion of Océane bonds	€686,314,610	€33,332,424		8,333,106 (1)
	Cancellation of shares	(€36,386,197)	(€1,576,248)		(394,062) (1)
		€649,928,413	**€31,756,176**	**€513,549,096**	**128,387,274 (1)**
2005	Exercise of options	€512,491	€55,000		13,750 (1)
	Cancellation of shares	(€154,460,000)	(€8,000,000)		(2,000,000) (1)
		(€153,947,509)	**(€7,945,000)**	**€481,792,920**	**120,448,230 (1)**
2004	Exercise of options	€1,301,830	€110,000		27,500 (1)
		€1,301,830	**€110,000**	**€489,737,920**	**122,434,480 (1)**
2003	Exercise of options	€379,266	€50,000		12,500 (1)
		€379,266	**€50,000**	**€489,627,920**	**122,406,980 (1)**
2002	–	**–**	**–**	**€489,577,920**	**122,394,480 (1)**
2001	Conversion of share capital into euros; increase in par value to €4		€113,009,005		
	Exercise of options	€2,308,163	€172,449		55,000 (1)
	Conversion of Océane bonds	€485,783,887	€14,240,700		3,560,175 (1)
		€488,092,050	**€127,422,154**	**€489,577,920**	**122,394,480 (1)**
2000	Share issues reserved for employees	FRF 876,562,559	FRF 15,984,160		799,208 (2)
	Exercise of options	FRF 2,234,000	FRF 100,000		5,000 (2)
	Cancellation of shares	(FRF 1,794,240,942)	(FRF 24,120,060)		(1,206,003) (2)
		(FRF 915,444,383)	**(FRF 8,035,900)**	**FRF 2,375,586,100**	**118,779,305 (2)**

(1) Shares with a par value of €4 each.
(2) Shares with a par value of FRF 20 each.

On January 2, 2007, the share capital was increased by €100,000 following the exercise of share subscription options, thereby bringing the share capital to €513,649,096, made up of 128,412,274 shares of €4 par value each.

The share capital could be increased by 1,982,752 shares (1.54% of the share capital) by the exercise of share subscription options under current share subscription option plans (see share option plan table on page 236).

Share pledges

As of December 31, 2006, 4,000,005 PPR shares held by pure registered shareholders (*nominatif pur*) were pledged to various lenders.

Name of registered shareholder	Beneficiary	Pledge start date	Pledge expiry date	Terms of cancellation of the pledge	Number of PPR shares pledged	% PPR share capital pledged (2)
Artémis SA	Calyon	06/08/2000	Indefinite	(1)	4,000,005	3.11%

(1) Full reimbursement or payment of the loan.
(2) Based on the share capital following the increase of January 18, 2007 of 128,412,174 shares with a par value of €4 each.

Share buyback programme

On May 26, 2004, PPR granted a mandate to a financial intermediary in order to encourage the liquidity of transactions and the consistency of PPR share quotations. This contract complies with the provisions of the Professional Code of Conduct established by the *Association Française des Entreprises d'Investissement* (A.F.E.I., French Association of Investment Companies). The contract was funded in an amount of €40 million, equally split between cash and PPR shares. On September 3, 2004, an additional cash amount of €20 million was added to the contract.

This contract complies with the provisions of the Professional Code of Conduct established by the *Association Française des Entreprises d'Investissement* (A.F.E.I., French Association of Investment Companies).

Pursuant to the authorisation granted by the General Shareholders' Meeting in May 2005, PPR cancelled 394,062 Company shares in 2006, classified in Long-term investments in the course of cancellation (including 269,548 shares purchased in 2006).

The authorisation granted by the General Shareholders' Meeting of May 23, 2006, as of the date of the accounts closing, was used during the fiscal year for acquisitions of 2,412,002 shares totalling €267,805,516 at an average purchase price of €111.03 and for sales of 2,697,002 shares totalling €297,882,126. All of these shares were sold under the above-mentioned liquidity contract.

In June 2005, your Company acquired 3,000,000 call options to partially hedge the possible conversion of the Océane bonds issued in 2003 and maturing in January 2008. This partial hedge was completed in May 2006 by the purchase of an additional 1,155,911 call options, bringing the total hedge to 4,155,911 options.

In October 2006, PPR proceeded with the early redemption of all outstanding Océane bonds. Bondholders exercised their share allotment rights in the amount of 99.9%.

This early redemption in October 2006 was performed by way of:

- the exchange of 4,155,911 shares after exercise of call option hedges in the amount of €424,579,864;
- the issue of 8,333,106 new shares in the amount of €719,647,034.

In addition, in June 2006 your Company:

- purchased 1,130,000 call options to partially hedge share subscription option plans granted to employees in 2002, 2003 and 2004, representing a maximum commitment of €104,652,600;
- purchased 350,000 call options to partially hedge share purchase option plans granted to employees in 2006, representing a maximum commitment of €35,640,500.

As of December 31, 2006, the number of call options outstanding totalled 2,520,998, representing a maximum commitment of €335,970,267.

On January 2, 2007, 25,000 share subscription options were exercised for an amount of €1,535,000 (share capital of €100,000, plus additional paid-in capital of €1,435,000).

Treasury shares

In connection with the share buyback programmes authorised by the shareholders, the Company acquired 3,616,599 shares with a par value of €4 each, at an average price of €102.59 (including 269,548 shares purchased following the exercise of call options) in 2006. It sold 3,372,051 shares at an average transaction price of €105.14. All of the shares were sold under the liquidity contract. Related transaction costs totalled €0.6 million.

At the end of the fiscal year, your Company did not hold any treasury shares under the liquidity contract.

Share subscription and purchase option plans and granting of bonus shares

The policy governing the granting of share subscription and purchase options and bonus shares forms part of the Group human resources policy and is determined each year by the Board of Directors based on preparatory work and proposals of the Remuneration Committee.

Share options are intended to enhance employee loyalty, while bonus share issues recognize an employee's contribution to PPR results.

Eligible employees comprise executives occupying key positions and with major responsibilities within the Group who, selected at the proposal of each company, play a key part in the development and implementation of the Group's strategy.

Options and bonus shares are granted based on general and specific criteria and are not cumulated with other salary-related bonuses; they concern approximately 450 employees, 280 of whom receive bonus shares.

Mr. François-Henri Pinault does not receive bonus shares.

Share subscription and purchase option plans

Share options are granted annually.

The plan granted in 2006 has an eight-year term. Plans issued in prior years have a term of ten years.

Since 2001, plans are granted without a price discount and are subject to a lock-in period of four years. Up to 2000, share options benefited from a 5% discount applied to the option price.

Employees and corporate officers who leave the Group before exercising their options lose part of their entitlement, determined based on their length of service with the Group since the grant date and the terms of their departure.

Options are vested 25% per full year of presence and are vested in full on retirement. If a beneficiary resigns, he or she losses all rights vested since 2005, subject to derogations granted by the Company. If a beneficiary is dismissed for gross negligence or misconduct all rights are lost, including after the lock-in period.

PPR share option plans as of December 31, 2006

	1997/1 Plan Subscription options [2]	1997/2 Plan Subscription options	1998 Plan Purchase options	1999/1 Plan Purchase options
Date of Shareholders' meeting	06/18/1992	06/05/1997	06/05/1997	06/05/1997
Date of Management Board / Board of Directors' meeting	01/22/1997	06/05/1997	06/05/1998	01/20/1999
Number of beneficiaries	9	3	257	36
Number of options granted initially	100,000	13,250	347,050	27,495
o/w to members of the Management Board [1]	30,000	-	60,000	-
o/w to the top ten salaried employees				
Number of options exercised as of 12/31/2006	73,750	10,000	0	0
Cancelled options (as of 12/31/2006)	1,250	0	202,950	23,295
Number of options remaining to be exercised as of 12/31//2006	25,000	3,250	144,100	4,200
Plan start date	04/01/1997	08/01/1997	08/01/1998	04/01/1999
Plan expiry date	03/31/2007	07/31/2007	07/31/2008	03/31/2009
Strike price	€61.41	€71.16	€135.98	€154.58

NB: each option confers entitlement to one share.
(1) As of May 19, 2005.
(2) All the options under this plan had been exercised when this document went to print.

	2002/1 Plan Subscription options	2002/2 Plan Subscription options	2003/1 Plan Subscription options	2003/2 Plan Subscription options
Date of Shareholders' meeting	05/18/2001	05/18/2001	05/21/2002	05/21/2002
Date of Management Board / Board of Directors' meeting	05/03/2002	05/03/2002	07/09/2003	07/09/2003
Number of beneficiaries	1,074	1,053	721	18
Number of options granted initially	438,296	410,271	528,690	5,430
o/w to members of the Management Board [1]	45,000	45,000	109,000	-
o/w to the top ten salaried employees	24,320	24,320	37,855	
Number of options exercised as of 12/31/2006	0	0	0	0
Cancelled options (as of 12/31/2006)	114,694	103,373	100,124	1,761
Number of options remaining to be exercised as of 12/31//2006	323,602	306,898	428,566	3,669
Plan start date	05/03/2002	05/03/2002	07/09/2003	07/09/2003
Plan expiry date	05/02/2012	05/02/2012	07/08/2013	07/08/2013
Strike price	€128.10	€140.50	€66.00	€67.50

NB: each option confers entitlement to one share.
(1) As of May 19, 2005.
(2) All the options under this plan had been exercised when this document went to print.

1999/2 Plan	1999/3 Plan	2000/1 Plan	2000/2 Plan	2001/1 Plan	2001/2 Plan
Purchase options	Purchase options	Purchase options	Purchase options	Purchase options	Purchase options
06/05/1997	06/05/1997	06/05/1997	06/05/1997	06/05/1997	05/18/2001
05/21/1999	12/08/1999	01/26/2000	05/23/2000	01/17/2001	05/18/2001
44	560	26	125	722	206
25,455	412,350	12,100	93,100	340,240	87,260
-	52,400	-	-	52,000	-
				22,970	14,000
0	0	0	0	0	0
16,955	235,600	8,900	60,300	169,910	36,980
8,500	176,750	3,200	32,800	170,330	50,280
07/01/1999	12/27/1999	03/01/2000	07/01/2000	02/01/2001	06/01/2001
06/30/2009	12/26/2009	02/28/2010	06/30/2010	01/31/2011	05/31/2011
€144.83	€189.19	€227.15	€202.91	€225.01	€225.01

2004/1 Plan	2004/2 Plan	2005/1 Plan	2005/2 Plan	2005/3 Plan	2005/4 Plan	2006/1 Plan
Subscription options	Subscription options	Subscription options	Subscription options	Subscription options	Subscription options	Purchase options
05/21/2002	05/21/2002	05/21/2002	05/19/2005	05/19/2005	05/19/2005	05/19/2005
05/25/2004	07/07/2004	01/03/2005	05/19/2005	05/19/2005	07/06/2005	05/23/2006
846	1	13	458	22	15	450
540,970	25,000	25,530	333,750	39,960	20,520	403,417
90,000	25,000	-	36,000	-	-	-
36,305		-	23,828	-	-	18,940
0	0	0	0	0	0	0
77,379	0	0	14,844	1,560	180	4,402
463,591	25,000	25,530	318,906	38,400	20,340	399,015
05/25/2004	07/07/2004	01/03/2005	05/19/2005	05/19/2005	07/06/2005	05/23/2006
05/24/2014	07/06/2014	01/02/2015	05/18/2015	05/18/2015	07/05/2015	05/22/2014
€85.57	€84.17	€75.29	€78.01	€78.97	€85.05	€101.83

SHARE SUBSCRIPTION AND PURCHASE OPTIONS GRANTED BY PPR AND AFFILIATED COMPANIES TO THE TOP TEN EMPLOYEES (EXCLUDING CORPORATE OFFICERS) AND OPTIONS EXERCISED BY THEM

Share subscription and purchase options granted to the top ten employees (excluding corporate officers) and options exercised by them	Total number of options granted, subscribed or purchased	Weighted average price (in euros)
Options granted during the year by the issuer or any other company included in the scope of the share option plan, to the top ten employees of the issuer and all other companies included in this plan, with the highest number of options granted.	18,940	101.83
Options for shares in the issuer or any of the aforementioned companies exercised during the year by the ten employees of the issuer and these companies, with the highest number of options subscribed or purchased.	0	-

Bonus share issue plan

A bonus share issue plan covering 23,565 existing shares was granted on May 23, 2006. The 281 beneficiaries of this plan are the same as the beneficiaries of the share option plans.

A bonus share issue policy was introduced in 2005, to partially replace the granting of share options for employees based in France.

Bonus shares are definitively vested at the end of a two-year vesting period, which is followed by a two-year lock-in period during which the bonus shares may not be sold. Moreover, the granting of the bonus shares is subject to a performance condition, whereby the number of shares definitively granted is adjusted downwards should the PPR share price under perform the CAC 40 during the vesting period, on a pro rata basis to this under performance.

Finally, beneficiaries who are no longer employees or corporate officers of the Group at the end of the vesting period lose part of their entitlement, determined based on the terms of their departure in accordance with the same rules as for options.

PPR bonus share issues as of December 31, 2006

	2005 Plan Bonus shares	2006 Plan Bonus shares
Date of Shareholders' meeting	05/19/2005	05/19/2005
Date of Board of Directors' meeting	07/06/2005	05/23/2006
Number of bonus shares granted initially	23,133	23,565
O/w to the top ten salaried employees	2,553	2,030
Cancelled shares (as of December 31, 2006)	470	115
Shares outstanding as of December 31, 2006	22,663	23,450
Number of beneficiaries	339	281
Definitive vesting date	07/06/2007	05/23/2008
Lock-in end date	07/06/2009	05/23/2010

Bonus shares granted to the top ten employees (excluding corporate officers) of the Company	Total number of bonus shares granted
Bonus shares granted during the year by the issuer or any other company included in the scope of the bonus issue plan, to the top ten employees of the issuer, with the highest number of bonus shares granted	2,030

Employee incentives (employee bonus and profit-shering agreements)

The employee profit-sharing agreement, signed on December 2, 1988, is automatically renewable.

The amount of the employee profit-sharing scheme reserve for the year, which is equal to 0.8% of the dividend paid by the Company after the fiscal year-end closing and is capped based on dividend growth, is shared on a pro rata basis among eligible employees based on their respective salaries for the reference year. Employees who have been on the Group's payroll for at least three months prior to the end of the reference year are eligible to participate in the profit-sharing scheme.

The amounts distributed under this agreement during the past five years were as follows: €985,395 in 2001, €1,081,057 in 2002, €1,067,966 in 2003, €1,119,536 in 2004, €1,158,439 in 2005 and €1,252,255 in 2006.

Employee incentive agreement: none

Subsidiaries and associates

As a holding company, the Company carried out various transactions with its subsidiaries: reclassifications of affiliates and acquisitions and sales of shares.

Information about the business and financial results of subsidiaries and affiliates, equity interests acquired during the year and changes in percentage interests in Group companies is provided in the Group section of the report and the notes to the consolidated financial statements (see the list of the main consolidated subsidiaries).

Combined General Shareholders' Meeting of May 14, 2007

Your Board of Directors regularly sought information on the business developments and activities of your Company and its Group in accordance with legal provisions and the Articles of Association. As part of its activities, it performed the verifications and controls it considered necessary.

The Board of Directors approved the financial statements for the year ended December 31, 2006 and prepared a report on the activities of the Company and its Group during the fiscal year and on share buyback transactions, share subscription and purchase option plans and bonus issue plans. The Chairman prepared a report on the conditions for the preparation and organisation of the work of the Board and internal control procedures.

Shareholders are requested to approve the Company and consolidated financial statements for the year ended December 31, 2006 and the Statutory Auditors' report on agreements and commitments involving Members of the Board of Directors of the Company falling within the scope of Articles L. 225-38 *et seq.* of the French Commercial Code (*Code de commerce*) and to approve the proposed appropriation of net income and notably the distribution of a dividend of €3 per share.

In September 2006, your Board of Directors appointed Mr. Jean-Philippe Thierry as Director to replace Mr. Anthony Hamilton, who resigned. Shareholders are requested to ratify this appointment for a term of office expiring at the end of the Shareholders' Meeting held to adopt the financial statements for the year ended December 31, 2008.

You are then requested to authorise a share buyback programme enabling, during a period of eighteen months, the purchase of shares in the Company up to a maximum of 10% of the share capital, in order to:

- provide liquidity or volume to the market in the context of a liquidity contract with an independent financial services company, in accordance with the Professional Code of Conduct established by the *Association Française des Entreprises d'Investissement* (A.F.E.I., French Association of Investment Companies);
- use all or some of the shares purchased to underwrite share option plans, bonus share issue plans and savings plans granted to Group employees and corporate officers and sell or grant the shares as provided by law;
- acquire equity interests or raise financing in exchange for Company shares in connection with external growth transactions or the issuance of marketable securities exchangeable or redeemable for shares in the Company;
- cancel any shares purchased, in accordance with the authorisation granted by the Shareholders' Meeting.

Shares acquired by the Company pursuant to this authorisation may be held, sold or transferred by any appropriate means, including the use of derivatives or in blocks of shares, or cancelled.

The maximum purchase price is set at €175 per share. However, in the event of sale or transfer in the context of share purchase option plans or the sale or grant of shares to employees, the sale or transfer price shall be fixed in accordance with the terms and conditions provided by law regarding such transactions and as such may be less than this amount.

The total amount of purchases may not exceed €2,247,212,975.00, it being noted that at the date of filing of the reference document, the share capital of the Company totalled €513,649,096, comprising 128,412,174 shares.

Shares purchased may be cancelled in accordance with the authorisation granted by the Shareholders' Meeting.

Shareholders are also requested to authorise the Board of Directors to cancel shares held or so acquired by way of a share capital reduction, subject to a maximum of 10% of the share capital per period of twenty-four months.

Authorisations to issue shares

1. Shareholders are then requested to grant the Board of Directors various delegations and authorisations enabling it, at any time, to raise the capital required to undertake the investment operations deemed necessary and decide, at the appropriate time, the financial solutions best suited to the market situation, or to conduct share capital increases by capitalisation of reserves.

   a) Firstly, you are requested to grant the requisite powers to issue shares with pre-emptive subscription rights, with or without equity warrants, warrants and/or share equivalents providing immediate or future entitlement to Company shares, except for the issue of preferred shares.

   The total amount of warrants and/or share equivalents issued may not exceed €6 billion and the total amount of direct or indirect share capital increases may not exceed €200 million, not including any potential adjustments.

   b) You are also requested to grant the requisite powers to issue shares with or without equity warrants, warrants and/or share equivalents providing immediate or future entitlement to Company shares, except for the issue of preferred shares.

   Pursuant to this authorisation, the Board of Directors may issue shares in order to remunerate listed shares tendered to the Company as part of a public exchange offer or issue shares of the Company pursuant to issues by its direct or indirect subsidiaries of securities conferring entitlement to the subscription or allotment of the Company's shares.

You are requested to cancel the pre-emptive subscription right on shares, warrants and share equivalents that could be issued in order to facilitate the placement of these securities on financial markets or to carry out, where applicable, exchange transactions.

The total amount of warrants and/or share equivalents issued may not exceed €6 billion, and the total amount of direct or indirect share capital increases may not exceed €200 million, not including any potential adjustments.

The procedures and issue price for securities issued for cash pursuant to these authorisations shall be determined in such a way that the amount that accrues, or may accrue, to the Company for each of the shares issued shall at least match the minimum value determined by the regulations in force at the time of issue.

In the event of the issue of warrants or securities other than ordinary shares, the procedure for allotting the shares to which such warrants or securities grant entitlement and the dates on which the allotment rights may be exercised shall be determined by the Board of Directors at the time the issue is approved.

When it decides to conduct the issue, the Board of Directors shall also determine the type and number of securities to be issued, the currency or unit of issue, the value of each security and the amount of issues and subscriptions.

c) You are also requested to authorise the Board of Directors to make one or more share capital increases by capitalisation of reserves, profits or additional paid-in capital, merger or contribution premiums up to a maximum amount of €200 million.

These three authorisations shall be granted for a period of twenty-six months as from the date of the General Shareholders' Meeting.

d) You are also requested to grant the Board of Directors the requisite powers to issue shares, on one or more occasions, with or without equity warrants, warrants and/or share equivalents providing immediate or future entitlement to Company shares, with subscription reserved for a specific category of beneficiaries comprising credit institutions and/or companies governed by the Insurance Code or its equivalent abroad, as part of complex financial transactions to optimise the Company's balance sheet structure, in order to facilitate the placement of these issues.

The total amount of warrants and/or share equivalents issued may not exceed €1,250 million and the total amount of direct or indirect share capital increases may not exceed €50 million, not including any potential adjustments.

The procedures and issue price for securities issued for cash pursuant to these authorisations shall be determined in such a way that the amount that accrues, or may accrue, to the Company for each of the shares issued, after inclusion where share subscription warrants are issued of the value of such warrants, shall at least equal the weighted average price for the three trading days preceding the date on which the terms of the issue are set, potentially net of a 5% discount. In the event of the issue of warrants or securities other than ordinary shares, the procedure for allotting the shares to which such warrants or securities grant entitlement and the dates on which the allotment rights may be exercised shall be determined by the Board of Directors at the time the issue is approved.

When it decides to conduct the issue, the Board of Directors shall also determine the type and number of securities to be issued, the currency or unit of issue, the value of each security and the amount of issues and subscriptions.

This authorisation shall be granted for a period of twenty-eight months as from the date of the General Shareholders' Meeting.

e) You are requested to authorise the Board of Directors in respect of issues undertaken pursuant to the authorisation referred to in b) above, subject to a maximum of 10% of the share capital each year, to determine the issue price of shares as follows: the amount that accrues or may accrue to the Company by virtue of each issue shall be at least equal to 90% of the weighted average price for the three trading days preceding the date on which the terms of the issue are set, in order to facilitate the placement of the securities issued and to meet the implementation deadlines. In the event of the issue of warrants, the issue price of these warrants shall be taken into account when calculating the issue price of the shares.

The maximum amount of share capital increases performed pursuant to these five authorisations is set at €200 million and the total amount of securities issues is set at €6 billion, subject in the case of share capital increases performed pursuant to the authorisation granted in e) above and covered by the eleventh resolution, to an annual maximum of 10% of the share capital.

2. Shareholders are also requested to grant the requisite authorisations to perform share capital increases in remuneration of in-kind contributions of shares or securities conferring entitlement to shares, that do not form part of a public exchange offer. These transactions, which may only involve a maximum 10% of the share capital, may facilitate the acquisition of equity investments or controlling interests in companies within deadlines more in line with business requirements. In accordance with the law, the Board of Directors shall, in such cases, comply with the procedures applicable to in-kind contributions and opine on the Statutory Auditor's report on the contributions.

