

NO.35 • MARCH 2011

# Letter to shareholders



PPR

An adventure of enterprise



“  
2010 was an excellent year for the Group, characterised by robust revenue growth and the strengthening of our financial structure.”

**D**ear Shareholders,

2010 saw remarkable operating and financial performances for PPR as a whole and for each of our businesses, most notably in the second half of the year. Thanks to an unrelenting sales push, revenues came in at €14.6 billion, equivalent to year-on-year growth of nearly 8% on a reported basis and of 4% on a comparable basis.

The robust sales growth was accompanied by a spectacular surge in the operating margin, which topped 10% for the first time over a full year. Net income from continuing operations (excluding non-recurring items) attributable to owners of the parent surged 56% to €932 million.

In keeping with our long term policy, and despite inventory rebuilding across the business base in response to the growth of demand in 2010, free cash flow from operations again reached an extremely high level, representing nearly €1.1 billion.

## MESSAGE FROM THE CHAIRMAN

These excellent results are attributable to the work of all our teams. I would like to take this opportunity to express my wholehearted gratitude to them and to pay tribute again to their commitment to the Group