3. Shareholders are also requested to grant the Board of Directors the requisite powers to pursue its human resources policy, enabling it:

   a) to grant employees and corporate officers of the Company and its affiliated companies, options conferring entitlement to subscribe for or purchase Company shares up to a maximum of 2,500,000 shares. The subscription or purchase price may not be lower than the limit determined by law.

   b) to grant bonus shares issued or to be issued to employees and corporate officers of the Company and its affiliated companies or groups, subject to a limit of 0.5% of the share capital. In the case of beneficiaries who are resident for tax purposes in France, shares are only granted after a period of two years, and beneficiaries must hold the shares for at least a further two years, in order to enable beneficiaries to qualify for the favourable tax and social security regime applicable to bonus share issues. In the case of beneficiaries resident outside France, the vesting period is increased to four years but beneficiaries shall be entitled to sell shares immediately at the end of this period. This new provision, which is a result of the Law of December 30, 2006 on the development of employee profit-sharing and shareholdings, is intended to enable bonus share option plans to adapt to the specific provisions of foreign tax regimes.

   c) to perform share capital increases reserved for employees who have subscribed to an employee savings scheme, by issuing shares or securities conferring entitlement to the share capital, up to a maximum of 1,200,000 shares. The subscription price shall be set by the Board of Directors, subject to the terms and conditions prescribed by law. It shall not, however, be less than 80% of the average share price during the twenty trading sessions preceding the date on which the subscription start date is decided. Shares may be issued to the Company's mutual fund or SICAVs. The amount of share capital increases will depend on the amount of shares subscribed and the limits mentioned above.

Finally, we propose a minor amendment to Article 20 of the Articles of Association for clarification purposes and in order to bring the Articles of Association into line with new regulatory requirements regarding the registration of securities prior to shareholder meetings.

*

If you approve these proposals, you are requested to adopt the resolutions presented to you.

Information on the Company's operations, development, outlook and significant post-year-end events and information on the employee-related and environmental impact of the Company's activities are provided in the other sections of the Group's Management Report and in the notes related thereto.

A table showing the Company's results over the last five years is provided in the notes to this report.

PARENT COMPANY FINANCIAL RESULTS FOR THE LAST FIVE YEARS

	2002	2003	2004	2005	2006
Share capital at year end					
Share capital *(in euros)*	489,577,920	489,627,920	489,737,920	481,792,920	513,549,096
Number of ordinary shares outstanding	122,394,480	122,406,980	122,434,480	120,448,230	128,387,274
Maximum number of potential shares to be issued	6,221,620	14,843,644	16,354,464	15,465,873	1,982,752
by conversion of bonds	5,307,813	13,504,828	14,586,449	13,418,225	
by exercise of share subscription options	913,807	1,338,816	1,768,015	2,047,648	1,982,752
Results of operations *(in € thousand)*					
Income from operating activities	34,831	29,179	32,365	39,943	42,271
Net income before tax, employee profit-sharing, depreciation, amortisation and provisions	608,311	1,223,086	341,368	124,309	827,471
Income tax charge / (credit)	207,573	(74,306)	83,202	136,640	78,893
Employee profit-sharing	1,362	960	1,261	1,255	1,417
Net income after tax, employee profit-sharing, depreciation, amortisation and provisions	244,391	1,476,590	559,515	506,841	840,673
Dividend distribution	281,507	293,777	308,535	327,281	385,162 (1)
Per share data *(in €)*					
Net income after tax and employee profit-sharing but before depreciation, amortisation and provisions	6.65	9.38	3.46	2.16	7.05
Net income after tax, employee profit-sharing, depreciation, amortisation and provisions	2.00	12.06	4.57	4.21	6.55
Dividends					
Net dividend per share	2.30	2.40	2.52	2.72	3.00 (1)
Gross dividend per share (50% tax credit)	3.45 (2)	3.60 (2)	(3)	(4)	(4)
Employee data					
Average number of employees	134	133	130	119	109
Total payroll *(in € thousand)*	11,573	10,998	10,790	11,436	9,993
Total benefits (social security, social works, etc) *(in € thousand)*	5,862	5,024	4,777	4,887	4,373

(1) Subject to approval at the Combined Shareholders' Meeting on May 14, 2007.

(2) Potentially subject to a reduced tax credit depending on the nature of each beneficiary.

(3) In accordance with Article 243a of the French General Tax Code, the entire dividend paid to private individuals domiciled in France for tax purposes qualifies in full for the 50% tax credit provided for under Article 158-3 2° of the French General Tax Code.

(4) In accordance with Article 243a of the French General Tax Code, the entire dividend paid to private individuals domiciled in France for tax purposes qualifies in full for the 40% tax credit provided for under Article 158-3 2° of the French General Tax Code.

Statutory auditors' report

on the financial statements (year ended December 31, 2006)

Dear Shareholders,

In accordance with our appointment as statutory auditors by your Annual General Meetings, we hereby report to you for the year ended December 31, 2006 on:

- the audit of the accompanying financial statements of PPR S.A.,

- the justification of our assessments,

- the specific procedures and disclosures required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position and the assets and liabilities of the Company as of December 31, 2006, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in France.

II. Justification of assessments

Pursuant to Article L.823-9 of the French Commercial Code governing the justification of our assessments, we hereby report on the following:

Note 2.1 to the financial statements presents the accounting rules and methods used to value long-term investments. We have verified the merits of these accounting methods and the consistency of the value of long-term investments with the value used when preparing the consolidated financial statements.

These assessments are part of our audit approach to the financial statements taken as a whole and therefore contribute to the expression of the opinion given in the first part of this report.

III. Specific procedures and disclosures

We have also performed the other procedures required by law, in accordance with professional standards applicable in France.

We have no comment to make as to:

- the fair presentation and consistency with the financial statements of the information given in the management report of the Board of Directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements,

- the fair presentation of the information provided in the management report of the Board of Directors in respect of remuneration and benefits granted to certain company officers and any other commitments made in their favour in connection with, or subsequent to, their appointment, termination or change in functions.

Pursuant to the law, we have verified that the management report contains the appropriate disclosures as to the acquisition of participating and controlling interests and to the percentage of interests and voting rights held by shareholders.

Neuilly-sur-Seine and Paris-La Défense, March 12, 2007

The Statutory Auditors

Deloitte & Associés		KPMG Audit *Departement of KPMG SA*	
Jean-Paul Picard	Antoine de Riedmatten	Patrick-Hubert Petit	Hervé Chopin

This is a free translation into English of the statutory auditors' reports issued in the French language and is provided solely for the convenience of English speaking readers. The statutory auditors' report includes for the information of the reader, as required under French law in any auditors' report, whether modified or not, an explanatory paragraph separate from and presented below the audit opinion discussing the auditors' assessment of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements. Such report, together with the statutory auditors report addressing financial reporting in the management's report on internal control, should be read in conjunction and construed in accordance with French law and French auditing professional standards.

Statutory auditors' special report

on regulated agreements and commitments with related parties (year ended December 31, 2006)

Dear Shareholders,

In our capacity as statutory auditors of your Company, we hereby present you our report on regulated agreements and commitments with related parties.

The terms of our engagement do not require us to identify such agreements and commitments, if any, but to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention, without expressing an opinion on their usefulness and appropriateness. It is your responsibility, pursuant to Article 92 of the Decree of March 23, 1967, to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.

Agreements and commitments authorised during the current year

We hereby inform you that no agreement or commitments entered into during the year to which Article L.225-38 of the French Commercial Code would be applicable have been brought to our attention.

Agreements and commitments approved during previous years and continued during the current year

In addition, pursuant to the Decree of March 23, 1967, we have been advised that the following agreements and commitments entered into and approved in previous years have had continuing effect during the year.

Payment for services rendered by ARTEMIS

Pursuant to an agreement between PPR and Artémis signed on September 27, 1993, Artémis performs research and advisory engagements for PPR in the following areas:

• the strategy and growth of the PPR Group and support in carrying out complex legal, tax-related, financial or real estate transactions;

• providing opportunities for business development in France and abroad or cost-cutting factors.

During its meeting of March 10, 1999, the PPR Supervisory Board authorised payment for these services at 0.037% of net pre-tax consolidated revenue.

In connection with the appropriate adjustment of PPR's corporate governance rules, on July 6, 2005 the PPR Board of Directors decided, without amending the agreement in force since September 27, 1993, that the PPR Audit Committee would henceforth, in addition to the usual annual review of the substance of the services provided by Artémis to PPR, perform an annual assessment of the equitable price of these services given the resources saved in the common interest. This assessment was carried out in January 2006 for the first time.

The terms and conditions for assessing the contractual amount were examined again by the Audit Committee on March 6, 2007 and noted that the services rendered in 2006 were not less than those rendered in 2005, particularly in terms of acquisitions, communication, public relations, consulting, mergers/acquisitions or assistance with relationships with banks and rating agencies. After review, the Audit Committee deemed that it was not necessary to change the remuneration of Artémis in 2006.

In 2006, a payment of €6,634,000 was agreed to by the Board of Directors on March 7, 2007 and no expenses were repaid in 2006.

Supplementary retirement plan for the Group's senior executives

During its meeting of March 3, 2004, the Supervisory Board amended the eligibility conditions (broadening the eligibility criteria) and the level of services to be provided under the supplementary retirement plan for the Group's senior executives, as previously approved by the Supervisory Board on February 28, 2001.

The terms and conditions of this plan shall provide the option of collecting a partially reversible and adjustable life annuity, the amount of which would be calculated at the rate of 1.5% of the base salary by year of participation in the Executive Committee and/or 1% per year of seniority with the Group based on a required minimum of three years of presence, capped at 30% of the average highest gross remuneration paid during the last 36 months in the Group, excluding exceptional bonuses but including in-kind benefits as well as a notional amount of 60% of benefits received with respect to corporate offices and/or non-salaried duties paid by any Group entity. Mr. François-Henri Pinault is eligible to participate in this plan under the same conditions as the other beneficiaries.

As of December 31, 2006, cumulative payments made by your Company into funds intended to cover commitments towards all members of the Board of Directors and senior executives concerned amounted to €9,417,570. No payment was made in 2006.

We conducted our review in accordance with the professional standards applicable in France. These standards require that we carry out the necessary procedures to verify the consistency of the information disclosed to us with the source documents.

Neuilly-sur-Seine and Paris-La Défense, March 12, 2007

The Statutory Auditors

Deloitte & Associés		KPMG Audit *Departement of KPMG SA*	
Jean-Paul Picard	Antoine de Riedmatten	Patrick-Hubert Petit	Hervé Chopin

It should be understood that the agreements reported on are only those provided by the French Commercial Code and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

5 Legal and stock market information

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General information

GENERAL INFORMATION ABOUT THE COMPANY

Company name and registered office

Company name: PPR

Registered office: 10, avenue Hoche – Paris 75008 – France

Legal form

A French limited liability company (*Société anonyme*)

Applicable law

The laws of France.

Date of incorporation and term

The Company was incorporated on June 24, 1881 for a term of 99 years. The term was extended to May 26, 2066 by the Extraordinary General Shareholders' Meeting held on May 26, 1967. The Company may be wound up in advance or its term may be extended, subject to the approval of the Extraordinary General Shareholders' Meeting.

Corporate purpose

- to purchase and to sell, on a retail or wholesale basis, directly or indirectly, by any appropriate method and using any and all existing or future techniques, any and all goods, products, produce and services;
- to create, acquire, lease, operate or sell, directly or indirectly, from any and all facilities, stores or warehouses used for the sale, on a retail or wholesale basis, by any appropriate method and using any and all existing or future techniques, any and all goods, products, produce and services;
- to manufacture or produce, directly or indirectly, any and all goods or produce for business purposes;
- to provide any and all services, directly or indirectly;
- to purchase, use or sell any and all real estate that may be used in the business;
- to create any and all trading, non-trading, industrial, financial, securities, real estate, service or other ventures, to acquire interests in such ventures by any appropriate method including subscription to a share issue, acquiring shares in exchange for assets or by way of a merger and to manage these interests;
- and generally to carry out any and all trading, non-trading, industrial, financial, real estate or securities transactions and perform any and all services directly or indirectly to the above purposes or any similar, complementary or related purposes or any purposes that may contribute to the implementation or furtherance of the above-mentioned purposes.

(Article 5 of the Articles of Association)

Register of Commerce and Companies

552 075 020 RCS Paris
APE business identifier code: 741J

Consultation of official legal documents

The Articles of Association, minutes of General Shareholders' Meetings and other official corporate documents may be consulted at the Company's registered office, in accordance with applicable law and regulations.

Fiscal year

The Company's fiscal year begins on January 1 and ends on December 31 of the same year.

Appropriation of earnings

A minimum of one-twentieth of net income for the year, less any losses brought forward from previous years, is allocated to the "legal reserve". This allocation is no longer required when it reaches one-tenth of the Company's share capital.

Income available for distribution corresponds to net income for the year less any losses brought forward from previous years, any transfer made to the legal reserve as explained above and any amounts to be transferred to reserves in accordance with the law plus any unappropriated retained earnings brought forward from the previous year. Pursuant to the proposal of the Board of Directors, the General Shareholders' Meeting may decide to carry forward all or part of the

amount to the following year, or to allocate all or part of the amount to extraordinary, general or special reserves to be used for the purposes specified at the General Shareholders' Meeting.

Any balance remaining after these allocations is distributed to shareholders.

The General Shareholders' Meeting may decide, based on the Company's results, to grant each shareholder the option to receive all or part of the final dividend or any interim dividends in the form of cash or shares.

(Article 22 of the Articles of Association)

Dividends not claimed after five years are paid over to the State.

Dividends paid during the last three years are presented on page 232 of the management report.

Administrative and management bodies

Information regarding administrative and management bodies is presented in the Corporate Governance section.

General Shareholders' Meetings – Double voting rights

General Shareholders' Meetings are convened by the Board of Directors and deliberate on the agenda in accordance with the applicable legal and regulatory provisions.

Meetings are held at the Company's registered office or at any other venue specified in the notice of meeting.

All shareholders are entitled to participate in General Shareholders' Meetings in person or by proxy, in accordance with the law, upon presentation of proof of identity and proof of ownership of shares. Ownership of registered shares is evidenced by an entry in the Company's share register, recorded no less than three days before the date of the meeting. Shareholders may, at the discretion of the Board of Directors, attend meetings by videoconference or other means of telecommunication that enable them to be identified as required by applicable regulations. Shareholders may also cast votes by mail, by returning the duly completed postal voting form to the Company as required by applicable regulations. For postal votes to be taken into account, the Company must receive the corresponding form at least three days prior to the date of the meeting. The Board of Directors may, however, reduce this deadline for the benefit of all shareholders. Shareholders that are not domiciled in the European Union may appoint a proxy in accordance with applicable regulations.

General Shareholders' Meetings are chaired by the Chairman of the Board of Directors or, in his absence, by a member of the Board designated to chair the meeting. If no member of the Board is designated, the General Shareholders' Meeting will elect its own Chairman.

Shareholders' Meeting minutes are drawn up and their copies certified and delivered in accordance with the law.

Fully paid-up shares that have been registered for at least two years in the name of the same registered holder carry double voting rights at all General Shareholders' Meetings. This double voting right, as stipulated in the Pinault SA Articles of Association prior to the merger with Au Printemps SA, was reinstated at the time of the 1992 merger.

Double voting rights may be cancelled at any time by a decision of the Extraordinary General Shareholders' Meeting, ratified by a special meeting of holders of shares with double voting rights.

(Article 20 of the Articles of Association)

The double voting right was in existence at Pinault SA and Printemps SA prior to the 1992 merger of these companies. The Company's Articles of Association do not stipulate as to whether bonus registered shares allotted to a shareholder for old shares retain the latter's double voting rights.

Pursuant to the relevant legislation, double voting rights may be cancelled for any share converted to bearer ownership or in the event of a transfer of ownership except in the case of a transfer following inheritance, liquidation of joint property between spouses, or donation between living family members (spouse or relative).

Voting rights are not limited under the Articles of Associations.

The legal and regulatory disclosure thresholds apply. No specific disclosure thresholds are contained in the Company's Articles of Association.

No other element other than those involving the current share capital structure (Artémis being the majority shareholder), the double voting right, the treasury share buyback programme and authorisations by the General Shareholders' Meeting to increase share capital, as expressly described below, is likely to have an impact in the event of a public offer, and shall not delay, defer or prevent a change in control.

There are no shares that are non-representative of capital.

The measures necessary to amend shareholder rights are provided for pursuant to the law.

Share capital

The Company is authorised to obtain details of the identity of holders of shares carrying immediate or future voting rights at General Shareholders' Meetings, as provided for by law.

(Article 7 of the Articles of Association)

In addition to the voting rights attached to shares in accordance with the law and the provisions of Article 20 of the Articles of Association, each share carries entitlement to a fraction of net assets pro rata to the number and par value of existing shares, as well as a fraction of earnings net of any deductions made pursuant to the law or the Articles of Association, and any liquidation surplus.

In order to ensure that the same net amount is paid on each share, without distinction, and to allow the shares to be quoted on the same line, the Company pays any proportional taxes that could be payable on certain shares, notably in connection with the dissolution of the Company or a reduction in capital, except in cases where this is not

permitted by law. However, the tax shall not be paid when it applies under the same conditions to all shares of a single category, if there are several share categories whose rights differ.

In all cases where it is necessary to hold several shares in order to exercise a given right, shareholders shall be solely responsible for grouping their shares with other shareholders to attain the requisite number.

(Article 8 of the Articles of Association)

In the event of liquidation of the Company, the reserves remaining after repayment of the par value of the shares will be allocated among the shareholders pro rata to their respective interests in the share capital.

(Article 24 of the Articles of Association)

Changes in the Company's share capital and the rights attached to shares are governed by the relevant provisions of the law and the specific provisions of the Articles of Association summarised below.

Article 15 of the Articles of Association stipulates that under the Company's Internal Rules, decisions by the CEO to issue shares, regardless of the nature, require the prior approval by the Board of Directors when such decisions are likely to change the share capital.

As of December 31, 2006, the Company's share capital amounted to €513,549,096 divided into 128,387,274 shares with a par value of €4 each (all in the same category), and all fully paid up. The number of voting rights at the same date totalled 176,599,618.

As of the same date, to the best of the Company's knowledge:

- the directors held directly 0.06% of the share capital representing 0.09% of the voting rights;
- the Company did not hold any treasury shares and no shares were held by controlled companies.

As of the date this document was issued, the share capital amounted to €513,649,096, divided into 128,412,274 shares with a par value of €4 each, all fully paid up.

Pacts and agreements

To the Company's knowledge, there are no contractual provisions involving shares or voting rights that should have been disclosed to the *Autorité des Marchés Financiers* (AMF) (French Financial Markets Regulatory Authority) in accordance with Article L. 233-11 of the French Commercial Code.

SHAREHOLDING AND STOCK MARKET

Change in shareholding and voting rights as at 12/31/2006

		2006		2005		2004	
	Number of shares	% of share capital	% voting rights (1)	% of share capital	% voting rights (1)	% of share capital	% voting rights (1)
Artémis Group	51,675,921	40.2	55.4	42.9	58.5	42.2	57.2
PPR	0	0.0		0.1		4.0	
Employees	217,530	0.2	1.1	0.2	0.3	0.7	0.6
Public	76,493,823	59.6 (2)	43.5 (3)	56.8	41.2	53.1	42.2
TOTAL	**128,387,274**	**100**	**100**	**100**	**100**	**100**	**100**

(1) Shares held for more than two years in a registered account in the name of the same shareholder carry double voting rights. (see General Information about the Company - General Shareholders' Meetings).

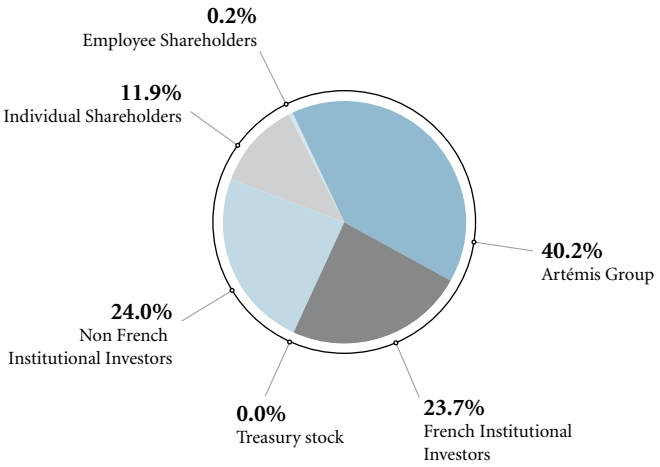
(2) Including 0.3% registered shares and 59.3% bearer shares.

(3) Including 0.4% registered shares and 43.1% bearer shares.

Artémis is wholly owned by Société Financière Pinault, itself controlled by the Pinault family.

To the Company's knowledge, there are no other shareholders who directly or indirectly or jointly hold 5% or more of the share capital or voting rights.

BREAKDOWN OF SHARE CAPITAL AS OF DECEMBER 31, 2006



The organisation and functional modalities of the Board and Committees, the number of independent directors (forming the majority of the Board that supervises and regularly assesses the prevention of conflicts and the two thirds of the Audit Committee that control the effective implementation of internal control), universal compliance with the prevailing laws and Internal Rules, and effective governance ensure that the majority shareholder exercises a balanced control over the company.

As of December 31, 2006, individual shareholders held 11.9% of the Group's share capital (vs. 10.1% at the end of 2005).

Institutional investors owned 47.7% of share capital, of which 23.7% held by French companies and 24.0% by non-French institutional investors. Among the international institutional investors, the United States represented 8.5%. Continental Europe represented 7.9% of share capital, of which Germany (2.3%), Switzerland (1.4%) and Luxembourg (0.7%). UK shareholders held 6.4% of the share capital.

The main changes in the shareholding breakdown compared with 2005 are the increase in the percentage of international institutional investors (up 17.6% in number of shares), mainly involving UK shareholders (number of shares multiplied by more than 2.5), and the increase in individual shareholdings (up 24.6% in number of shares).

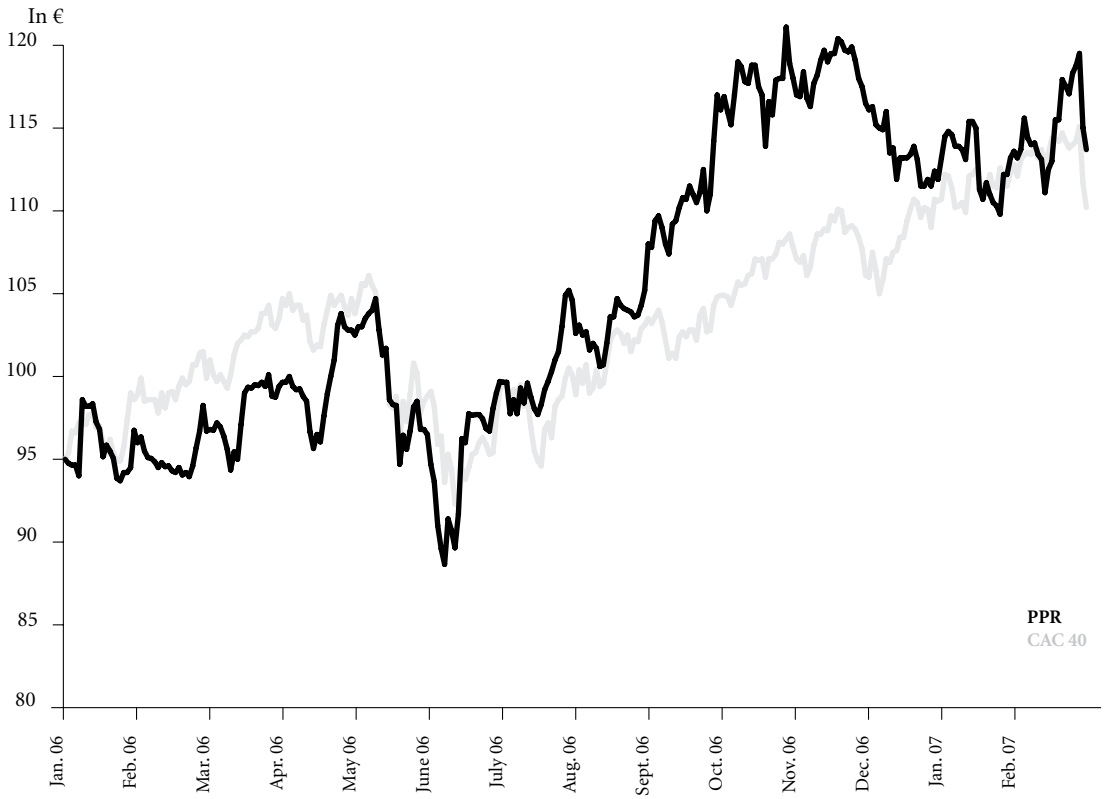
Source: Identifiable bearer shareholders as of December 31, 2006.

Stock market information

The PPR share

Place of listing	Euronext Paris
Market	Eurolist A
Benchmark index	CAC 40
Initial public offering	10/25/1988 on the *Second marché* 02/09/1995 in the CAC 40
Number of shares	128,387,274 (as of December 31,2006)
Codes	ISIN: FR 0000121485 Reuters: PRTP.PA Bloomberg: PPFP

Performance of the PPR share compared with the CAC 40 index since January 1, 2006



Source : Fininfo.

In 2006, PPR saw its share price increase by 19%. This rise in the share price was mainly due to the excellent performance of Luxury Goods, whose remarkable growth surpassed that of its markets. In addition, the steady performance of Retail demonstrated the resilience of its activities in a challenging environment. The PPR share therefore outperformed the CAC 40 by 2.6%, benefiting from renewed market confidence in the Group's strategy.

Market price and trading volume of the PPR share

	2002	2003	2004	2005	2006
High (€)	154.7	88.9	90.7	95.6	122.0
Low (€)	53.9	44.5	67.5	73.1	87.9
Price at 12/31 (€)	70.1	76.7	73.7	95.2	113.2
Market capitalisation at 12/31 (millions of €)	8,580	9,382	9,017	11,461	14,533
Average daily trading volume	650,232	671,756	552,669	557,451	578,586
NUMBER OF SHARES AT 12/31	**122,394,480**	**122,406,980**	**122,434,480**	**120,448,230**	**128,387,274**

Source: Euronext Paris SA.

Listed securities of the Group as of December 31, 2006

Securities listed on the Paris Stock Exchange (SRD)	ISIN code:
Share	
PPR	FR 00 00 121 485
Bonds	
PPR 4% January 2013	FR 00 10 208 660
PPR 5.25% March 2011	FR 00 10 068 486
PPR 5% January 2009	FR 00 10 002 121
PPR Euribor October 2007	FR 00 10 125 831
Convertible bonds	
PPR OCÉANE 1.5% Coupon January 2007	FR 00 00 188 047

OCÉANE: Bonds convertible into new shares and/or exchangeable for existing shares.

Stock market statistics

The PPR share

	Price (€)				Volume		
						Shares traded	
2005	Average	High	Low	Monthly change	Average daily	(€M)	(number of shares)
January	77.3	81.8	73.1	+9.8%	763,292	1,246	16,029,129
February	81.2	84.5	77.6	+4.2%	662,447	1,069	13,248,949
March	83.2	85.1	81.3	-2.1%	569,442	994	11,958,273
April	80.0	83.0	74.9	-7.8%	480,475	801	10,089,980
May	79.1	81.3	75.5	+5.9%	518,488	903	11,406,740
June	82.8	85.9	79.2	+6.0%	763,820	1,391	16,804,041
July	83.6	85.6	79.1	- 2.4%	610,331	1,068	12,816,949
August	84.7	89.7	81.4	+4.4%	467,036	912	10,741,836
September	87.1	90.0	85.4	+0.5%	497,423	951	10,943,303
October	85.6	88.3	82.9	+0.4%	493,621	887	10,366,043
November	91.5	93.9	87.5	+4.3%	465,500	932	10,241,005
December	92.6	95.6	90.3	+4.0%	410,416	794	8,618,745
AVERAGE 2005	**84.0**	**87.0**	**80.7**	**+2.3%**	**557,451**	**996**	**11,938,749**

	Price (€)				Volume		
						Shares traded	
2006	Average	High	Low	Monthly change	Average daily	(€M)	(number of shares)
January	95.7	99.4	92.9	0.9%	620,440	1,306	13,649,672
February	95.1	98.4	93.7	0.7%	372,243	709	7,444,853
March	98.0	101.0	93.7	3.1%	546,294	1,220	12,564,763
April	99.5	105.4	95.1	3.2%	561,059	1,009	10,099,053
May	100.1	106.4	94.0	-5.8%	539,851	1,187	11,876,729
June	94.9	99.9	87.9	3.0%	746,364	1,553	16,420,001
July	100.1	105.4	96.2	4.9%	650,141	1,361	13,652,966
August	103.5	108.9	100.0	3.1%	384,552	919	8,844,693
September	111.2	119.0	107.1	8.4%	863,291	2,002	18,129,119
October	117.5	122.0	113.4	0.0%	751,843	1,941	16,540,546
November	118.3	120.6	115.1	-1.5%	351,638	912	7,736,046
December	113.1	116.6	111.1	-1.7%	556,889	1,196	10,580,882
AVERAGE 2006	**103.9**	**108.6**	**100.0**	**1.5%**	**578,586**	**1,276**	**12,294,944**

	Price (€)				Volume		
						Shares traded	
2007	Average	High	Low	Monthly change	Average daily	(€M)	(number of shares)
January	112.9	116.4	108.9	0.0%	641,394	1,589	14,110,658
February	115.2	120.0	110.5	0.4%	696,020	1,601	13,920,393
AVERAGE 2007	114.1	118.2	109.7	0.2%	667,406	1,595	14,015,526

Source: Euronext Paris SA.

OCÉANE

PPR OCÉANE, 1.5% coupon, December 2001

	Price (€)			Volume		
					Bonds traded	
Month	Average	High	Low	Average daily trading volume	(€M)	(number of shares)
November/December 2001	177.1	184.0	165.7	3,940	28.0	157,582
January/March 2002	167.1	180.0	155.1	3,100	32.8	192,194
April/June 2002	165.1	172.0	155.1	523	5.3	31,916
July/September 2002	156.6	166.0	150.0	3,792	38.5	246,467
October/December 2002	161.9	169.7	157.0	4,805	49.9	307,533
January/March 2003	161.3	163.5	152.1	4,010	30.5	188,473
April/June 2003	160.2	163.2	146.9	36,203	100.2	615,457
July/September 2003	157.0	158.0	156.0	19	0.0	56
October/December 2003	160.8	162.0	160.0	2,016	1.6	10,079
January/March 2004	160.6	165.0	160.0	32	0.0	255
April/June 2004	167.0	174.0	160.0	46	0.0	92
July/September 2004						
October/December 2004	148.0	160.0	135.1	2	0.0	10
January/March 2005	152.0	152.0	152.0	43	0.0	43
April/June 2005	146.2	152.3	140.0	267	0.1	534
July/September 2005	140.0	140.0	140.0	38	0.0	38
October/December 2005	165.0	165.0	149.2	6	0.0	6
January/March 2006						
April/June 2006	154.7	168.0	147.1	28	0.0	83
July/September 2006						
October/December 2006						

Source: Fininfo.

Following the early redemption in October 2006 of all the Océane bonds issued in May 2003, there are no longer any Océanes outstanding at the year-end.

Financial communications policy

The Group's financial communications policy consists in disseminating accurate, reliable information. Its actions are targeted and customised to offer different audiences, individual shareholders and the financial community, messages suited to their respective needs while complying with the principle of equal access to information.

Towards individual shareholders

Individual shareholders have access to a number of media and tools providing updates on Group news and share performance, including the Shareholders' Newsletter, published twice a year, the dedicated PPR website (www.ppr.com), the Shareholders' hotline (+33 (0)1 45 64 61 22), e-mail (actionnaire@ppr.com), legal notices in the financial press and the Internet, the Annual Report and site visits. In 2006, the Group organised five site visits which enabled nearly 140 shareholders to discover the Fnac test laboratory, Printemps de la Beauté, the design studios of La Redoute, the La Martinoire logistics centre of Redcats and Christmas at Fnac Éveil & Jeux.

Towards the financial community

The Group maintains close relations with the French and international financial community. A number of communication initiatives are designed to keep the financial community informed of the performance of its businesses, its strategy and its perspectives. PPR has expanded its communication by organising conference calls at the release of quarterly sales figures, and meetings to present its annual and half-yearly results. PPR participates regularly in industry conferences held by major banks. All of these presentations are available on the Group's Internet site. PPR also meets with investors during roadshows held in the major financial centres around the world. In addition, the Group meets with individual investors and analysts upon request and maintains proactive relations in terms of reporting to the *French Financial Markets Regulatory Authority* the *AMF.*

New procedures for communicating regulated information

Pursuant to the application of new obligations governing the communication of regulated information arising from the transposition of the Transparency Directive to the AMF General Regulations, the management of PPR financial reporting ensures the full and effective communication of regulated information. This information is filed with the AMF and archived on its Internet site at the time of its communication.

Full and effective communication is carried out electronically in compliance with the criteria defined by the general regulations which require communication to a large public within the European Union and according to terms and conditions guaranteeing the security of the communication and the information. Accordingly, the management of PPR financial communication has chosen to call on a professional communications agency to satisfy the communication criteria set by the general regulations and featured on the list published by the AMF, thus benefiting from a presumption of full and effective communication.

2007 Financial calendar

- **April 26, 2007** 2007 First quarter sales
- **May 14, 2007** Combined Ordinary and Extraordinary General Shareholders' Meeting
- **July 26, 2007** 2007 Second quarter sales
- **August 31, 2007** 2007 Half year results
- **October 25, 2007** 2007 Third quarter sales

6 Corporate governance

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Corporate governance

At the Combined General Shareholders' Meeting of May 19, 2005, the shareholders adopted the new Articles of Association of PPR creating a management structure with a Board of Directors instead of a Supervisory Board and a Management Board and also appointed nine directors to terms of office of four years. Mr. François-Henri Pinault is Chairman of the Board of Directors and CEO of the Company.

The Company is in compliance with the prevailing corporate governance regime and takes into account the recommendations of the Viénot and Bouton reports. Five of the nine Board members elected are independent according to the criteria defined in the Bouton Report. The Board is international, comprised of directors from France, Italy and the US. With the exception of Messrs. François Pinault, Honorary Chairman, and François-Henri Pinault, there are no family ties between directors.

BOARD OF DIRECTORS

The rules and activities of the Board of Directors are defined by the law, the Company's Articles of Association and the Internal Rules of the Board and its specialised committees as set forth in these regulations (see the Chairman's Report).

With respect to directors, there are few particularities in the Company's Articles of Association in relation to the legal standards. There are specific provisions concerning a director's term of office (four years, renewable), the age limit (one third of directors must not be over seventy years of age), and the number of shares each director must own (five hundred).

With respect to the Company's management, the Board has chosen to combine the duties of Chairman of the Board and CEO.

The directors' duties and remuneration are described below.

Information on members of the Board of Directors

The following information is presented separately for each director:

- professional experience and expertise in the area of business management;
- directorships and positions held during fiscal year 2006;
- other directorships held during the last 5 years;
- remuneration and benefits paid by the Company and received from controlled companies during 2006 (gross amounts before any withholding tax, where applicable);
- variable remuneration (gross amount before any withholding tax) paid in 2007 with respect to fiscal year 2006;
- disclosure of gross amount of remuneration and benefits paid in 2005.

The rules governing the allocation of directors' fees are stipulated in the Internal Rules of the Board of Directors:

"The fees allocated to the directors within the annual global amount decided on by the General Shareholders' Meeting are made up of a fixed portion, granted to all directors, and a variable portion which is contingent on their attendance at Board meetings. The members of the Audit Committee, the Remuneration Committee, the Appointments Committee and the Strategy and Development Committee receive, in addition, a fixed half portion and a variable half portion, based on the same criteria.

The Board of Directors may decide to grant to one or more members a special portion taken from the global sum allocated, before proceeding with the distribution as described above".

The allocation of directors' fees is reviewed by the Remuneration Committee and approved by the Board based on the Committee's recommendations. For directors' fees paid in 2006 with respect to 2005 (total of €570,000 approved by the General Meeting of Shareholders), the Board of Directors has decided to allocate a special portion of €23,000 to the chairmen of the Audit Committee, the Remuneration Committee, and the Appointments Committee and a portion of €45,000 to the Vice-Chairman. The balance was divided into two equal portions, one fixed and one variable, and allocated according to the provisions of the Internal Rules. In 2006, a special portion was also paid to the Company's Vice-Chairman, with respect to 2006, as approved by the Board on the recommendation of this same Committee.

Neither the Company, nor any of its Subsidiaries, has any commitment vis-à-vis its directors arising from the commencement, termination or change in their duties or subsequently thereto.

No director benefits from any particular benefit or specific plan in terms of retirement. There is no conditional or deferred remuneration.

Among the PPR directors, only Mr. François-Henri Pinault and Mrs Patricia Barbizet exercise directorships in the main Group Subsidiaries.

No director has been elected by employees.

François-Henri Pinault

Born on May 28, 1962
10, avenue Hoche, 75008 Paris

A graduate of HEC, François-Henri Pinault joined the Pinault Group in 1987 where he carried out various duties in the Group's main Subsidiaries. After having started as a salesman at the Evreux branch of Pinault Distribution, a Subsidiary specialised in the import and distribution of wood, he created this company's purchasing unit in 1988, which he headed until September 1989.

Appointed CEO of France Bois Industries, the company comprising the industrial activities of the Pinault Group, he managed the 14 plants of this Subsidiary until December 1990, the date on which he returned to Pinault Distribution to become Chairman. In 1993, he was given further responsibilities by being appointed Chairman of CFAO and a member of the Management Board of Pinault Printemps Redoute. Four years later, he was appointed Chairman and CEO of Fnac, a position which he held until February 2000. He was then appointed Deputy CEO of Pinault Printemps Redoute in charge of developing the group's Internet activities. Moreover, he has been a member of the Board of Directors of Bouygues S.A. since December 1998. In 2001, he became co-manager of Financière Pinault. In 2003, he was appointed Chairman of the Artémis Group. In 2005, he was first appointed Chairman of the Management Board and then Chairman and CEO of PPR.

Chairman and CEO (from May 19, 2005 - current term expires in 2009).

Chairman of the Management Board (from March 21, 2005 to May 19, 2005), **Vice-Chairman of the Supervisory Board** (from May 22, 2003 to March 21, 2005), **Member of the Supervisory Board** (from January 17, 2001 to March 21, 2005).

Other directorships and positions held during the year:

- with respect to the parent company: manager of Financière Pinault (from June 2000), Chairman of the Board of Directors of Artémis (from May 2003), Member of the Management Board of Château Latour (from June 2002), Board Member of Christies International Plc (United Kingdom – from May 2003), Director of Simetra Obligations (from May 2003);
- the PPR Group: Director of Fnac SA (from October 1994, current term expires in 2011), Member of the Supervisory Board (from June 2001) and Chairman of the Board of Gucci Group NV (from October 2005, annual term), Vice-Chairman of the Supervisory Board of Boucheron Holding (from May 2005), Member of the Supervisory Board of Yves Saint Laurent SAS (from April 2005, current term expires in 2008);
- outside the PPR Group: Director of Bouygues (from December 2005), and Soft Computing (from June 2001).

Other directorships held during the last 5 years:

CEO of Artémis (from January 2 to May 2003), Deputy CEO of Artémis, Director of TV Breizh (April 2000 to January 2004), Permanent Representative of Artémis on the Board of Directors of Conforama Holding and Guilbert (until May 2003), Permanent Representative of Financière Pinault on the Board of Directors of Bouygues (from December 1998 to December 2005).

Remuneration and benefits paid in 2006: €1,878,959, of which €53,480 (2005 PPR directors' fees), €999,996 (fixed remuneration as CEO of PPR), €750,000 (variable remuneration for 2005), €70,000 (Gucci Group NV directors' fees) and €5,483 (in-kind benefits: company car).

2006 variable remuneration paid in 2007: €921,000.

Remuneration and benefits paid in 2005: €936,564 (including €53,944 in directors' fees, €9,898 in remuneration as Vice-Chairman of the Supervisory Board; €80,995 in remuneration as Chairman of the Management Board, €701,610 in remuneration as CEO, €85,778 in directors' fees paid by the Gucci Group NV and €4,339 paid as in-kind benefits (company car). Allocations of bonus shares and share subscription options are described at the end of this section.

The CEO's remuneration was determined as follows by the Board of Directors on the recommendation of the Remuneration Committee for 2006: the fixed portion is based on an analysis of the remuneration according to internal fairness and external competitiveness; the variable portion is between 80% (objectives reached) and 120% (objectives exceeded by 50%) of the fixed portion, based on the completion of two objectives, the first encompassing operating income and return on capital employed and the second, operating cash flows after finance costs, with the possible consideration of any exceptional performances. It is paid in year y + 1. All remuneration – fixed and variable – is compared with market practices observed for CAC 40 executives.

Number of shares held: 72,690.

Patricia Barbizet

Born on April 17, 1955
Artémis: 12, rue François 1er, 75008 Paris

A graduate of the Ecole Supérieure de Commerce de Paris (Paris Business School), Patricia Barbizet began her career in the Renault Group as Treasurer of Renault Véhicules Industriels then CFO of Renault Crédit International. In 1989, she joined the Pinault Group as CFO. She is the CEO of Financière Pinault and Director and CEO of Artémis. She is Vice-Chairman of the Board of Directors of PPR, Chairman of Christie's and a Board member of various other companies.

Vice-Chairman of the Board of Directors (from May 19, 2005 – current term expires in 2009).

Chairman of the Supervisory Board (from January 1 to May 19, 2005), **Member of the Supervisory Board** (from December 11, 1992 to May 19, 2005).

Other directorships and positions held during the year:

- with respect to the parent company: **CEO**, non-director, **of Financière Pinault, a partnership limited by shares** (from January 2001), **Director and CEO of Artémis** (from 1992, current term expires in June 2010), Director and CEO of Palazzo Grassi (Italy – from 2005), Chairman and CEO of Piasa (from December 2001, current term expires in June 2007), Chairman of Christies International Plc (United Kingdom – from March 2003), Member of the Supervisory Board of Financière Pinault (from June 2004, current term expires in 2009), Director of the Société nouvelle du Théâtre Marigny (from February 2000, current term expires in 2012), Permanent Representative of Artémis on the Board of Agefi (from July 2000, current term expires in 2012) and Sebdo Le Point (from July 1997, current term expires in 2009), Member of the Management Board of Château Latour (from July 1993, current term expires in 2007);
- the PPR Group: Director of Fnac SA (from October 1994, term of office ends in 2011), Member of the Supervisory Board of Gucci Group NV (Netherlands, from July 1999, annual term), and Yves Saint Laurent (from June 2003, current term expires in 2009);
- non-Group: Director of Air France (from January 2003, current term expires in 2010), Bouygues (from December 2005, current term expires in June 2008) and TF1 (from July 2000, current term expires in 2007).

Other directorships held during the last 5 years:

Member of the Supervisory Board of Yves Saint Laurent Haute Couture (from December 1999 to November 2002) and Yves Saint Laurent Parfums (from December 1999 to February 2004), Director of Afipa (Switzerland - from June 2005 to October 2006), Chairman of the Board of Directors of Société Nouvelle du Théâtre Marigny (from February 2000 to June 2005), Permanent Representative of Artémis on the Board of Directors of Bouygues (from December 1998 to December 2005), and Member of the Conseil des marchés financiers (French Financial Markets Council) (from October 1996 to September 2002).

Remuneration and benefits paid in 2006: €168,055, including €108,055 in directors' fees (€63,055 for 2005 and €45,000 for 2006) and €60,000 in *director's fees* from Gucci Group NV.

Remuneration and benefits in 2005: €197,855 (including €50,266 in directors' fees and €60,000 in directors' fees paid by Gucci Group NV), remuneration of €87,589 as Chairman of the Supervisory Board until May 2005).

Number of shares held: 1,040.

René Barbier de La Serre

Born on July 3, 1940
Cie Financière Edmond de Rothschild:
47, rue du Faubourg-Saint-Honoré, 75008 Paris

Independent Director

A former student at Ecole Polytechnique, engineer of the Manufactures de l'Etat, a graduate of IEP Paris, René de La Serre began his career in 1963 as an Engineer-adviser then Deputy Director of the European Union Bank. In 1973, he joined Crédit Commercial de France where he was appointed Vice-Chairman and CEO of the group's financial activities (1993-1999) and then Adviser to the Chairman (1999-2000). At the same time, he was Chairman of the Conseil des Bourses de Valeurs (1994-1996) and Chairman of the Conseil des Marché Financiers (1996-1998).

Director (from May 19, 2005 – current term expires in 2009).

Member of the Supervisory Board (from May 10, 1999 to May 19, 2005), **Vice-Chairman of the Supervisory Board** (from March 21, 2005 to May 19, 2005).

Other directorships and positions held during the year:

Chairman of the Supervisory Board of Edmond de Rothschild Private Equity Partners SAS (until November 2006), Member of the Supervisory Boards of Compagnie Financière Saint-Honoré and Compagnie Financière Edmond de Rothschild Banque, Director until 2006 and then Member of the Supervisory Board of Schneider Electric, Director of Apem (from February 2006 to December 2006) and Sanofi-Aventis, Advisor until January 2006 and then Director of Nord Est S.A., Advisor of Fimalac. Managing director of Harwanne, Compagnie de participations industrielles et financières SA (Geneva) ; Member of the Supervisory Board of Euronext N.V. (Amsterdam, until May 23, 2006 and once again starting from December 2006).

Other directorships held during the last 5 years:

Chairman and CEO of Continentale d'Entreprises, Chairman of Tawa UK Ltd, Director of Aoba Life, Crédit Lyonnais and Calyon, Member of the Supervisory Board of Aventis and Euronext (Amsterdam).

Remuneration and benefits paid in 2006: €75,105 (directors' fees).

Remuneration and benefits paid in 2005: €72,202 (directors' fees).

Number of shares held: 1,500.

Pierre Bellon

Born on January 24, 1930
Sodexho Alliance: 3, avenue Newton 78180 Montigny-le-Bretonneux

Independent Director

Pierre Bellon is the Chairman and founder of Sodexho Alliance, worldwide leader in the food service industry. Created in 1966 in Marseille, Sodexho has become, in forty years and under his direction, an independent group of 324,000 employees, located across five continents. As was expected, Pierre Bellon stepped down as CEO on September 1, 2005, but kept his position as Chairman of the Board of Directors. Sodexho Alliance has been listed on the Paris Stock Exchange since 1983 and was listed for trading on the New York Stock Exchange in April 2002. Pierre Bellon is a Commander of the Légion d'honneur, the Ordre National du Mérite and the Brazilian order of Rio Branco and a Knight of the Mérite Agricole. He was a member of the Conseil Economique et Social from 1969 to 1979. The former national Chairman of the Centre des Jeunes Dirigeants d'Entreprises, Pierre Bellon founded the Association Progrès du Management in 1986. He was also Vice-Chairman of Medef from 1981 to 2005.

Director (from May 19, 2005 – current term expires in 2009).

Member of the Supervisory Board (from December 19, 2001 until May 19, 2005).

Other directorships and positions held during the year:

Chairman of the Board of Directors of Sodexho Alliance, Chairman of the Supervisory Board of Bellon SA and Sobelmat SCA, Director of several Sodexho Subsidiaries in France and abroad, Member of the Supervisory Board of CMA CGM, Director of the Association nationale des sociétés par actions – ANSA.

Other directorships held during the last 5 years:

CEO of Sodexho Alliance (until 2005), director of several Sodexho Subsidiaries in France and abroad, Vice-Chairman of Medef (until 2005), Director of Air Liquide.

Remuneration and benefits paid in 2006: €37,436 (directors' fees).

Remuneration and benefits in 2005: €41,684 (directors' fees).

Number of shares held: 1,170.

Allan Chapin

Born on August 28, 1941
Compass Advisers LLC: 825 3rd Avenue, New York, NY 10022, USA

Independent Director

A graduate of Yale Law School, Mr. Allan Chapin started his career at Sullivan & Cromwell in 1968 where he was named partner in 1976 then director of European operations. During his 31 years with the firm, he has represented various countries, commercial companies, banks and insurance companies. Before joining Compass Advisers as a New York-based partner in 2002, Mr. Chapin was the Managing Director of Lazard Frères & Co. LLC. Currently, he is also a director of both Scor and Inbev.

Director (from May 19, 2005 – current term expires in 2009).

Member of the Supervisory Board (from May 21, 2002 until May 19, 2005).

Other directorships and positions held during the year:

Partner of Compass Advisers LLC, Director of the French American Foundation, General Security National Insurance Company, SCOR US and Taransay Investment Limited, Chairman of The American Friends of the Claude Pompidou Foundation.

Other directorships held during the last 5 years:

Director of Calfp, Caliburn, General Security Insurance Company of New York, General Security Indemnity Co., General Security Property and Casualty Company and SCOR US Corporation, Member of the Advisory Board of Lazard Canada and the Toronto Blue Jays.

Remuneration and benefits paid in 2006: €45,891 (directors' fees).

Remuneration and benefits in 2005: €39,232 (directors' fees).

Number of shares held: 500.

Luca Cordero di Montezemolo

Born on August 31, 1947
Ferrari: Via Abetone Inferiore 4, 41053 Maranello Modena, Italy

Independent Director

A graduate of the law schools of the University of Rome and Columbia University in New York, Luca Cordero di Montezemolo began his career in 1973 as the assistant to the Chairman of Ferrari and Manager of the Formula 1 racing team which won world championship titles in 1975 and 1977. He was then appointed Director of Public Relations for Fiat in 1977, then in 1981 named Chairman and CEO of ITEDI, the holding company which manages the newspaper activities of the Fiat Group, including the daily, *La Stampa.* In 1984, he was appointed Chairman and CEO of Cinzano SpA in charge of the Azzurra Organisation, which was Italy's first participation in the America's Cup. From 1985 to 1990, he was the general manager of the Italian Organisation Committee for the 1990 World Soccer Cup. Since 1991, he has been Chairman and CEO of Ferrari Spa. He is also Chairman of Confidustria.

Director (from May 19, 2005 – current term expires in 2009).

Member of the Supervisory Board (from December 19, 2001 until May 19, 2005).

Other directorships and positions held during the year:

Chairman of Ferrari and Fiat, Chairman of Bologna Congressi, Bologna Fiere, and Montezemolo & Partners, Director of Aelia, Bologna Football Club 1909 (2), Itama Cantieri Navali, Editrice La Stampa, Indesit Company, Linea Pelle, Parco di Roma and Tod's.

Other directorships held during the last 5 years:

Chairman of Ferrari Deutschland, Ferrari Idea SA, Ferrari International, Ferrari North America, Fieg, Imprenditori Associati, Maserati and Unione Industriali Modena, Vice-Chairman of ITEDI, Director of Acqua di Parma, IFI Iniziative Fieristiche Internazionali, Italiantouch, Unicredit Banca d'Impresa and Victoria 2000.

Remuneration and benefits paid in 2006: €26,740 (directors' fees).

Remuneration and benefits in 2005: €26,972 (directors' fees).

Number of shares held: 500.

Anthony Hamilton

Born on October 11, 1941
AXA UK Plc: 5 Old Broad Street London, 3C2N 1AD, United Kingdom

Independent Director (until August 2006).

A graduate of Oxford University (MA, D. Phil in physics), Anthony Hamilton started his career in London and New York as an investment banker with Schroders then Morgan Grenfell. In 1978, he joined Fox-Pitt, Kelton Group where he was appointed CEO in 1994. Fox-Pitt, Kelton was acquired by Swiss Re in March 1999, and he was appointed Director of Swiss Re Capital Markets Ltd. He has been a Director of AXA Equity and Law plc since 1993 and Chairman since 1995. In 2000, he was appointed Chairman of AXA UK plc where he is also Chairman of the Investment Committee and the Remuneration and Nomination Committee. Since 1995, Anthony Hamilton has been a member of the AXA Supervisory Board and a director of AXA Financial Inc. (New York). He is a member of the AXA Remuneration Committee.

Director (from May 19, 2005 to August 30, 2006).

Member of the Supervisory Board (from May 21, 2002 until May 19, 2005).

Other directorships and positions held during the year:

Chairman of AXA UK Plc, Director of Axa Financial Inc. (USA), Swiss Re Capital Markets Limited (UK) and Tawa UK Limited, member of the Board of Directors of Axa.

Other directorships held during the last 5 years:

Chairman, Corporate Finance of Fox-Pitt Kelton Group Limited (UK), Chairman of Axa Equity & Law plc (UK), Director of Binley Limited (UK), CX Reinsurance Company Limited (UK), Fox-Pitt, Kelton Limited (UK) and Fox-Pitt, Kelton Group Limited (UK).

Remuneration and benefits paid in 2006: €38,556.50 (directors' fees).

Remuneration and benefits in 2005: €41,684 (directors' fees).

Number of shares held: 1,000.

Philippe Lagayette

Born on June 16, 1943
J.P. Morgan, & Cie: 14, place Vendôme, 75001 Paris

A graduate of Ecole Polytechnique and Ecole Nationale d'Administration, Philippe Lagayette has managed JP Morgan's activities in France since July 1998. He is Chairman and CEO of JP Morgan et Cie SA, the French Subsidiary of the JP Morgan Chase NA group. He began his career with the Inspection Générale des Finances (1970). In 1974, he joined the Treasury department of the Ministry of the Economy and Finance, and was appointed deputy director in 1980. He became the cabinet director of the Minister of the Economy and Finance in 1981, then joined the Banque de France in 1984 as deputy governor. Appointed CEO of the Caisse des Dépôts et Consignations in 1992, he occupied this position until December 1997. Philippe Lagayette is also Chairman of the Institut des Hautes Études Scientifiques, specialised in mathematics and theoretical physics research, and Chairman of the French American Foundation's French committee. Philippe Lagayette is an officer of the Légion d'honneur and a Commander of the Ordre National du Mérite.

Director (from May 19, 2005 – current term expires in 2009).

Member of the Supervisory Board (from January 20, 1999 to May 19, 2005).

Other directorships and positions held during the year:

CEO of JP Morgan et Cie SA.

Director of Fimalac since May 2003, Managing Director of the Paris Management Committee of JP Morgan Chase Bank.

Other directorships held during the last 5 years:

Director of Eurotunnel (from 1993 to April 2004) and La Poste (December 2000 to December 2005), Member of the Supervisory Board of Club Méditérranée (from 1993 to May 2003).

Remuneration and benefits paid in 2006: €55,721 (directors' fees).

Remuneration and benefits in 2005: €38,006 (directors' fees).

Number of shares held: 500.

Baudouin Prot

Born on May 24, 1951
BNP Paribas: 3, rue d'Antin, 75002 Paris

A 1972 graduate of HEC and a 1976 graduate of ENA, Baudouin Prot joined the Inspection Générale des Finances where he worked for four years before being appointed deputy to the CEO of energy and raw materials at the Ministry of Industry during 3 years. He joined BNP in 1983 as Deputy Director of the Banque Nationale de Paris Intercontinentale, before managing European activities in 1985. He joined the Direction Centrale des Réseaux in 1987 and was promoted to Central Director in 1990 then Deputy CEO of BNP in charge of operations in 1992. He became CEO of BNP in 1996 and Deputy CEO of BNP Paribas in 1999. In May 2000, he was appointed Director and Deputy CEO of BNP Paribas, then Director and CEO of BNP Paribas in May 2003. He is an Officer of the Ordre national du Mérite and a Knight of the Légion d'honneur.

Director (from May 19, 2005 – current term expires in 2009).

Member of the Supervisory Board (from March 11, 1998 until May 19, 2005).

Other directorships and positions held during the year:

Director and CEO of BNP-Paribas (from June 2003), Permanent Representative of BNP Paribas on the Supervisory Board, Director of Accor, Veolia Environnement, ERBE (Belgium), Pargesa Holding SA (Switzerland), BNL (Italy).

Other directorships held during the last 5 years:

Chairman of the Board of BNP Paribas E3, Permanent Representative of BNP Paribas on the Boards of Accor and the Fonds de garantie de dépôts, Member of the Supervisory Board of Cetelem and Eurosecurities Partners, Director of Banque Nationale de Paris Intercontinentale and Pechiney.

Remuneration and benefits paid in 2006: €37,436 (directors' fees).

Remuneration and benefits in 2005: €26,972 (directors' fees).

Number of shares held: 625.

Jean-Philippe Thierry

Born on October 16, 1948
AGF: 87, rue de Richelieu, 75002 Paris

Independent Director (co-opted on September 6, 2006).

A graduate of the Institut d'études politiques and holding a post-graduate degree in economic sciences, Jean-Philippe Thierry joined GPA Assurances in 1978. He was Chairman from 1989 to 2000. In 1989, he was named General Managing Partner of Worms et Cie and subsequently Chairman of the Management Board in 1997. He is also Chairman of Athéna Assurances. In 1998, he joined the Generali France group, where he became Chairman in 1999. In 1996, he was appointed Chairman of the FFSAA and Vice-Chairman of

the FFSA. He has been Chairman and CEO of the AGF group since June 2001 and a member of the Allianz SE management board since January 1, 2006. Jean-Philippe Thierry is a Commander of the Ordre national du Mérite, Knight of the Légion d'honneur and of the Mérite agricole, Honorary Member of the Institut des actuaires français and a councillor to the Commerce extérieur de la France.

He was named to the PPR Board of Directors on September 6, 2006, in replacement of Mr. Anthony Hamilton. The Board of Directors decided to co-opt him, on the recommendation of the Appointments Committee, this cooptation being subject to the ratification of the General Meeting of Shareholders on May 14, 2007. His candidacy was reviewed with respect to both the competence and experience necessary to serve on the Audit Committee and the independence criteria set forth in the Bouton report and adopted by the Company.

Other directorships and positions held during the year:

Chairman and CEO of AGF SA and AGF Holding, Member of the Allianz SE management board, Chairman of the Supervisory Board of Euler Hermès, Chairman of the Board of Directors of Mondial Assistance and Château Larose-Trintaudon, Director of Société Foncière de Participations, AGF International, Allianz Seguros y Reaseguros (Spain), Allianz Nederland Groep (Netherlands), and Allianz Global Corporate & Specialty AG (Germany), Member of the Supervisory Board of Compagnie Financière Saint Honoré, Advisor of Baron Philippe de Rothschild, Eurazeo and Paris Orléans.

Other directorships held during the last 5 years:

Member of the Supervisory Board of Groupe Taittinger, Chairman of the Board of Directors of AGF IART and AGF Vie.

Remuneration and benefits paid in 2006: 0.

Number of shares held: 500.

REGULATORY INFORMATION CONCERNING THE DIRECTORS

To the Company's knowledge:

- no member of the Board of Directors has been convicted of fraud during the past five years;
- no member of the Board of Directors has been associated with a bankruptcy, receivership or liquidation during the past five years in a capacity as board member or chief executive officer;
- no member of the Board of Directors has been convicted of any infraction that would prohibit him/her from being a board member of an issuer or participating in the management or operation of an issuer;
- no incrimination and/or official sanction has been pronounced against any member of the Board of Directors by a statutory or regulatory authority (including any professional organisation);
- no director benefits from a commitment from the Company or any of its Subsidiaries corresponding to elements of remuneration, indemnities or benefits of any kind whatsoever due or which could be due as a result of the commencement, termination or change of his/her duties or subsequently thereto;
- no director has received any remuneration from Artémis which directly controls PPR during the year;
- no director has notified the existence of an agreement with a major shareholder, customer or supplier of the Company pursuant to which he/she was selected to be a board member.

In addition, no PPR Group director is bound to any service agreement providing for the granting of benefits.

No assets belonging directly or indirectly to the senior managers of the Company are used in Group operations.

As a general rule, to the knowledge of the Company, no director has a potential conflict of interest between his duties towards the Company and his interests or other duties.

OTHER INFORMATION REGARDING THE BOARD OF DIRECTORS AND COMPANY MANAGEMENT

Honorary Chairman of the Board of Directors

In accordance with the option set forth in the Company's Articles of Association, on May 19, 2005, the Board of Directors decided to appoint Mr. François Pinault, founder of the PPR Group, Honorary Chairman of the Board of Directors. In this capacity, Mr. François Pinault is invited to the meetings of the Board of Directors and of the Strategy and Development Committee on a consultative basis.

Vice-Chairman of the Board of Directors

In accordance with the option set forth in the Company's Articles of Association, on May 19, 2005, the Board of Directors decided to appoint Mrs. Patricia Barbizet Vice-Chairman of the Board of Directors. In this capacity, she may chair meetings of the Board of Directors when the Chairman is absent.

Advisers to the Board (*Censeurs*)

On May 19, 2005, the Board of Directors appointed the following senior managers of the Group as Advisers to the Board: as of May 19, 2005, Mr. Robert Polet, Chairman of the Management Board and CEO of Gucci Group NV, Mr. Denis Olivennes, Chairman and CEO of FNAC, Mr. Thierry Falque-Pierrotin, Chairman and CEO of Redcats and as of January 11, 2006, Mr. Jean-François Palus, Group CFO.

The main duties of the Advisers to the Board are to participate in meetings, to the extent needed, of the Board of Directors and of the Strategy and Development Committee and to contribute to the Board and this Committee their expertise and understanding of the various business activities of the Group. They serve on a consultative basis.

MANAGEMENT OF THE GROUP

The Executive Committee

The Executive Committee meets every month with the CEO, bringing together the CEOs of the Subsidiaries and senior managers of PPR. The Executive Committee focuses on strategic planning of the Group's activities, co-ordination and sharing of inter-company initiatives and monitoring cross-functional projects.

Members of the Executive Committee:

- François-Henri Pinault (since March 21, 2005), Chairman of the Management Board and then Chairman and CEO;
- Christophe Cuvillier (since February 8, 2005), Chairman and CEO of Conforama Holding;
- Thierry Falque-Pierrotin (since January 1, 1998), Chairman and CEO of Redcats;
- Alain Luchez (since April 4, 2005), Director of Group Human Resources;
- Gérard Mothe (since April 1, 2006), PPR Corporate Secretary;
- Denis Olivennes (since September 2, 2002), Chairman and CEO of FNAC;
- Jean-François Palus (since December 13, 2005), Group CFO;
- Robert Polet (since July 1, 2004), Chairman and CEO of Gucci Group NV;
- Alain Viry (since January 1, 1997), Chairman and CEO of CFAO.

Monthly activity and budget review meetings

PPR's Executive Management holds monthly meetings with the Subsidiaries' CEOs and corporate secretaries to assess the evolution of the various businesses. This assessment is based on operational and financial factors.

Group organisation and planning

Each Subsidiary draws up a medium-term plan, covering strategy, operational and financial objectives that include among others the issues identified by the Strategy and Development Committee in its annual guidelines intended for each Subsidiary. Strategic planning covers the long-term development of the businesses, the growth outlook for the key markets and competitors' positioning. Operating objectives are produced through strategic planning that is translated into distinct priority action plans. The financial plan reflects the impact of these action plans on the Subsidiary's operating performance and on the financial statements and financial position. Each year, a summary of these plans forms the basis of an in-depth presentation given during the strategy seminar held by the Executive Committee and the Strategy and Development Committee to discuss major strategy issues and Group projects. An annual Board of Directors meeting is devoted to presenting medium-term plans for each Subsidiary as well as their financial summary.

Ethics Committee

Comprised of the CFO and the Corporate Secretary and reporting to the CEO, the Ethics Committee establishes the negative window periods relating to transactions on PPR shares, sends reminder letters concerning insider trading rules to certain Group executives and senior managers and updates the lists of temporary and permanent insiders in accordance with the General Rules of the French Financial Markets Authority. The members of the Group's Executive Committee are required to consult the Ethics Committee before trading in Company shares or similar financial instruments.

Pursuant to Article 223-26 of the AMF General Regulations, and to the Company's knowledge, transactions involving persons stipulated in Article L. 621-18-2 of the Monetary and Financial Code were as follows in 2006:

- Mr. François-Henri Pinault sold 5,700 PPR shares on October 4 at €115.50 each and purchased 5,700 shares on December 8 at €111.90 each;
- Mr. Jean-Philippe Thierry purchased 500 shares on December 6 at €115.80 each;
- Mr. Jean-François Palus sold 2,330 shares on September 29 at €117.05 each and purchased 3,000 shares on October 3 at €115.13 each.

The regulatory declarations were made.

Ethics Committee for Corporate Social Responsibility

Reporting to the Executive Committee, the Ethics Committee for Corporate Social Responsibility is comprised of executives from PPR and other Group companies who contribute their experience in various areas: purchasing, human resources, risk prevention, communications, sustainable development, IT, legal affairs and business management. The Committee also includes a member, who is not an employee of the Group, specialised in corporate social responsibility and business risks. For all these issues, the main role of the Ethics Committee for Corporate Social Responsibility is to gather relevant information, review the strategy for the Group's existing or anticipated policies in this area, and consider the means needed to generate and implement them. The Committee can also be consulted by any employee of the Group with respect to any issue falling under the scope of the Code of Business Conduct.

SHARE SUBSCRIPTION OPTIONS OR SHARE PURCHASE OPTIONS GRANTED TO BOARD MEMBERS AND OPTIONS EXERCISED

In connection with the share option plan, the Company granted its main executives on May 23, 2006, covering 403,417 shares at a price of €101.83 per option, the Chairman and CEO received 55,000 options. No other options were granted to Company officers.

Beneficiary	Grant date	Plan	Number of options Granted	Price	Maturity date
François-Henri Pinault	05/23/2006	PPR 2006-I share option pan	55,000	€101.83	05/23/2014
François-Henri Pinault	05/19/2005	PPR 2005-II share option pan	50,000	€78.01	05/19/2015

No options were exercised in 2006.

BONUS SHARES GRANTED TO BOARD MEMBERS

No bonus shares were granted to Board members.

REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS ON THE CONDITIONS FOR THE PREPARATION AND ORGANISATION OF THE WORK OF THE BOARD AND INTERNAL CONTROL PROCEDURES

Pursuant to Article L. 225-37, paragraph 6 of the Commercial Code, this report discusses the conditions pursuant to which the work of the Board of Directors is prepared and organised, as well as the internal control procedures implemented by the Company. The latter were deliberated by the Company's Audit Committee on March 6, 2007.

The complete report was reviewed by the Board of Directors at its March 7, 2007 meeting.

Conditions for the preparation and organisation of the work of the Board of Directors

The conditions for the preparation and organisation of the work of the Board of Directors are defined by the law, the Company's Articles of Association, the Internal Rules of the Board and of its specialised committees. The Board establishes internal regulations for each Committee.

The Board is made up of nine directors with extensive experience in the areas of corporate strategy, finance, insurance, distribution, accounting, and the management and supervision of commercial or financial companies. In accordance with the recommendations of the Bouton Report, the term of office of directors is four years, which term can be renewed.

Pursuant to its Internal Rules and the law, the Board of Directors meets at least four times a year. In order to help the directors prepare for the subjects to be examined at each meeting, they receive a file in advance containing comprehensive information by topic on all agenda items.

The Internal Rules reiterate the applicable regulatory provisions and also establish the restrictions on the trading of Company shares by defining the negative window periods:

- moreover, the members of the Board of Directors are required to refrain from trading, directly or indirectly, in shares of any listed company of the Group during the six weeks prior to the publication of the annual or half-year results. In no way does this closed period replace the legal regulations regarding insider trading with which each member of the Board must comply at the time he decides to trade, no matter when this might occur outside the defined closed periods. Beginning in 2007, these windows have been extended and two new negative windows have been established with respect to publication of interim quarterly revenues;
- the same obligations apply to every director, inasmuch as he is aware, concerning the securities or financial instruments issued by any company in which the Company holds and/or is likely to acquire or sell securities or financial instruments which are listed on a regulated market and/or with which the Company has a business relationship which constitutes insider information.

Consequently, the Internal Rules require the reporting of all dealings in these shares. They define the frequency and modalities of Board meetings, and provide for attendance at Board meetings by videoconference and/or teleconference. The Internal Rules also set forth the principle governing the regular assessment of Board activities and define the criteria used to allocate directors' fees.

With respect to the Board of Directors' statutory role to determine the strategy of the Company and ensure its implementation, and without prejudice to the legal provisions governing the authorisations that the Board is required to grant (regulated agreements, endorsements, pledges and guarantees, divestments or sale of real property, etc.), the Company's Articles of Association provide that certain decisions of the CEO by virtue of their nature or significance must obtain the prior approval of the Board of Directors:

a) questions and transactions having a substantial impact on the Group's strategy, financial position or scope of activity;

b) except when decided to the contrary by the General Shareholders' Meeting, issues of securities, regardless of their form, which could result in a modification of the Company's share capital;

c) the following transactions by the Company or any other entity controlled by the Group when the amount set annually by the Board of Directors is exceeded:

   — any investment or divestment, including the acquisition, disposal, or exchange of shareholding interests in any existing or future companies,

   — the purchase or sale of any real estate of the Company.

The Board of Directors carefully examines such transactions.

In order to strengthen its functional procedures and ensure sound governance, the Internal Rules of the Board of Directors set forth and formalise the rules governing the organisation and functional modalities of the Board of Directors and the missions of its four committees: the Audit Committee, the Remuneration Committee, the Appointments Committee and the Strategy and Development Committee. The Chairman of the Board of Directors may in all circumstances discuss issues with these committees.

Independence of directors

In order to satisfy corporate governance principles, the Board of Directors follows the recommendations set forth in the Bouton report. Accordingly, to determine whether or not a director is independent and avoid any possible conflicts of interest, the Board has adopted the criteria set forth in this report:

- a director cannot be an employee or Board member of the Company, employee or director of its parent company or a company it consolidates over the five preceding years;

- a director cannot be a Board member in a company in which the Company holds, directly or indirectly, a directorship or in which an employee so designated or a Board member of the Company (current Board member or Board member for less than five years) holds a directorship;
- a director cannot be a significant client, supplier, investment banker, or finance banker of the Company or its Group, or a company for which the Company or its Group represents a significant portion of the activity;
- a director cannot have any close family tie with a Board member;
- a director cannot have been the auditor of the company during the five preceding years;
- a director cannot have been a director of the company for over twelve years.

With regard to these criteria and after review by the Appointments Committee in March 2006, the Board of Directors has designated the following directors as independent, without prejudging the independence of other directors: Messrs. René Barbier de La Serre, Pierre Bellon, Allan Chapin, Luca Cordero di Montezemolo and Anthony Hamilton (director until August 2006).

Furthermore, with respect to Messrs. Baudouin Prot and Philippe Lagayette, the Board has duly noted that if the PPR Group has relations with the BNP group and the JP Morgan group in the normal and ordinary course of its business, the latter have stated that their activities on behalf of the PPR Group have no influence on the respective independence of these two directors in regard to PPR.

Likewise, following review by the Appointments Committee, the Board has duly noted that Mr. Thierry, prior to his co-optation in replacement of Mr. Hamilton in September 2006, had not occupied any function for at least five years in the PPR or Artémis groups, that the portion of premiums paid to Assurances Générales de France by the PPR Group is relatively low and that Mr. Thierry satisfies the requisite independence criteria.

During its March 2007 meeting, the Appointments Committee again examined the situation of each director with respect to the independence criteria of the Bouton report. The Board considered, following review, that its previous assessments remained valid in the absence of any new information likely to modify the situation.

Accordingly, five of the Board's nine members are independent (keeping in mind that the Bouton report recommends that the "one third minimum" rule be respected for companies with a controlling shareholder - which is the case for PPR).

Activity of the Board of Directors in 2006 and until March 7, 2007

Activity of the Board of Directors in 2006

In 2006, the Board of Directors met seven times, with an average attendance rate of 84%.

Date	Number of directors present (Attendance rate)
January 11, 2006	7/9 (78%)
March 8, 2006	7/9 (78%)
May 23, 2006	7/9 (78%)
June 20, 2006	6/9 (67%)
July 5, 2006	8/9 (89%)
September 6, 2006	8/8 (100%)
October 13, 2006	9/9 (100%)

The work of the Board of Directors mainly involved reviewing the yearly and half-yearly financial statements, the Group's activity and strategic issues.

At its January 2006 meeting, the Audit Committee reported on its internal control work and the progress of the audit plans in the various companies. The Board decided to decrease share capital through the cancellation of treasury shares and allocated its 2005 directors' fees.

At its March 2006 meeting, the Board heard activity reports by the four Committees and approved the 2005 financial statements and reports for the General Shareholders' Meeting. On recommendation of the Remuneration Committee, it determined the CEO's remuneration (granting of 2006 options, 2006 fixed remuneration and 2005 variable remuneration) reviewed the remuneration of members of the Executive Committee (granting of options and bonus shares, fixed and variable portions of remuneration).

The meetings of May and June 2006 were devoted to the implementation of the new share buy-back programme, the annual authorisations in respect of guarantees and endorsements, the review of Group activity and strategic issues, and stock option plans and bonus share allotments (on the recommendations of the Remuneration Committee).

In July 2006, based on the report of the Audit Committee, it examined the organisation of internal control processes and the status of its financing and treasury. It also discussed developments in Group activity, the status of the share buy-back programme and the early redemption and conversion plan for May 2003 Océanes.

In September 2006, it co-opted a new director, approved the half-yearly financial statements and reports, and examined the progress of the Audit Committee's work as well as the current strategic plans, which were again discussed in October. Also in October, and based on the Remuneration Committee's report, it discussed the criteria for the CEO's variable remuneration. It examined the Group's activity and duly noted the early redemption of the Océanes issued in May 2003 and the increase in share capital arising from their conversion.

Activity of the Board of Directors in 2007 until March 7

Between January 1rst 2007 and March 7, 2007, the Board of Directors met three times with an average attendance rate of 78%.

At is meeting on January 18, where eight of the nine directors were present, the Board deliberated the 2007 budget and 2006 activity, participated in the finalisation of the financial reporting for January 25, duly noted the €100,000 share capital increase and allocated the 2006 directors' fees in accordance with the terms of its Internal Rules and the recommendations of the Remuneration Committee.

On March 5, it authorised the sale of Kadeos, which constituted an agreement subject to Article L. 225-38 of the French Commercial Code, in relation to Mr. Baudoin Prot's directorship at Accor.

Following the Audit Committee's examination, the March 7, 2007 Board meeting approved the 2006 annual financial statements and reports for the General Shareholders' Meeting as well as the meeting's agenda. Pursuant to the recommendation of the Remuneration Committee, the Board also determined the CEO's remuneration. It also assessed the recommendations of Executive Management and the Remuneration Committee with respect to the remuneration of members of the Executive Committee. It also examined the situation of directors with respect to independence criteria, after hearing the recommendations of the Appointments Committee.

Assessment of the Board of Directors

In accordance with its Internal Rules, the Board of Directors assesses its own performance each year. Every three years at minimum, an independent director or third party expert appointed by the Board reports on the members and activity.

The Board of Directors conducted its annual evaluation for 2006 by means of a questionnaire sent to each director. The results of this evaluation were discussed during a March 2006 Board meeting. This annual assessment confirmed that the major issues were properly reported, examined and discussed during meetings under suitable conditions and evaluated the contribution of each member to the work of the Committees and the Board.

In early 2007, based on the recommendations of the Appointments Committee, an independent member was appointed to conduct the triennial assessment provided for in the Internal Regulations.

Audit Committee

Created in December 2002, the main role of the Audit Committee, within the functions of the Board of Directors, is to review the annual and half-yearly financial statements, ensure that the accounting methods in effect in the Company and main Subsidiaries are appropriate, permanent and reliable, confirm the effective implementation of Group internal control and risk management procedures, understand Group policies in terms of sustainable development and respect for the environment, and to hear and question the statutory auditors. The Committee is made aware of the main problems identified by the Group internal control departments. It reports on a regular basis and expresses opinions or recommendations within its jurisdiction to the Board.

Each year it reviews the fees charged by the Company's Statutory Auditors and assesses their independence. The Audit Committee also reviews the candidacies of Statutory Auditors.

The Audit Committee is made up of three directors: Mr. René Barbier de La Serre, Committee Chairman, independent director, Mrs. Patricia Barbizet, Vice-Chairman of the Board and Mr. Jean-Philippe Thierry, independent director, (as was Mr. Anthony Hamilton, whom he succeeded in September 2006). With respect to the criteria adopted by Bouton report, two thirds of the Committee members are independent.

Activity of the Audit Committee in 2006 and in 2007 until March 7

The Committee met four times in 2006 with 100% attendance.

It reviewed the 2005 financial statements as presented by Executive Management. The review covered the scope of consolidated companies, the auditing procedures in effect, as well as any significant off-balance sheet risks or commitments. To this end, the Committee interviewed representatives of the Company's Finance and Accounts Departments and the Director of the Internal Audit Department. The same procedures were conducted for the half-yearly financial statements. The Committee also discussed issues with the Statutory Auditors concerning their reports on the financial statements and other elements of the annual report, in addition to their engagements and fees.

The Committee also reviewed the services provided by Artémis to PPR during 2006 pursuant to the terms of an assistance and advisory services agreement. It then approved the lump sum contractual amount for 2005. In keeping with corporate governance principles, Mrs. Patricia Barbizet did not participate in the Committee's assessment of this issue.

In addition, it examined the terms and conditions of the group's financing and the cash position and specifically focused on the early redemption of the Océanes issued in May 2003 before reporting and making its recommendations to the Board on these issues.

Since the beginning of 2007, the Audit Committee has met twice with an average attendance rate of 83%. In January, in the presence of two of its three members, it was informed of the Group's 2006 audit activities and internal control and it examined the 2007 annual audit plan as well as the new Group audit charter. It then submitted the results of its work and recommendations to the Board of Directors. The future Board meeting regarding the approval of the financial statements was the subject of its March meeting, held in the presence of all members. It also examined the services rendered by Artemis in 2006. The Committee's work and recommendations were submitted to the Board of Directors.

Remuneration Committee

The main role of the Remuneration Committee is to review the terms and conditions of the CEO's remuneration and make proposals to the Board of Directors (described in the previous "Board of Directors" section) and the method for dividing the directors' fees allocated by the Shareholders' Meeting to the Board of Directors. It examines

and assesses the remuneration policy of executives, as well as the remuneration and benefits received or deferred, share subscription or purchase options, and bonus shares and/or similar benefits, with respect to the PPR Group's Executive Committee.

The Remuneration Committee is made up of six directors: Mr. Philippe Lagayette, Committee Chairman, Mr. François-Henri Pinault, Chairman and CEO, Mrs. Patricia Barbizet, Vice-Chairman of the Board, and Messrs. René Barbier de la Serre, Pierre Bellon and Allan Chapin, the three independent directors.

Pursuant to the criteria of the Bouton report, one half of the members of the Remuneration Committee are independent. The issues relating to the remuneration of members of the Executive Committee represent a significant component of the Remuneration Committee's work. In the interest of the proper functioning of the Company and the Committee, the CEO's membership in the Committee was deemed to be necessary, even though this is contrary to the Bouton report's recommendation. The CEO is of course absent from meetings where his remuneration is discussed.

Activity of the Audit Committee in 2006 and in 2007 until March 7

In 2006, the Committee met four times with an average attendance rate of 92%.

In addition to reviewing the fixed portion of the CEO's remuneration, it submits proposals to the Board regarding the 2006 variable portion as well as the criteria for determination.

With respect to the Executive Committee, it reviewed the method used to determine the variable portion of the 2006 remuneration.

It also submitted proposals to the Board regarding allocations of share purchase options and bonus shares in the Group (conditions and procedures). It made recommendations concerning the allotment of the 2006 directors' fees.

Since the beginning of 2007, the Committee has met three times, with full attendance. The remuneration of the CEO and the members of the Executive Committee were discussed in particular.

The Remuneration Committee submitted the results of its work and recommendations to the Board of Directors.

Appointments Committee

Created in March 2003, the role of the Appointments Committee is to review proposals for appointments to the Board of Directors, and the situation of candidates with respect to the independence criteria defined by the Board. This review is conducted prior to each appointment or at any time the Committee deems useful. It expresses opinions or recommendations within its jurisdiction to the Board.

The Audit Committee is made up of three directors: Mrs. Patricia Barbizet, Chairman, Mr. Allan Chapin, independent director and Mr. Baudouin Prot.

Activity of the Appointments Committee in 2006 and in 2007 until March 7

The Appointments Committee met twice in 2006 with full attendance. The Committee makes recommendations to the Board of Directors regarding the independence criteria to be adopted and re-examines the situation of each director in regard to these criteria, particularly with respect to business relationships that may exist between PPR and the groups or companies managed by the directors concerned. In September 2006, with a view to the cooptation of a new director, the Committee examined the proposed candidature in light of the required competence, experience and independence criteria.

In early 2007, in the presence of all its members, the Committee reviewed the situation of directors with respect to the independence criteria and examined the Board's evaluation.

The Appointments Committee submitted the results of its work and recommendations to the Board of Directors.

Strategy and Development Committee

The purpose of the Strategy and Development Committee is, with the limits of the functions of the Board of Directors, to identify, study and support the PPR Group's strategic development initiatives.

The Committee is comprised of four directors: Mrs. Patricia Barbizet, Committee Chairman, Mr. François-Henri Pinault, Mr. Pierre Bellon, independent director, and Mr. Philippe Lagayette.

Mr. François Pinault, in his capacity as Honorary Chairman of the Board of Directors and honorary member of the Strategy and Development Committee, is invited to Committee meetings on a consultative basis.

Activity of the Strategy and Development Committee in 2006 and in 2007 until March 7

The Committee met twice in 2006 with full attendance. It prepared guidelines to assist the main Subsidiaries in the preparation of their medium-term plans (2007 to 2009).

Internal control procedures

PPR is the holding company of the PPR Group, a global player in luxury goods and retail. The main consolidated companies include Conforama, CFAO, Fnac, Gucci Group and Redcats (collectively referred to as the "Subsidiaries" and individually as the "Subsidiary").

As a holding company, PPR's main activity consists in organising and managing its investments, stimulating the development of its Subsidiaries, coordinating the financing of their activities, ensuring support and communication functions and developing cross-functional resources for the entire PPR Group, notably in the area of purchasing (goods and overheads) and insurance.

Internal control within the PPR Group

Definition of internal control

Given the decentralisation of functions and responsibilities, the internal control system is structured around a number of policies, procedures and practices intended to ensure that the necessary measures are taken to control:

- activities, operational effectiveness and the efficient use of resources;
- risks that could have a significant impact on the Company's financial position or the achievement of its objective, whether such risks involve operations, financial issues or compliance.

The internal control process, formalised pursuant to the 2003 Financial Security Act, draws on the international COSO Report framework.

Internal control is a process coordinated by Executive Management, under the supervision of the Board of Directors, and implemented by senior managers and all employees. Regardless of the quality of internal control and the degree to which it is applied, it cannot provide full assurance as to the realisation of objectives falling into the following categories:

- compliance with laws and regulations in force;
- application of guidelines and directions set by Executive Management;
- smooth operation of internal processes, particularly those contributing to the safeguarding of assets;
- reliability of financial information.

The probability of meeting such objectives is subject to the limits inherent in any internal control system, such as:

- human error or malfunctions occurring when decisions are made or applied;
- deliberate collusion amongst several individuals, enabling them to elude the control system;
- or cases where a control is put in place and even maintained when it is more costly than the risk it is supposed to address.

Furthermore, it is understood that in pursuing the objectives indicated above, the Company is faced with events and uncertainties beyond its control (unexpected changes in the markets, the competitive environment, or the geopolitical situation, or error in the forecast or assessment of the effects of such changes on the organisation, etc.).

Internal control environment

Tailored to the specificities of PPR, the Group's internal control system is based on an organisation that clearly defines responsibilities and comprises the principles and values governing the ethical and professional conduct of all its employees. Among other considerations, it relies on human resources management to ensure the competency and involvement of its employees.

Hence, the internal control system set up within the PPR Group sets the foundation for an efficient control environment.

PPR Group organisation

The PPR Group organisation is decentralised, thus encouraging autonomy and responsibility on the part of managers. This organisation is a key factor in carrying out the Group's activities. Each Subsidiary directly manages the operating aspects of its own activity.

The PPR Group Executive Committee, the executive management body, is comprised of the Chairman and CEO, the CEOs of each Subsidiary and the PPR senior managers (Finance, Corporate Secretary, Human Resources). The Director of Communications acts as Secretary.

The Executive Committee, which meets on a monthly basis and when required, in accordance with the policies of the Strategy and Development Committee:

- draws up and coordinates the Group's operating strategy;
- defines the priorities with objectives by Subsidiary and the main operational projects;
- develops synergies between Subsidiaries;
- and submits acquisitions/divestments to the Board of Directors.

The PPR Group's strategy and objectives are discussed annually through a number of medium-term plans and the budgets of each Subsidiary's operating units.

Management defines the operating policies and procedures intended to harmonise working methods and improve the efficiency of operations for the employees each Subsidiary.

Representatives of the Subsidiaries meet regularly in committees to share information on operations and strategy, exchange skills and deploy best practices, for example, during committee meetings coordinated by PPR's Strategy and Planning Department (E-commerce Committee, Inter-company Committee and Marketing Committee) or Country Committees which bring together senior managers from each Subsidiary with operations in a given foreign country.

This organisation is strengthened by the PPR centralisation of certain technical expertise applicable at the Group level:

- the Strategy and Planning Department coordinates the Group's annual planning process by contributing to the preparation of the strategic and operational phases of the Subsidiaries' medium-term plans. It assists the Subsidiaries by providing them with a number of support services (market intelligence, research, etc.). This department participates in the technical and financial assessment carried out by Subsidiaries when selecting IT solutions, notably when the budgets and medium-term plans are defined. It also manages and coordinates the Group's cross-functional projects. It runs the IT Club which brings together the IT departments of the Subsidiaries;
- the Communications Department contributes to the Group's development by promoting its image and reputation, both internally and externally. Hence, it manages both the Group's external relations which include the press (France and international) and public relations and Corporate and internal communication, which is to say events, publishing and image (web, sponsorship). In connection with obligations relating to the Group's financial

position, financial communication is totally centralised at PPR. Conversely, each Subsidiary (and each branch) defines and implements its "business product" and internal communication independently and autonomously;

- the Finance and Treasury Department manages the financial risk relating to liquidity, counterparties, and exchange rates and interest rates, and coordinates the cash management of the Subsidiaries. It manages the Group's banking policy, give instructions in terms of the allocation of activity by bank and coordinates Group bids. It ensures consistency between published financial information and policies governing interest rate, currency and liquidity risk management. Almost all of the financing is set up by PPR or PPR Finance. Exceptions are analysed on a case-by-case basis according to specific opportunities or restrictions and require the approval of PPR;
- in addition to its functions at the Company level, the Legal Department assists the Subsidiaries on significant legal matters and coordinates research and analysis on subjects of common interest to the Subsidiaries or of particular interest to the Group. It also formulates Group policy and ensures it is applied. It provides the Subsidiaries with a methodology for identifying typical risks, so that they may be anticipated;
- the Tax Department coordinates the Group's tax policy, advises and assists the Subsidiaries on all issues related to tax law as well as in the implementation of tax consolidation in France;
- the Real Estate Department manages and coordinates significant real estate deals for the entire Group;
- the Insurance Department is responsible for implementing and monitoring the Group's various insurance policies.

The Group Charter

The PPR Group has a Charter that outlines the organisation's decentralisation and managerial responsibility. The Charter defines the guiding principles governing the relations between PPR and the Subsidiaries, and for each operational domain, those elements falling under the delegated responsibility of the Subsidiary, those that must be communicated to PPR within sufficient time and those requiring the prior authorisation of PPR.

Group principles and values

The PPR Group's ethical principles are set forth in the Code of Business Practices.

The Code contains the Group's commitments and rules of conduct towards:

- customers and consumers;
- employees;
- shareholders and financial markets;
- business partners;
- the environment and society.

In addition to the knowledge that each employee must have concerning the commitments and principles contained in this Code, a specific monitoring organisation was set up to advise employees and determine the ways and means of improving the Code's application.

An Ethics Committee for Corporate Social Responsibility reporting to PPR Executive Management was created. It comprises at least one representative from each Subsidiary, PPR operational executives and a third-party expert.

The primary role of this Committee is to assist the Subsidiaries in implementing the Code and to formulate recommendations on resulting questions, as well as questions that might be submitted by PPR Group employees.

To ensure this Code's application and take into account the PPR Group's decentralised structure, each Subsidiary appoints a correspondent to the Ethics Committee. This correspondent is the designated contact of employees for all issues regarding application of the Code of Business Conduct.

Furthermore, the Subsidiaries may set up additional organisations, or designate correspondent agents in certain countries or entities in order to bring these correspondents closer to the teams.

Human resources policy

With respect to human resources management, the Group implements policies to improve professional performance and personal development, applying high standards of employee dialogue and participation in the business, in terms of both union representation and freedoms as well as profit-sharing. It has also set up measurement tools to assess its human resources environment (biennial opinion polls).

PPR participates in the management of executive positions in each of the Subsidiaries and ensures consistency. It also oversees performance appraisal and remuneration fairness, external competitiveness and competency development. It sets up cross-functional training programmes and coordinates employee relations in terms of the Group's representative bodies, working closely with the management of Human Resources and the Subsidiaries.

Internal control management

The functioning and implementation of the PPR Group's internal control is based on the contribution of several players at various levels of the organisation.

Audit Committees

Under the responsibility of the Board of Directors to which it regularly reports, the PPR Audit Committee is responsible for managing Group risk and ensuring that internal control procedures are implemented. Specifically, the PPR Audit Committee carries out the following actions:

- it ensures that the Group branches and Subsidiaries have tailored and structured Internal Audit Departments, so as to identify and prevent risks or anomalies in the management of Group business;
- it assesses the relevance and quality of the methods and procedures used;

- it familiarises itself with the internal audit reports and the recommendations issued;
- it examines the Company's half-yearly and annual parent company and consolidated financial statements and the corresponding financial documents;
- it hears from and questions the Company's statutory auditors;
- it approves the annual internal audit plan.

Each of the Subsidiaries has an Audit Committee that meets at least four times yearly prior to the PPR Audit Committee meeting.

Executive Managements

The Executive Managements define, coordinate and oversee the Group's internal control system. They also ensure that the necessary corrective measures are undertaken. The Executive Managements' involvement is key to the internal control system, given the PPR Group's organisation.

Operational managers

The operational managers are responsible for the smooth running of controls, with respect to the assigned objectives, so as to ensure internal control effectiveness.

Internal audit

The organisation of the PPR Group's internal audit function is decentralised. Each Subsidiary has an autonomous Internal Audit Department covering the scope of its branches with the competencies and resources necessary to its independence and the objectives of its task.

- At the PPR level and attached to the Corporate Secretary, the Group Internal Audit Department coordinates, harmonises and optimises the work methods and tools used by the Subsidiaries' internal auditors. It also provides services to the Subsidiaries (regulatory monitoring, expertise, resources, etc.).

  In addition, the Department conducts cross-functional and operational audits based on issues identified by PPR, corporate bodies or the Subsidiaries. In 2006, the Group Internal Audit Department finalised an audit of inventory valuation and write-down procedures and reviewed information system security.

  Finally, the Group Internal Audit Department is responsible for the central administration and consolidation of the internal control analysis pursuant to the Financial Security Act, as outlined in the paragraph entitled "Analysis of internal control procedures".

- The Internal Audit Departments, located within each Group Subsidiary and reporting to the Subsidiary's Executive Management, verify the internal control procedures set up by the other departments and perform operational and financial audits within the companies controlled by the Subsidiary. In 2006, the Internal Audit Departments carried out over two hundred audits. Following the fraud assessment performed in 2005, each of the subsidiaries reaffirmed their wish to actively fight against fraud by sending an awareness letter to all their managers.

The main problems identified by the Subsidiary and Group Internal Audit Departments in 2006 were brought to the attention of the Audit Committees of the Subsidiaries and PPR. The Audit Committees thus familiarised themselves with the issues identified and the action plans set up by the entities concerned.

In addition to these tasks, all internal audit resources within the PPR Group are responsible for promoting internal control in all Company processes and activities, whether operational or financial, and whether they concern stores, warehouses or head offices, distribution or manufacturing.

To date, there are 36 internal audit employees in the PPR Group. Their rules of conduct are described in the Audit Charter to which they refer. In general, the Audit Charter stipulates that:

- at the end of each audit, the findings and recommendations are presented to the managers of the area or areas concerned;
- any agreements or disagreements made known by the audited parties concerning the proposed recommendations are included in the final report which specifies any action plan, responsibilities and the deadlines for implementation;
- the Line staff concerned are responsible for implementing recommendations;
- internal audit is responsible for verifying their implementation.

The internal audit activity is performed in accordance with the Audit Committees and the results of the work performed by the Statutory Auditors.

Audit plans are prepared by the Internal Audit Departments using a risk-based approach and take into account the specific requests of Executive Managements and the other Operational Departments.

The Internal Audit Departments update their Audit Committee on the audit plan's progress at least twice a year.

Analysis of internal control procedures

The internal control procedures implemented by PPR senior managers and incorporated into their day-to-day functions are part of an ongoing strategy designed to identify, assess and manage company risks.

In this regard, the PPR Group continued the internal control procedure analysis begun in 2003 with the aim of assessing the system's adequacy and effectiveness.

The major challenges of this approach are to further improve the management and efficiency of operations in order to achieve both general and specific Group objectives and to specify the role of line managers in the area of internal control.

The methodology applied is based on the following principles:

- since 2003, a self-appraisal using questionnaires has been conducted each year with the main Subsidiary line managers based on 13 key processes:
  - management and development,
  - corporate governance and risk management,
  - external relations,

- product offering, marketing strategy and communication,
- sales front office and sales administration,
- sourcing,
- logistics and the flow of goods,
- production,
- technologies and information systems,
- human resources,
- finance, accounting and management,
- asset management and safeguarding,
- legal and regulatory management;

- these questionnaires:
  - serve as an additional indicator for these managers in terms of assessing the quality of the internal control procedures for which they are responsible,
  - make it possible to harmonise the level of internal control applied throughout the Group and for all activities to benefit from best practices,
  - make it possible to launch action plans for improvement, if necessary;
- the self-appraisal was based on the 13 aforementioned processes until 2005. To better understand and cover the risks relating to these processes, it was decided in 2006 to concentrate the work on at least 4 processes per year, with a 3-year rotation. The questionnaire relating to the Finance, accounting and management process is circulated and administered on yearly basis. Hence, the PPR Group covered the following 4 processes in 2006:
  - sales front office and sales administration,
  - logistics and the flow of goods,
  - product offering, marketing strategy and communication,
  - finance, accounting and management.

The approach was presented to the PPR Audit Committee which approved it.

In 2006, the risks identified for these 4 processes through the self-appraisal questionnaires were brought to the attention of each Subsidiary's Audit Committee in the form of risk mapping. The committees were then able to report the main internal and external risks and measure the impact and probability of occurrence. The PPR Audit Committee thus familiarised itself with the action plans set up to prevent risk and limit its occurrence and impact, as set up by the entities concerned.

Lastly, to complete this self-appraisal approach, the Group's Internal Audit Department has been reviewing the documentation and key controls of certain processes since 2004. Accordingly, the processes covering finance, accounting and management and information systems were reviewed in 2006. A summary of the work was submitted to Executive Management and the Audit Committees of each Subsidiary. A summary for the entire Group was submitted to the PPR Audit Committee.

Description of the internal control procedures relating to the preparation of accounting and financial information

Organisation of the accounting and management function

Accounting and financial information is prepared by the Finance Department. At the PPR level, the Finance Department supervises the Financial Control Department, the Finance and Treasury Department, the Tax Department, the Financial Reporting and Strategy Department, and the Development division.

The production and analysis of financial information is based on a set of finance management procedures including:

- medium-term plans, which measure the consequences of strategic decisions on the Group's key financial and management indicators. They also serve as a basis for the Group's annual assessment of the carrying value of assets in relation to the various business units;
- budgets, drawn up on the basis of discussions between the operating departments and the Group's Executive Management, and broken down into two phases: a budget describing the main financial indicators and operating action plans is defined in the fourth quarter of the year and definitively approved in the first quarter of the following year, taking into account significant intervening events, where applicable;
- the Group's reporting, which monitors Subsidiary performances throughout the year using specific indicators whose consistency and reliability are reviewed by the Financial Control Department. Since 2004, the Group's reporting has been based on a new consolidation/reporting tool that provides an additional level of security in the transmission of financial data through more comprehensive process management, as well as new functions that can be used to develop additional indicators. The Financial Control Department also ensures that the accounting methods applied by the companies are consistent with Group rules and performs a comparative analysis with the budget and the previous year's figures in conjunction with the financial controllers of the Subsidiaries.

  PPR's Executive Management and the CEOs and corporate secretaries of Group Subsidiaries hold monthly meetings to assess Subsidiary activities on the basis of the financial results and operations communicated by each Subsidiary concerned:
- the statutory consolidation of the financial statements is conducted at the end of June and December using the Group's consolidation tool, which enables the real-time transmission of Subsidiary financial information, following the complete validation of the Subsidiary consolidation packages by the Statutory Auditors and CFOs or accounting managers who are answerable for the reliability of their content. Prior to each consolidation, PPR's Financial Control Department provides the Subsidiaries with instructions specifying the list of reports to be sent, the common

assumptions to be used and the specific points to be taken into account;

- the Group regularly monitors changes in the off-balance sheet commitments of its Subsidiaries. This check is carried out as part of the statutory consolidation process whereby Subsidiaries are required to provide an exhaustive list of their commercial or financial commitments along with a follow-up from year to year.

Statutory auditors

The role of the Statutory Auditors is to annually certify the consistency, reasonableness and fair presentation of the parent company financial statements and the Group's consolidated financial statements and issue a limited review report on the Group's half-yearly consolidated financial statements.

Since 2005, the audit engagements have been divided between two statutory auditors: Deloitte and KPMG.

The main issues covered by the auditors are as follows:

- identification of risk areas and performance of tests by sampling in order to validate the consistency, reasonableness and fair presentation of the financial statements with regard to their company or consolidated materiality level;
- validation of the main accounting treatments and options throughout the year, in coordination with the management of the Subsidiaries and PPR;
- application of the accounting standards defined by PPR for all its Subsidiaries;
- preparation of an audit report for each consolidated Subsidiary in order to certify the PPR consolidated financial statements, including any comments on internal control;
- presentation of a general summary of the PPR Group submitted to management and the PPR Audit Committee;
- preparation of reports for the PPR shareholders. These reports appear in the reference document.

The Chairman of the Board of Directors

OBSERVATIONS OF THE BOARD OF DIRECTORS

Dear Ladies and Gentlemen,

Your Board is required to keep you regularly informed of the efficient operation and activities of the Company and the Group in compliance with applicable legal provisions and the Articles of Association. As part of its duties, the Board performed the procedures and controls which it deemed necessary.

Your Board has approved the financial statements for fiscal year 2006 as presented by Executive Management and prepared its report on the activities of the Company and the Group. The Board duly noted the conclusions of the Audit Committee which reviewed, in particular, the scope of consolidated companies, prevailing internal control procedures and material risks and off-balance sheet commitments.

Your Board also took due note of the terms and conditions set forth in the agreement authorised between the Group and its parent company, Artémis. The Board reviewed, in particular, the various services performed and their interest for the Group as well as the amount of remuneration paid in 2006.

The Board recommends that you approve the parent company and consolidated financial statements for fiscal year 2006 as well as the Statutory Auditors' special report on the regulated agreements and commitments with related parties referred to in Articles L. 225-38 et seq. of the French Commercial Code.

The Board also recommends that you authorise the purchase of Company shares in connection with the new share buyback programme.

The Board also recommends that you grant the authorisations to issue marketable securities with or without retention of preferential subscription rights, including an authorisation in favour of credit institutions or companies governed by the French Insurance Code (Code des assurances) should the Company perform complex financial transactions to optimise its balance sheet structure.

Finally, we recommend a minor amendment to the Articles of Association to harmonise them with the new regulatory provisions on the registration of shares prior to the holding of Shareholders' Meetings.

We would like to thank employees for the work that they have accomplished during the year.

We recommend that you approve the financial statements for fiscal year 2006 and the proposed allocation of earnings as well as all of the various resolutions which are presented to you.

FEES PAID BY THE GROUP TO THE STATUTORY AUDITORS AND MEMBERS OF THEIR ORGANISATIONS IN 2006

	KPMG Audit				Deloitte & Associés			
	Amount (excl. taxes)		%		Amount (excl. taxes)		%	
(in € thousands)	2006	2005	2006	2005	2006	2005	2006	2005
Audit								
Statutory audit, certification, review of parent company and consolidated financial statements	3,771.8	3,258.1	90%	89%	3,123.1	3,645.0 (1)	62%	80%
Issuer	*290.7*	*268.0*	*7%*	*7%*	*290.7*	*314.0*	*6%*	*7%*
Fully consolidated subsidiaries	*3,481.1*	*2,990.1*	*83%*	*82%*	*2,832.4*	*3,331.0*	*56%*	*73%*
Other procedures and services directly related to the statutory audit	207.6	281.9	5%	8%	1,116.8	175.0	22%	4%
Issuer	*40.0*	*109.8*	*1%*	*3%*	*84.9*	*49.0*	*2%*	*1%*
Fully consolidated subsidiaries	*167.6*	*172.1*	*4%*	*5%*	*1,031.9*	*126.0*	*20%*	*3%*
Sub-total	**3,979.4**	**3,540.0**	**95%**	**97%**	**4,239.9**	**3,820.0**	**84%**	**84%**
Other services rendered by the organisations for the fully consolidated subsidiaries								
Legal, tax, human resources (2)	229.1	112.3	5%	3%	775.0	725.0	15%	16%
Other	1.1	-	-	-	60.1	-	1%	-
Sub-total	**230.2**	**112.3**	**5%**	**3%**	**835.1**	**725.0**	**16%**	**16%**
TOTAL	**4,209.6**	**3,652.3**	**100%**	**100%**	**5,075.0**	**4,545.0**	**100%**	**100%**

(1) Includes the fees of Printemps and Orcanta sold in 2006.

(2) Mainly concerns foreign subsidiaries.

Statutory Auditors' report

prepared pursuant to Article L. 225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Directors of PPR S.A. with respect to the internal control procedures for the preparation and treatment of financial and accounting information (year ended December 31, 2006)

Dear Shareholders,

In our capacity as statutory auditors of PPR S.A., and pursuant to Article L. 225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of your company in accordance with Article L. 225-37 of the French Commercial Code for the year ended December 31, 2006.

In his report, the Chairman reports, in particular, on the conditions for the preparation and organisation of the Board of Directors' work and the internal control procedures implemented by the company.

It is our responsibility to report to you our observations on the information and assertions set out in the Chairman's report on the internal control procedures relating to the preparation and treatment of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and treatment of financial and accounting information. These procedures notably consisted of:

• obtaining an understanding of the objectives and general organisation of internal control, as well as the internal control procedures relating to the preparation and treatment of financial and accounting information, as set out in the Chairman's report;

• obtaining an understanding of the underlying work performed to support the information given in the report.

On the basis of our procedures, we have no matters to report on the information given in respect of the internal control procedures relating to the preparation and treatment of financial and accounting information, set forth in the report of the Chairman of the Board of Directors, prepared in accordance with the last paragraph of Article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine and Paris-La Défense, March 12, 2007

The Statutory Auditors

Deloitte & Associés		KPMG Audit *Département de KPMG SA*	
Jean-Paul Picard	Antoine de Riedmatten	Patrick-Hubert Petit	Hervé Chopin

This is a free translation of the original French text for information purposes only. This report should read in conjunction, and construed in accordance with, French law and professional auditing standards applicable in France.

Resolutions submitted to the Combined Ordinary and Extraordinary General Shareholders' Meeting of May 14, 2007

Acting as an Ordinary Meeting

FIRST RESOLUTION

Approval of the annual financial statements for fiscal year 2006

The General Shareholders' Meeting, acting as an Ordinary Meeting, after reviewing the following:

- the report of the Chairman of the Board of Directors on the work of the Board and internal control procedures;
- the management report of the Board of Directors for fiscal year 2006;
- the Statutory Auditors' report on the completion of their assignment during the fiscal year;

hereby approves the annual financial statements for fiscal year 2006 as presented, together with the transactions reflected in these financial statements and summarised in these reports.

SECOND RESOLUTION

Approval of the consolidated financial statements for fiscal year 2006

The General Shareholders' Meeting, acting as an Ordinary Meeting, after reviewing the following:

- the report of the Board of Directors of the Group for fiscal year 2006;
- the Statutory Auditors' report on the consolidated financial statements for fiscal year 2006;

hereby approves the consolidated financial statements for fiscal year 2006 as presented, together with the transactions reflected in these financial statements and summarised in these reports.

THIRD RESOLUTION

Agreements referred to in Articles L. 225-38 et seq. of the Commercial Code

The General Shareholders' Meeting, acting as an Ordinary Meeting, after reviewing the Statutory Auditors' Special Report on regulated agreements and commitments with third parties referred to in Articles L. 225-38 *et seq.* of the Commercial Code, hereby approves the report and the information contained therein.

FOURTH RESOLUTION

Appropriation of earnings

The General Shareholders' Meeting, acting as an Ordinary Meeting, after approving the annual financial statements as presented to it, which show:

a net profit of.....€840,673,126.63

which, together with previous retained earnings of.....€862,520,557.56

show a positive balance available for distribution in the amount of.....€1,703,193,684.19

which it decides to allocate as follows:

- to the legal reserve in the amount of.....€2,381,118.00
- to shares as a dividend payment in the amount of.....€385,161,822.00
- and to retained earnings in the amount of €1,315,650,744.19

Total equal to.....€1,703,193,684.19

The General Shareholders' Meeting hereby resolves to pay out as from June 1, 2007 a net amount of **€3.00** per share. Any dividend amounts included in this distribution that apply to shares held by the Company on the distribution date or to any shares cancelled shall be allocated to retained earnings.

Pursuant to Article 243 bis of the General Tax Code, the dividend paid to individuals resident for tax purposes in France is entirely eligible for the 40% tax allowance, provided for in Article 158-3 2° of the General Tax Code.

The General Shareholders' Meeting acknowledges that the earnings per share (EPS) over the past three years is as follows:

Year of payment	Net dividend	Eligible for the tax allowance of
2006	€2.72	40%
2005	€2.52	50%

Year of payment	Net dividend	Tax credit *of 50%*	Gross dividend
2004	€2.40	€1.20	€3.60

FIFTH RESOLUTION

Ratification of the co-optation of a director

The General Shareholders' Meeting, acting as an Ordinary Meeting, hereby ratifies the co-optation of Mr. Jean-Philippe Thierry as director for a term that shall expire following the close of the Ordinary General Shareholders' Meeting held to approve the fiscal year 2008 financial statements.

SIXTH RESOLUTION

Authorisation to purchase Company shares

The General Shareholders' Meeting, acting as an Ordinary Meeting, after reviewing the report by the Board of Directors, and the description of the buy-back programme filed with the French Financial Markets Regulatory Authority hereby authorises the Board of Directors, pursuant to Articles L. 225-209 *et seq*. of the Commercial Code, to purchase on one or more occasions and at any time to be determined by it, shares in the Company representing up to 10% of the share capital, or 12,838,727 shares as of December 31, 2006, and adjusted, if need be, based on capital transactions performed subsequent to this Shareholders' Meeting, it being specified that the maximum buyback of shares acquired by the Company to hold and subsequently deliver in payment or exchange as part of a merger, spin-off or transfer is limited to 5% of the share capital in accordance with the law.

The shares may be purchased by any means, including by the use of derivatives or in the form of blocks of shares, at any time on the market or over-the-counter, including during public offer or exchange periods in order to:

- provide liquidity or volume to the market in the context of a liquidity contract with an independent financial services company, acting independently pursuant to a liquidity contract in compliance with the Ethics Code recognised by the French Financial Markets Authority;
- to use all or any of the acquired shares to hedge stock option plans, bonus share plans and employee saving schemes granted in favour of Group employees and corporate officers and to sell or grant the shares to them, as provided by law;
- perform investments or raise financing in exchange of Company shares in connection with an aquisition, merger, spin-off or transfer, or the issuance of marketable securities exchangeable or redeemable for shares of the Company, or on presentation of a warrant or in any other manner;
- cancel any shares purchased, in accordance with the authorisation granted by this Shareholders' Meeting.

The shares acquired by the Company pursuant to this authorisation may be kept, sold or transferred by any appropriate means, including the use of derivatives or in blocks of shares, or cancelled.

The maximum purchase price is set at €175 per share or the exchange value of this amount as of the same date in any other currency. In the event of a capital increase by capitalisation of reserves or the awarding of bonus shares, or in the event of a share split or reverse split, such amount shall be adjusted by a multiplier equal to the ratio of the number of shares comprising the equity capital before the transaction and the number after the transaction.

Hence, the maximum amount of the transaction shall be set at €2,247,212,975.00.

The General Shareholders' Meeting hereby grants full powers to the Board of Directors, with the authority to delegate, to carry out such transactions, to determine the terms and conditions thereof and to enter into any and all agreements and to carry out any and all formalities.

This authorisation, which cancels the unused portion of the authorisation granted to the Board of Directors by the General Shareholders' Meeting of May 23, 2006, is granted for a period of 18 months as from the date of this Meeting.

Acting as an Extraordinary Meeting

SEVENTH RESOLUTION

Authorisation to reduce the share capital through the cancellation of shares

The General Shareholders Meeting, acting as an Extraordinary Meeting, after reviewing the report by the Board of Directors and the Statutory Auditors' Special Report, hereby authorises the Board of Directors, in accordance with the provisions of the Commercial Code, solely by its own decision, on one or more occasions, to reduce the share capital, by no more than 10% per twenty-four month period, adjusted, if need be, to take into account capital transactions performed subsequent to this Shareholders' Meeting through the cancellation of shares that the Company holds or may hold pursuant to the purchase of shares in accordance with Article L. 225-209 of the Commercial Code.

The General Shareholders Meeting hereby grants full powers to the Board of Directors to carry out such transactions within the limits and at the times to be determined by it, to determine the terms and conditions thereof, to charge any costs to reserves, income or premiums and ensure the implementation thereof, to make any corresponding amendments to the Articles of Association and, generally, to take any necessary decisions and to carry out any and all formalities.

This authorisation, which cancels the authorisation granted to the Board of Directors by the General Shareholders' Meeting of May 19, 2005, is granted for a period of twenty-six months as from the date of this Meeting.

EIGHTH RESOLUTION

Authorisation to issue, with preferential subscription rights, shares and/or any marketable securities exchangeable or redeemable, immediately or in the future, for shares and/or marketable securities exchangeable or redeemable for debt securities

The General Shareholders Meeting, acting as an Extraordinary Meeting, after reviewing the report by the Board of Directors and the Statutory Auditors Special Report, and pursuant to the provisions of the Commercial Code, notably Articles L. 225-129, L. 225-129-2, L. 228-91 and L. 228-93:

1. hereby authorises the Board of Directors, with the authority to delegate to any person authorised by law, for a period of 26 months as from the date of this Meeting, to determine the issue, on one or more occasions, with preferential subscription rights, both in France and abroad, of shares and/or any marketable securities exchangeable or redeemable, immediately or in the future, including stock and/or acquisition warrants issued autonomously, free of charge or for a consideration, either in euros or in foreign currencies or in any other unit of account established with reference to a set of currencies, subscribed in cash or backed by receivables, by conversion, exchange, redemption, presentation of a warrant or by any other method, for existing or new shares in the Company and/or pursuant to Article L. 228-93 of the Commercial Code, for shares in any company in which it owns directly or indirectly more than half the capital and/or, pursuant to Article L. 228-91 of the Commercial Code, marketable securities exchangeable or redeemable for debt securities;

   the General Shareholders Meeting hereby resolves that issues of preferred shares and any marketable securities exchangeable or redeemable for preferred shares are expressly excluded from this authorisation;

2. hereby resolves that the total nominal amount of any capital increases made immediately and/or in the future pursuant to this authorisation may not exceed two hundred million euros, or the exchange value of this amount, plus the nominal amount of any additional shares to be issued by law in order to preserve the rights of the holders of marketable securities exchangeable or redeemable for shares;

   the maximum nominal amount of any capital increases decided under this authorisation shall be limited to the overall maximum set forth in the thirteenth resolution;

3. hereby resolves that the total nominal amount of the debt securities which can be issued under the aforementioned authorisation may not exceed six billion euros or the exchange value of this amount;

   the maximum nominal amount of any capital increases decided under this authorisation shall be limited to the overall maximum set forth in the thirteenth resolution;

4. should the Board of Directors decide to use this authorisation:
   - hereby resolves that shareholders may exercise their irrevocable preferential subscription rights in accordance with the law,
   - pursuant to the law, the Board of Directors, shall have the option of instituting the right of shareholders to subscribe to a larger number of marketable securities on a revocable basis than they would be able to subscribe to on an irrevocable basis, proportionally to their subscription rights and, in any event, within the limits of their request,
   - hereby resolves that the Board of Directors may decide, if need be, to increase the number of shares issued as a proportion of the initial issue pursuant to the provisions of Article L. 225-135-1 of the Commercial Code and Article 155-4 of Decree 67-236 of March 23, 1967,
   - hereby acknowledges that, pursuant to Article L. 225-132 of the Commercial Code, this authorisation shall automatically entail the waiver by the shareholders in favour of the holders of marketable securities exchangeable or redeemable in the future for any shares in the Company, of their preferential subscription rights to these shares;
5. hereby resolves that the Board of Directors shall have full powers, with the authority to delegate to any person authorised by law, to implement this authorisation according to applicable law, notably:
   - to set the terms and conditions of any capital increase and/or issue(s),
   - to set the dates and terms of the issues, the type, form and characteristics of the marketable securities to be created, which may or may not be in the form of subordinated or fixed-term securities,
   - in the case of a debt securities issue, to decide, notably, whether or not they are subordinated (and, if need be, their subordination ranking, pursuant to Article L. 228-97 of the Commercial Code), to set their interest rate, term, redemption price (fixed or variable, with or without a premium), the issue terms (including potential guarantees) and repayment terms based on market conditions and the terms under which the securities may be exchanged or redeemed for shares in the Company,
   - to set the payment terms for shares and/or securities issued or to be issued in the future,
   - to set the price and terms of the issues, determine the issue amounts and the amount of any potential issue premium,
   - to set the terms that shall, if need be, preserve the rights of the holders of marketable securities exchangeable or redeemable for Company shares, in accordance with legal and regulatory requirements, to set the coupon date (even retroactively) of securities to be issued,
   - if need be, to set the terms that will give the Company the option of buying or trading on the market, at any time or during specific periods, securities issued or to be issued in the future,
   - to allow for the option of suspending the exercise of share subscription and/or acquisition rights attached to marketable securities or to stock options issued, for a period not exceeding three months,
   - to charge, if need be, any costs to the issue premium(s), particularly the costs incurred in carrying out the issues,
   - to use, if subscriptions for irrevocable or, if necessary, revocable shares have not absorbed the entire issue of shares or marketable securities as defined above, one or more of the options set out hereafter in the order it deems appropriate:
     - to limit the issue to the amount of subscriptions, provided that this comes to a total of at least three-quarters of the approved issue,
     - to freely distribute some or all of any shares issued and not subscribed for,
     - to sell on the open market some or all of any shares not subscribed for,
   - in general, to enter into any agreement, to take any steps and carry out any formalities required to successfully carrying out the issue or issues considered, to report any capital increases resulting from an issue and to amend the Articles of Association accordingly;
6. hereby resolves to cancel the unused portion of the authorisation for the same purpose granted to the Board of Directors by the General Shareholders' Meeting held on May 19, 2005.

NINTH RESOLUTION

Authorisation to issue or approve the issue, without preferential subscription rights, of shares and/or any marketable securities exchangeable or redeemable, immediately or in the future, for shares and/or marketable securities exchangeable or redeemable for debt securities

The General Shareholders' Meeting, acting as an Extraordinary Meeting, after reviewing the report by the Board of Directors and the Statutory Auditors' Special Report and in accordance with the provisions of the Commercial Code, notably Articles L. 225-129, L. 225-129-2, L. 225-136, L. 228-91 and L. 228-93:

1. hereby authorises the Board of Directors, with the right to delegate to any person authorised by law and according to applicable law, for a period of 26 months from the date of this Meeting, to determine the issue by the Company through a public offering in France and abroad, on one or more occasions, of shares and/or any marketable securities exchangeable or redeemable, immediately and/or in the future, including share subscription and/or purchase warrants issued autonomously, free of charge or for a consideration, either in euros or foreign currencies or in any other unit of account determined with reference to a set of currencies, subscribed in cash or backed by receivables, by conversion, exchange, redemption or presentation of a warrant or by any other method, for shares in the Company and/or pursuant to Article L. 228-93 of the Commercial Code, for shares in any company in which it owns directly or indirectly more than half the capital and/or, pursuant to Article L. 228-91 of the Commercial Code, marketable securities exchangeable or redeemable for debt securities;

   under Article L. 225-148 of the Commercial Code, new shares may be issued as payment for shares tendered to the Company in a share purchase or exchange offer or a combination thereof involving a company whose shares are traded on the regulated market of a country that has signed the European Economic Area agreement or is a member of the Organisation for Economic Cooperation and Development;

   the General Shareholders' Meeting hereby resolves that this authorisation expressly excludes issues of preferred shares and any marketable securities exchangeable or redeemable for preferred shares;

2. hereby resolves that the total nominal amount of any capital increases made immediately and/or in the future under this authorisation may not exceed two hundred million euros, or the exchange value of this amount, plus the nominal amount of any additional shares to be issued by law in order to preserve the rights of the holders of marketable securities exchangeable or redeemable for shares;

   the maximum nominal amount of any capital increases decided under this authorisation shall be limited to the overall maximum set forth in the thirteenth resolution;

3. hereby resolves that the total nominal amount of any debt securities likely to be issued under the aforementioned authorisation may not exceed six billion euros, or the exchange value of this amount;

   the maximum nominal amount of any debt securities issues decided under this authorisation shall be limited to the overall maximum set forth in the thirteenth resolution;

4. hereby resolves, pursuant to Article L. 225-136 of the Commercial Code, to waive the preferential subscription rights of shareholders to future marketable securities, given that the Board of Directors may provide for the capital increase to include a total or partial priority subscription period in favour of shareholders, without giving rise to the creation of negotiable rights;

5. hereby resolves that, if the subscriptions of shareholders and the general public have not absorbed the entire issue of shares or marketable securities as defined above, the Board of Directors may use one or other of the following options in the order it deems appropriate:

   — to limit, if need be, the issue to the amount of subscriptions, provided that this is equal to at least three-quarters of the approved issue,

   — to freely distribute some or all of any unsubscribed shares;

6. hereby resolves that, the Board of Directors may decide, if need be, to increase the number of securities issued as a proportion of the initial issue pursuant to the provisions of Article L. 225-135-1 of the Commercial Code and Article 155-4 of Decree 67-236 of March 23, 1967;

7. hereby acknowledges that, pursuant to Article L. 225-132 of the Commercial Code, this authorisation shall automatically lead to the waiver by the shareholders, in favour of the holders of marketable securities exchangeable or redeemable for any future Company shares, of their preferential subscription rights to these shares (including the issue of shares related to marketable securities exchangeable or redeemable for shares in the Company and issued, pursuant to Article L. 228-93 of the Commercial Code, by a company in which the Company owns directly or indirectly more than half of the share capital);

8. hereby resolves that, where marketable securities to be issued immediately or at a later date are equivalent to Company shares, the issue price shall be determined in accordance with the provisions of paragraph one of Article L. 225-136 1° of the Commercial Code and Article 155-5 of Decree 67-236 of March 23, 1967;

9. hereby resolves that, the Board of Directors shall have full powers, with the authority to delegate, to implement this authorisation according to applicable law, notably:

   — to set the terms and conditions of any issue(s),

   — to set, in the case of a priority subscription period, the subscription terms and conditions for revocable and, if applicable, irrevocable marketable securities,

- to set the dates and terms of the issue(s), the type, form and characteristics of the marketable securities to be created, which may or may not be in the form of subordinated or fixed-term securities (and, if need be, their subordination ranking, pursuant to Article L. 228-97 of the Commercial Code),
- to set the price and terms of the issues, determine the issue amounts,
- to set the payment terms for shares and/or securities issued or to be issued in the future,
- to set the coupon date (even retroactively) for future securities issues and, if need be, the terms and conditions applicable to any purchase or trading of the securities on the market, to suspend, if need be, the exercise of share allotment and share subscription and/or purchase rights attached to marketable securities issued for a period not exceeding three months,
- in the case of shares issued to pay for shares tendered under a share purchase or exchange offer or a combination thereof, to set the exchange ratio and, if need be, the amount of any balancing cash adjustment, to establish the number of shares tendered in the exchange offer, to set the dates, issue terms, notably the price and coupon date of new shares or, if need be, of shares exchangeable or redeemable immediately or in the future for Company shares, to set the issue terms and to record under liabilities in a "capital reserves" account, which shall include the rights of all shareholders, the difference between the issue price and par value of the new shares,
- to charge, if need be, any costs to the issue premium(s), particularly the costs incurred in carrying out the issues,
- in general, to take any steps and enter into any agreements to successfully carry out the issues considered, to carry out any formalities required, to report any capital increases resulting from an issue carried out under this authorisation and to amend the Articles of Association accordingly;

in the case of a debt securities issue, the Board of Directors shall have full powers, with the authority to delegate to any person authorised by law, notably to decide whether or not these securities are subordinated (and, if need be, their subordination ranking, pursuant to Article L. 228-97 of the Commercial Code), to set their interest rate, term, redemption price (fixed or variable, with or without a premium), repayment terms based on market conditions and the terms under which the securities shall be exchangeable or redeemable for Company shares, and generally to set all the terms and conditions;

10. hereby decides to cancel the unused portion of the authorisation granted to the Board of Directors by the General Shareholders' Meeting of May 19, 2005.

TENTH RESOLUTION

Authorisation granted to increase the share capital through the capitalisation of reserves, income or issue premiums

The General Shareholders' Meeting, acting as an Extraordinary Meeting, after reviewing the report by the Board of Directors, and ruling pursuant to Article L. 225-130 of the Commercial Code, hereby authorises the Board of Directors, with the authority to delegate to any person authorised by law and according to applicable law, for a period of 26 months from the date of this General Shareholders' Meeting, to carry out a capital increase, on one or more occasions, at times and under the terms and conditions to be determined by the Board, by capitalisation of reserves, earnings or issue premiums, followed by the creation and allotment of bonus shares or an increase in the par value of any shares outstanding, or a combination of these two procedures.

The Board of Directors may decide that fractional shares shall not be negotiable and that the corresponding shares shall be sold, with the proceeds of the sale allocated to the holders of the rights no later than thirty days after the date on which the whole number of shares allocated is registered in their accounts.

The amount of the capital increase likely to be realised under this resolution shall not exceed the total amount of the sums to be capitalised and, more generally, shall not exceed the overall maximum set forth in the thirteenth resolution.

The General Shareholders' Meeting grants the Board of Directors, with the authority to delegate according to applicable law, full powers to implement this resolution and, generally, to take all steps and carry out all the formalities required to ensure the success of each capital increase.

The General Shareholders' Meeting hereby decides to cancel the unused portion of the authorisation granted to the Board of Directors by the General Shareholders' Meeting of May 19, 2005.

ELEVENTH RESOLUTION

Authorisation for the purpose of setting the issue price of shares and/or marketable securities exchangeable or redeemable for Company shares under certain terms and conditions, and representing up to 10% of the share capital per year, through a share capital increase without preferential subscription rights

The General Shareholders' Meeting, acting as an Extraordinary Meeting, after reviewing the report by the Board of Directors and the Statutory Auditors' Special Report, and pursuant to Article L. 225-129-2 and the second paragraph of Article L. 225-136 1° of the Commercial Code, hereby authorises the Board of Directors to set the issue price for issues decided in accordance with the ninth resolution and representing up to 10% of the share capital per year, based on the following terms and conditions: the amount that the Company receives, or should receive, for each of the shares issued under this authorisation, after taking into account, if need be, in the event of the issue of autonomous warrants, the issue price of such warrants, shall be at least equal to 90% of the weighted average share price over the last three trading sessions prior to the setting of the issue terms.

TWELFTH RESOLUTION

Authorisation to increase share capital by issuing shares, warrants and/or marketable securities, without preferential subscription rights, exchangeable or redeemable, immediately or in the future, for Company shares and reserved for a category of beneficiaries

The General Shareholders' Meeting, acting as an Extraordinary Meeting, after reviewing the report by the Board of Directors and the Statutory Auditors' Special Report and in accordance with the provisions of Article L. 225-138 of the Commercial Code, notably paragraph 2:

1. hereby grants the Board of Directors the necessary powers in order to carry out a share capital increase, on one or more occasions, for a maximum nominal amount of fifty million euros, it being specified that this maximum amount shall be added to the total share capital increase amount set forth in the thirteenth resolution submitted to the General Shareholders' Meeting:

   a) by issuing new shares, with or without share subscription warrants, subscribed in cash or backed by receivables, with or without issue premiums,

   b) by issuing marketable securities other than shares, conferring entitlement, directly or indirectly, by conversion, exchange, redemption or upon presentation of a warrant or by any other method, to shares, at any time or on specific dates,

   c) by issuing share subscription warrants to be subscribed in cash or allotted for no consideration, it being specified that these warrants could be issued alone or attached to the marketable securities mentioned in b) above issued simultaneously,

   d) by simultaneously implementing a combination of these procedures;

   the maximum nominal amount of marketable debt securities likely to be issued under this resolution shall not exceed one billion two hundred and fifty million euros or the exchange value of this amount in foreign currencies or in any other unit of account determined with reference to a set of currencies. This maximum amount shall be added to the total nominal amount of the warrants and/or marketable securities set forth in the thirteenth resolution submitted to the General Shareholders' Meeting;

2. hereby resolves to cancel the preferential subscription rights of shareholders to the marketable securities subject to this resolution and reserves the right to subscribe them to a category of beneficiaries comprising the credit institutions and companies governed by the French Insurance Code or its foreign equivalent, with respect to the complex financing transactions carried out to optimise the Company's balance sheet structure;

3. hereby acknowledges that this authorisation shall automatically lead to the express waiver by the shareholders, in favour of the holders of marketable securities exchangeable or redeemable for any future Company shares, of their preferential subscription rights to these shares and resolves to cancel the preferential subscription rights of shareholders to shares issued through the conversion of bonds or the exercise of warrants;

4. hereby resolves that the Board of Directors shall determine the precise list of beneficiaries with the category of beneficiaries mentioned previously for whose benefit the preferential subscription rights have been cancelled and shall approve the characteristics, amount and terms of any issue as well as the terms and conditions of settlement of the issued shares. In particular, it shall determine the number of shares to be issued for each beneficiary and shall set, considering the information contained in its complementary report, the subscription price of these shares, their coupon date, it being specified that the amount that the Company receives, or should receive, for each of the shares issued under this authorisation, after taking into account, if need be, in the event of the issue of autonomous share subscription warrants, the issue price of such warrants, shall be at least equal to the weighted average share price over the last three trading

sessions prior to the issue. If need be, this average may be adjusted to take into account coupon date differences and even reduced by a maximum discount of 5%;

5. hereby resolves that the Board of Directors shall be granted, pursuant to the law, full powers, with the authority to delegate in accordance with the law:

   a) to implement this resolution, notably to carry out the aforementioned share capital increases, report its completion, amend the Articles of Association accordingly and draft the complementary report as provided by law, and to carry out any formalities and declarations, and obtain any authorisations which may be necessary for the completion of these issues,

   b) to suspend the exercise of the share allotment rights attached to the issued marketable securities for a maximum period of three months, if this is necessary for the completion of these issues,

   c) to adopt any measures and carry out, if need be, any formalities required to trade the issued shares on a regulated market, charge the issue costs of the shares against the premiums relating to the share capital increases and deduct from these premiums the amounts required to bring the statutory reserve to a tenth of the amount of share capital resulting from these increases,

   d) in the event of an issue of debt securities exchangeable or redeemable for shares, notably to decide whether or not these securities are subordinated, to set their interest rate, currency, term (if need be indefinite), redemption price (fixed or variable, with or without a premium), repayment terms based on conditions under which these securities can be exchanged or redeemed for shares of the Company, and in the event of an issue of marketable securities exchangeable or redeemable for shares, to purchase on the market or over-the-counter these marketable shares, for the purpose or not of cancelling them, pursuant to the prevailing laws.

This authorisation is granted to the Board of Directors for a period of eighteen months from the date of this Meeting.

THIRTEENTH RESOLUTION

Overall limit of the amount for issues carried out under the eighth, ninth, tenth, eleventh and twelfth resolutions

The General Shareholders' Meeting, acting as an Extraordinary Meeting, after reviewing the report of the Board of Directors and as a result of adopting the eighth, ninth, tenth, eleventh and twelfth resolutions, hereby resolves:

- to set the maximum nominal amount for debt securities likely to be issued under the authorisations granted by the aforementioned resolutions at six billion euros, or the exchange value of this amount in the case of an issue in a foreign currency or a unit of account determined by reference to several currencies; and
- to set the maximum nominal amount of any capital increases likely to be made immediately or in the future under or subsequent to the authorisations granted by the aforementioned resolutions at two hundred million euros, or the exchange value of this amount, plus the nominal amount of any additional shares to be issued by law in order to preserve the rights of the holders of marketable securities exchangeable or redeemable for shares.

FOURTEENTH RESOLUTION

Authorisation to increase the share capital by up to 10%, as payment for in-kind contributions comprised of shares or marketable securities exchangeable or redeemable for shares

The General Shareholders' Meeting, acting as an Extraordinary Meeting, after reviewing the report by the Board of Directors, pursuant to Article L. 225-147 of the Commercial Code, hereby grants the Board of Directors the necessary powers to carry out one or more capital increases representing up to 10% of the share capital at the time of the issue, in order to pay for in-kind contributions granted to the Company and consisting of shares or marketable securities exchangeable or redeemable for Company shares, where the terms and conditions governing contributions under share exchange offers as defined in Article L. 225-148 of the Code do not apply.

The Board of Directors shall approve the report on the contributions prepared by the Auditor(s), in accordance with Article L. 225-147 of the Commercial Code.

The General Shareholders' Meeting hereby grants the Board of Directors full powers to approve or reduce the valuation of the in-kind contributions, report their completion, carry out the capital increase and amend the Articles of Association accordingly.

This authorisation is granted for a period of twenty-six months from the date of this Meeting.

FIFTEENTH RESOLUTION

Authorisation to grant share subscription or purchase options

The General Shareholders' Meeting, acting as an Extraordinary Meeting, after reviewing the report by the Board of Directors and the Statutory Auditors' Special Report prepared in accordance with legal requirements, hereby authorises the Board of Directors to grant, pursuant to Articles L. 225-177 to L. 225-186 and L. 225-209 of the Commercial Code, on one or more occasions, for the benefit of certain members of staff chosen from among the employees and corporate officers of the Company and its affiliated companies or groupings, pursuant to Article L. 225-180 of said Code, options conferring entitlement to subscribe to new Company shares to be issued in respect of a capital increase and options conferring entitlement to purchase the shares bought back by the Company.

The share subscription and purchase options granted under this authorisation may be exercised for a maximum of 2,500,000 shares and shall be exercised within a maximum period of 10 years.

The General Shareholders' Meeting hereby grants full powers to the Board of Directors to set the terms and conditions governing these share options and, notably, to identify the companies, members of staff and corporate officers concerned, and the number of shares that each of them may subscribe to or purchase. The terms and conditions may include clauses prohibiting the exercise of options during one or more periods and clauses prohibiting the immediate sale of some or all of the shares, and the mandatory holding period for the shares shall not exceed three years from the exercise date.

The exercise price of share subscription or purchase options shall be determined by the Board of Directors, and this price may not be lower than the limit set forth in Article L. 225-177 of the aforementioned Code. In the case of purchase options, the price may not, in addition, be lower than the limit set forth in Article L. 225-179 of said Code.

However, if during the exercise period, the Company carries out one of the financial or securities transactions stipulated in Article L. 225-181 of said Code, the Board of Directors shall adjust the number and price of shares included in the options granted to the beneficiaries thereof in accordance with the regulatory provisions governing such transactions.

The General Shareholders' Meeting hereby grants the Board of Directors full powers to purchase the Company shares required for the share purchase options under Article L. 225-208 or to use the shares acquired under Article L. 225-209 of the aforementioned Code.

This authorisation shall entail the express waiver by the shareholders, in favour of the beneficiaries of share subscription options, of their preferential subscription rights to the shares issued as and when share subscription options are exercised. The increase in the share capital resulting from the exercise of share subscription options shall be effectively implemented merely by declaring the exercise of the share subscription options accompanied by the application forms and the settlements, either in cash or backed by receivables on the Company. The Board of Directors, or its Chairman (by delegation), shall ascertain, if need be, in accordance with the law, the number and amount of shares issued following the exercise of share subscription options and shall make the necessary amendments to the clauses in the Articles of Association relating to the amount of share capital and the corresponding number of shares.

Lastly, the Board of Directors shall be granted full powers to set the exercise dates, temporarily suspend the exercise of options in the event of financial transactions and determine any other terms and conditions governing these transactions.

This authorisation, which cancels the unused portion of the authorisation granted to the Board of Directors by the General Shareholders' Meeting of May 19, 2005, is granted for a period of thirty-eight months as from the date of this Meeting.

SIXTEENTH RESOLUTION

Authorisation to grant bonus shares to Company employees and corporate officers

The General Shareholders' Meeting, acting as an Extraordinary Meeting, after reviewing the report of the Board of Directors and the Statutory Auditors' Special Report:

- hereby authorises the Board of Directors, in accordance with the provisions of Articles L. 225-197-1 *et seq*. of the Commercial Code, to allot, on one or more occasions, for the benefit of the Company's salaried staff or certain categories thereof, and/or for the benefit of the corporate officers referred to in Article L. 225-197-1 II of the Commercial Code, as well as employees and corporate officers of companies or economic interest groupings affiliated to the Company pursuant to Article L. 225-197-2 of the Commercial Code, bonus shares of the Company in the form of existing shares or shares to be issued;
- hereby resolves that the total number of shares to be allotted may not exceed 0.5% of the share capital at the time of the grant, this percentage having been calculated on the basis of these shares allotted and/or issued.

The General Shareholders' Meeting hereby authorises the Board of Directors, simultaneously or alternately, subject to the limit set forth in the previous paragraph:

- to allot shares arising from buybacks carried out by the Company pursuant to Articles L. 225-208 and L. 225-209 of the Commercial Code; and/or
- to allot shares to be issued through a capital increase; in this case, the General Shareholders' Meeting hereby authorises the Board of Directors to increase the share capital by the maximum nominal amount corresponding to the number of shares definitively allotted, and acknowledges that, pursuant to the law, the allotment of shares to the beneficiaries designated by the Board of Directors shall entail the express waiver by shareholders, in favour of these beneficiaries, of their preferential subscription rights to the shares to be issued.

The General Shareholders' Meeting:

A) in respect of the allotment of bonus shares to beneficiaries who are tax residents in France:
   - hereby sets the minimum vesting period at two years from the date the allotment rights are granted by the Board of Directors, at the end of which such rights shall be definitively vested by the beneficiaries, bearing in mind that the rights are non-transferable until the end of this period, pursuant to Article L. 225-197-3 of the Commercial Code,
   - hereby sets the minimum holding period for beneficiaries of the shares at two years from the definitive allotment date. However, the shares shall be freely transferable in the event of the death of the beneficiary, and should the beneficiary become incapacitated in accordance with the classification in the second or third categories stipulated in Article L. 341-4 of the French Social Security Code;

B) in respect of the allotment of bonus shares to beneficiaries who are not tax residents in France:
   - hereby sets the minimum vesting period at four years from the date the allotment rights are granted by the Board of Directors, at the end of which such rights shall be definitively vested by the beneficiaries, bearing in mind that the rights are non-transferable until the end of this period, pursuant to Article L. 225-197-3 of the Commercial Code,
   - hereby cancels the holding period for beneficiaries of the shares, these shares being freely transferable from the definitive allotment date pursuant to the seventh paragraph of Article L. 225-197-1.

However, regarding the allotments stipulated in paragraph A and paragraph B above, in the event of the beneficiary's death, the heirs may apply, within six months of the date of death, for the share allocation; furthermore, the shares shall be allotted prior to the end of this period should the beneficiary become incapacitated in accordance with the classification in the second or third categories stipulated in Article L. 341-4 of the French Social Security Code.

The General Shareholders' Meeting hereby grants the Board of Directors full powers, within the limits set out above:

- to determine the beneficiaries, or the category(ies) of beneficiaries eligible for share allotments, bearing in mind that shares cannot be allocated to employees and corporate officers owning more than 10% of the share capital, and that the allotment of bonus shares must not cause the beneficiaries to exceed the holding threshold of more than 10% of the share capital;
- to distribute the share allotment rights, on one or more occasions, and at times it deems appropriate;
- to set, if need be, the share allotment terms and criteria, such as (without limitation): length of service, conditions relating to maintaining an employment relationship or corporate officer mandate during the vesting period, and any other financial conditions or conditions related to individual or collective performance;
- to set the definitive duration of the vesting period and the holding period for shares within the limits set out above by the General Shareholders' Meeting;
- to set, if need be, the holding terms for shares during the holding period;
- to allocate to a statutory reserve, earmarked for beneficiaries' rights, a sum equal to the total amount of the par value of shares likely to be issued in connection with a capital increase, through the deduction of the necessary sums from any reserves, earnings or premiums available to the Company;
- to make the necessary deductions from this statutory reserve in order to settle the par value of shares to be issued in favour of the beneficiaries and increase share capital by the nominal amount of bonus shares allotted;
- in the event of a capital increase, to amend the Articles of Association accordingly, and to carry out all the necessary formalities;
- in the event of any financial transactions referred to in paragraph one of Article L. 228-99 of the Commercial Code, during the vesting period, to take all the necessary steps, if it deems appropriate, to preserve and make adjustments to the rights of beneficiaries of shares in accordance with the provisions of said Article.

In accordance with Articles L. 225-197-4 and L. 225-197-5 of the Commercial Code, the General Shareholders' Meeting shall receive a special report each year informing it of any transactions carried out under the present authorisation.

This authorisation is granted for a period of thirty-eight months from this Meeting.

SEVENTEENTH RESOLUTION

Authorisation to increase the share capital by issuing, without preferential subscription rights, shares or other equity securities reserved for employees and former employees belonging to an Employee Savings Scheme

The General Shareholders' Meeting, acting as an Extraordinary Meeting, after reviewing the report of the Board of Directors and the Statutory Auditors' Special Report, hereby authorises the Board of Directors, for a period of 26 months, to carry out, solely by its own decision, on one or more occasions, under the terms provided by law, notably Articles L. 225-138-1 and L. 225-129-6 of the Commercial Code and Articles L. 443-1 *et seq*. of the Labour Code, the share capital increase in a maximum nominal amount of €4,800,000, by issuing shares or other equity securities reserved for employees and former employees of the Company or its affiliated companies or groupings under the terms set forth in Article L. 233-16 of the Commercial Code belonging to an Employee Savings Scheme established for such purpose.

The total number of shares that can be subscribed under the terms of the current authorisation may not exceed 1,200,000.

The General Shareholders' Meeting hereby resolves that this authorisation shall entail the cancellation of the preferential subscription rights of shareholders to any shares or other equity securities issued in favour of the aforementioned employees and former employees for whom they are reserved.

The share subscription price shall be set at a minimum of 80% of the average opening price quoted for the Company's shares on the Euronext Paris SA Premier Marché, over the twenty trading sessions prior to the day on which the Board of Directors determines the opening date for subscriptions.

Pursuant to Article L. 443-5 of the Labour Code, the General Shareholders' Meeting hereby resolves that the Board of Directors may also allot bonus shares or other equity securities under the legal and regulatory provisions in effect.

Each capital increase will be of an amount equal to the value of shares subscribed to by employees and former employees, individually or through the company's mutual funds governed by Article L. 214-40-1 of the Monetary and Financial Code.

The General Shareholders' Meeting hereby grants full powers to the Board of Directors to:

- determine the subscription price or prices of the shares to be issued and the coupon date;
- determine the companies and employees and former employees concerned;
- determine the characteristics and terms of issue of the equity securities;
- decide whether or not the shares can be subscribed directly by the employees and former employees belonging to an Employee Savings Scheme or through a mutual fund governed by Article L. 214-40-1 of the Monetary and Financial Code;
- set the dates, deadlines and other terms and conditions for any future issues;
- report the completion of any capital increases;
- charge the cost of any capital increases to the amount of the premiums related thereto;
- amend the Articles of Association accordingly, apply for the quotation of the securities issued and in general take any decisions, enter into any agreements and carry out any formalities.

The General Shareholders' Meeting hereby resolves to cancel the unused portion of the authorisation granted to the Board of Directors by the General Shareholders' Meeting of May 19, 2005.

EIGHTEENTH RESOLUTION

Amendment of Article 20 of the Articles of Association for harmonisation with the Decree of December 11, 2006 on the registration of shares in shareholder accounts prior to the Shareholders' Meetings as well as to facilitate electronic voting at Shareholders' Meetings and relations between the shareholders and the Company by electronic means

The General Shareholders' Meeting, acting as an Extraordinary Meeting, after reviewing the report of the Board of Directors, hereby resolves to harmonise the Articles of Association with the Decree no. 2006-1566 of December 11, 2006, and amend Article 20 (Shareholders' Meetings) as follows:

Paragraph 3 of this Article is replaced with the following text:

"All shareholders are entitled to participate in General Shareholders' Meetings in person or by proxy, in accordance with the law, upon presentation of proof of identity and proof of ownership of shares through the registration of such shares in their name within the regulatory deadline either in registered share accounts held by the Company or in bearer share accounts held by the authorised broker. Shareholders may provide proof of their shareholder capacity by electronic means in accordance with prevailing regulations. Shareholders may, at the discretion of the Board of Directors, attend meetings by videoconference or other means of telecommunication that enable them to be identified as required by applicable regulations. Shareholders may also cast votes by mail, by returning the duly completed postal voting form to the Company as required by applicable regulations. For postal votes to be taken into account, the Company must receive the corresponding form within the regulatory conditions. The Board of Directors may, however, reduce this deadline for the benefit of all shareholders. Shareholders living outside the European Union may appoint a proxy in accordance with applicable regulations."

NINETEENTH RESOLUTION

Powers to complete formalities

The General Shareholders' Meeting, acting as an Extraordinary Meeting, hereby grants full powers to the bearer of a copy or an excerpt of the minutes of this Meeting to carry out all legal announcement formalities.

Statutory auditors' special report

on capital transactions described in resolutions nos. 7, 8, 9, 11, 12, 15, 16 and 17 (Combined General Shareholders' Meeting of May 14, 2007)

Dear Shareholders,

In our capacity as statutory auditors of PPR S.A. and pursuant to the engagements set forth in the French Commercial Code (Code de commerce), we hereby present you with our report on the following transactions, which are subject to adoption by the shareholders.

Reduction in share capital by cancellation of shares (7th resolution)

Pursuant to the engagement set forth in paragraph. 7, Article L. 225-209 of the French Commercial Code, in the event of a reduction in share capital through the cancellation of shares purchased, we have prepared this report on our assessment of the reasons for and terms and conditions of the proposed share capital reduction.

We conducted our review in accordance with professional standards applicable in France. Those standards require that we plan and perform the review in order to examine the fairness of the reasons for and the terms and conditions of the proposed share capital reduction.

This transaction involves the purchase by the Company of its own shares, up to a maximum of 10% of the share capital, pursuant to the terms and conditions set forth in Article L. 225-209, of the French Commercial Code. This purchase authorization, to be granted for a period of 18 months, is subject to adoption by the shareholders.

Shareholders are requested to confer all necessary powers on the Board of Directors, during a period of 26 months, to cancel on one or more occasions the shares purchased by the Company, pursuant to the share purchase authorization, up to a maximum of 10% of the share capital by 24-month period.

We have no comments on the reasons for or the terms and conditions of the proposed share capital reduction, which, you are reminded, may only be performed subject to the prior approval by the shareholders of the purchase by the Company of its own shares pursuant to the adoption of the 6th resolution.

Delegation of powers to the Board of Directors to decide on the issue of shares and/or any marketable securities with retention and/or cancellation of preferential subscription rights (8th, 9th and 11th resolutions)

Pursuant to the engagement set forth in the French Commercial Code, and in particular Articles L.225-135, L.225-136 and L.228-92, we hereby report to you on the proposed issues of shares and/or any marketable securities in the 8th 9th and 11th resolutions, transactions which are subject to adoption by the shareholders.

Your Board of Directors asks the shareholders, based on its report:

- to delegate to it, for a period of 26 months, with the option to sub-delegate such powers, the authority to decide on the following transactions and set the final terms and conditions of these issues and proposes that you cancel, if need be, your preferential subscription rights:
  - issue of ordinary shares and any marketable securities conferring access to existing or new shares of the Company and/or to the shares of any company in which your Company holds, directly or indirectly, more than half of its share capital, and/or any marketable securities conferring entitlement to the allotment of debt securities, with retention of preferential subscription rights (8th resolution),
  - public issue of ordinary shares and any marketable securities conferring access to the share capital of the Company and/or any company in which your Company holds, directly or indirectly, more than half of its share capital and/or any marketable securities conferring entitlement to the allotment of debt instruments, with cancellation of preferential subscription rights, it being specified that the new shares may be issued to remunerate securities transferred to the Company as part of a share exchange bid for securities satisfying the criteria set out in Article L. 225-148 of the French Commercial Code (9th resolution);
- to authorise it, pursuant to the 11th resolution and in connection with the implementation of the delegation of powers referred to in the 9th resolution, to set the issue price up to the maximum annual legal amount of 10% of the share capital.

The total nominal amount of share capital increases likely to be performed immediately or in the future pursuant to the 8th and 9th resolutions may not exceed two hundred million euros, to which shall be added, if necessary, the nominal amount of additional shares to be issued in order to preserve, in accordance with the law, the rights of holders of marketable securities conferring entitlement to these shares, up to a maximum

overall ceiling of two hundred million euros which also applies to share capital increases likely to be performed pursuant to delegations of powers and authorisations granted by the General Shareholders' Meeting in the 8th, 9th, 10th, 11th and 12th resolutions (in accordance with the 13th resolution).

The number of securities to be created as part of the implementation of the delegations of powers referred to in the 8th and 9th resolutions may be increased under the conditions set forth in Article L. 225-135-1 of the French Commercial Code.

The total nominal amount of issues of debt securities that may be performed immediately or in the future pursuant to the 8th and 9th resolutions may not exceed six billion euros, up to a maximum overall ceiling of six billion euros which also applies to issues of debt securities likely to be performed pursuant to the delegations and authorisations granted by the General Shareholders' Meeting in the 8th, 9th, 10th, 11th and 12th resolutions (in accordance with the 13th resolution).

It is the responsibility of the Board of Directors to prepare a report in accordance with Articles 154 and 155 of the Decree of March 23, 1967. Our role is to express an opinion on the fair presentation of the quantified information extracted from the accounts, on the proposed cancellation of preferential subscription rights and on certain other information concerning these transactions, contained in this report.

We conducted our procedures in accordance with professional guidelines applicable in France. Those guidelines require that we plan and perform procedures to verify the contents of the Board's report in respect of these transactions and the terms and conditions governing the determination of the issue price of equity securities to be issued.

Subject to a subsequent review of the terms and conditions of the proposed issues, we have no comment on the terms and conditions for determining the issue price of the equity securities presented in the Board's report in respect of the 9th and 11th resolutions.

Moreover, since this report does not specify the terms and conditions for determining the issue price of the equity securities to be issued as part of the implementation of the 8th resolution or in the event of the issue of equity securities to remunerate securities transferred as part of a public exchange offer satisfying the conditions set forth in Article L 225-148 of the French Commercial Code set forth in the 9th resolution, we cannot express an opinion on the choice of elements for the calculation of this issue price.

As the issue price of equity securities to be issued has not been set, we do not express an opinion on the final terms and conditions under which the issues will be performed and, as such, on the proposed cancellation of preferential subscription rights in the 9th resolution.

In accordance with Article 155-2 of the Decree of March 23, 1967, we shall, if necessary, issue an additional report on the performance by your Board of any issues of ordinary shares with cancellation of preferential subscription rights or of any issues of marketable securities conferring access to the share capital and/or entitlement to the allotment of debt instruments.

Delegation of powers to the Board of Directors to perform share capital increases by the issue, without preferential subscription rights, of shares, warrants and/or marketable securities conferring entitlement immediately or in the future, to Company shares and reserved for a category of beneficiaries (12th resolution)

Pursuant to the engagement set forth in Articles L.225-138 and L.228-92 of the French Commercial Code, we hereby report to you on the proposed issue of shares and/or marketable securities conferring access to the share capital, with cancellation of preferential subscription rights, reserved for credit institutions and/or companies governed by the French Insurance Code (Code des assurances) or its foreign equivalent, with respect to complex financing transactions carried out to optimise the Company's balance sheet structure, in order to facilitate the placement of these issues, transactions which are subject to adoption by the shareholders.

Your Board asks, based on its report, that you delegate to it for a period of 18 months the authority to set the terms and conditions of this transaction and asks that you cancel your preferential subscription rights.

The maximum nominal amount of share capital increases likely to be performed immediately or in the future may not exceed fifty million euros, it being specified that this ceiling will be added to the global ceiling that applies to share capital increases set at two hundred million euros in the 13th resolution.

The maximum nominal amount of debt securities likely to be issued may not exceed one billion two hundred and fifty million euros, it being specified that this ceiling will be added to the global ceiling for issues of debt securities set at six billion euros in the 13th resolution.

It is the responsibility of the Board of Directors to prepare a report in accordance with Articles 154 and 155 of the Decree of March 23, 1967. Our role is to express an opinion on the fair presentation of the quantified information extracted from the accounts, on the proposed cancellation of preferential subscription rights and on certain other information concerning these transactions, contained in this report.

We conducted our procedures in accordance with professional standards applicable in France. Those standards require that we plan and perform procedures to verify the contents of the Board's report in respect of these transactions and the terms and conditions governing the determination of the issue price of equity securities to be issued.

Subject to a subsequent review of the terms and conditions of the proposed issues, we have no comment on the terms and conditions for determining the issue price of the equity securities presented in the Board's report.

As the issue price of equity securities to be issued has not been set, we do not express an opinion on the final terms and conditions under which the issues will be performed and, as such, on the proposed cancellation of preferential subscription rights presented in the Board's report.

In accordance with Article 155-2 of the Decree of March 23, 1967, we shall issue an additional report on the performance of these issues by your Board of Directors.

Authorisation to grant share subscription or purchase options to employees and corporate officers (15th resolution)

Pursuant to the engagement set forth in Article L. 225-177 of the French Commercial Code and Article 174-19 of the Decree of March 23, 1967, we have prepared a report on the granting of share subscription or purchase options for the benefit of employees and corporate officers of the Company and its affiliated companies within the meaning of Article L.255-180 of the French Commercial Code.

It is the responsibility of the Board of Directors to prepare a report on the reasons underlying the granting of share subscription or purchase options as well as the proposed terms and conditions for determining the share subscription or purchase price. Our role is to express an opinion on the proposed terms and conditions for setting the share subscription or purchase price.

We conducted our procedures in accordance with professional standards applicable in France. Those standards require that we plan and perform procedures to verify that the proposed terms and conditions for setting the share subscription or purchase price are set forth in the Board's report, that they comply with prevailing regulations, so as to clearly inform the shareholders, and that they are not obviously inappropriate.

We have no comment to make on the proposed terms and conditions.

Granting of bonus shares in the form of existing shares or shares to be issued to salaried employees or certain categories thereof and/or corporate officers (16th resolution)

Pursuant to the engagement set forth in Article L.225-197-1 of the French Commercial Code, we have prepared a report on the proposed granting of bonus shares in the form of existing shares or shares to be issued for the benefit of salaried employees or certain categories thereof and/or corporate officers of PPR S.A. and its affiliated companies within the meaning of Article L.225-197-2 of the French Commercial Code.

Your Board asks that you authorise it to grant bonus shares in the form of existing shares or shares to be issued. It is the Board's responsibility to prepare a report on this transaction which it wishes to perform. Our role is to comment, if need be, on the information provided to you on the proposed transaction.

In the absence of any professional standards applicable to this transaction resulting from the provisions of the laws of December 30, 2004 and December 30, 2006, we have performed the procedures which we considered necessary. These procedures consisted in verifying, in particular, that the proposed terms and conditions in the Board's report comply with the provisions provided for by law.

We have no comment to make on the information in the Board's report on the proposed granting of bonus shares.

Issue of shares or other securities conferring access to the share capital reserved for employees and former employees who belong to an Employee Savings Scheme (17th resolution)

Pursuant to the engagement set forth in Articles L.225-135 et seq. and L.228-92 of the French Commercial Code, we hereby report to you on the proposed share capital increase, on one or more occasions, with cancellation of preferential subscription rights, of a maximum nominal amount of €4,800,000, by the issue of shares or marketable securities conferring access to the share capital, reserved for employees and former employees belonging to an Employee Savings Scheme, a transaction which is subject to adoption by the shareholders.

This share capital increase is subject to your approval pursuant to the provisions of Article L.225-129-6 of the French Commercial Code and Article L.443-5 of the French Labour Code (Code du travail).

Your Board asks, based on its report, that you delegate to it for a period of 26 months the authority to set the terms and conditions of this transaction and asks that you cancel your preferential subscription rights.

It is the responsibility of the Board of Directors to prepare a report in accordance with Articles 154 and 155 of the Decree of March 23, 1967. Our role is to express an opinion on the fair presentation of the quantified information extracted from the accounts, on the proposed cancellation of preferential subscription rights and on certain other information concerning these transactions, contained in this report.

We conducted our procedures in accordance with professional standards applicable in France. Those standards require that we plan and perform procedures to verify the contents of the Board's report in respect of these transactions and the terms and conditions governing the determination of the issue price of equity securities to be issued.

Subject to a subsequent review of the terms and conditions of the proposed issues, we have no comment on the terms and conditions for determining the issue price of the equity securities presented in the Board's report.

As the issue price of equity securities to be issued has not been set, we do not express an opinion on the final terms and conditions under which the issues will be performed and, as such, on the proposed cancellation of preferential subscription rights presented in the Board's report.

In accordance with Article 155-2 of the Decree of March 23, 1967, we shall issue an additional report on the performance of these share capital increases by your Board of Directors.

Neuilly-sur-Seine and Paris La Défense, March 12, 2007

The Statutory Auditors

Deloitte & Associés		KPMG Audit *Departement of KPMG SA*	
Jean-Paul Picard	Antoine de Riedmatten	Patrick-Hubert Petit	Hervé Chopin

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

7 Person responsible for the reference document and statutory auditors

PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT **296**

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Person responsible for the reference document

Jean-François Palus
Chief Financial Officer of PPR

ATTESTATION OF THE PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT

To my knowledge, after having taken all reasonable measures for this purpose, I hereby attest that the information presented in this Reference Document fairly reflects the current situation and that no material omissions have been made.

I have obtained from KPMG Audit and Deloitte & Associés, the statutory auditors, a letter drawn up at the end of the audit engagement in which they state that they have carried out procedures in accordance with professional standards applicable in France, verified the information relating to the financial position and the financial statements presented in this Reference Document and have read the Reference Document in full.

Paris, March 28, 2007

Chief Financial Officer
Jean-François Palus

Statutory auditors

PRINCIPAL STATUTORY AUDITORS

KPMG Audit Département de KPMG SA

1, cours Valmy, 92923 Paris-La Défense

Patrick-Hubert Petit Hervé Chopin

Date of first appointment: Annual General Meeting of June 18, 1992

Term of appointment and expiry date: From May 25, 2004 until the Annual General Meeting called to approve the financial statements for the year ended December 31, 2009.

Deloitte & Associés

185, avenue Charles de Gaulle, 92200 Neuilly-sur-Seine

Jean-Paul Picard Antoine de Riedmatten

Date of first appointment: Annual General Meeting of May 18, 1994

Term of appointment and expiry date: From May 21, 2002 until the Annual General Meeting called to approve the financial statements for the year ended December 31, 2007.

DEPUTY STATUTORY AUDITORS

SCP Jean-Claude André

2 bis, rue de Villiers, 92309 Levallois-Perret

Date of first appointment: Annual General Meeting of May 25, 2004

Term of appointment and expiry date: From May 25, 2004 until the Annual General Meeting called to approve the financial statements for the year ended December 31, 2009.

BEAS

7-9, Villa Houssay, 92524 Neuilly-sur-Seine Cedex

Date of first appointment: Annual General Meeting of May 19, 2005

Term of appointment and expiry date: From May 19, 2005 until the Annual General Meeting called to approve the financial statements for the year ended December 31, 2007.

Documents incorporated by reference

In accordance with Article 28 of EC Regulation no. 809/2004 of April 29, 2004, this Reference Document incorporates by reference the following information to which the reader is invited to refer:

- with respect to the fiscal year ended December 31, 2005: key figures, activity report, consolidated financial statements, parent company financial statements and the related statutory auditors' reports appearing in the Reference Document which were filed on April 11, 2006 with the French Financial Markets Authority, the AMF or Autorité des Marchés Financiers, on pages 8 and 9, 122 to 139, 148 to 242, 244 to 258, 243 and 264 to 267;
- with respect to the fiscal year ended December 31, 2004: key figures, activity report, consolidated financial statements, parent company financial statements and the related statutory auditors' reports appearing in the Reference Document which were filed on April 11, 2005 with the French Financial Markets Authority, the AMF or Autorité des Marchés Financiers, on pages 6 to 9, 122 to 141, 160 to 220, 222 to 237, 221 and 245.

The information included in these two Reference Documents, other than that referred to above, has been, if necessary, replaced or updated by the information included in this Reference Document. These two Reference Documents are available under the conditions described in Section 24 "Documents available to the public" of this Reference Document.

8 Reference Document cross-reference table

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(1) PPR is not subject to any restriction of such type.
(2) Immaterial given the Group's activity.
(3) This Reference Document does not include any profit forecasts or estimates.

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(4) No quarterly or half-yearly financial statements were published between the annual accounts closing date and the publication of the Reference Document.
(5) Immaterial.
(6) Such information is not presented.

Conception - realisation:

Labrador 00 33 1 53 06 30 80

This is an English translation of the French original Reference Document filed with the *Autorité des Marchés Financiers – AMF* (the French Financial Markets Regulatory Authority), on March 28, 2007.

In the event of any discrepancy between the French version and the English translation, the French version shall prevail in all cases.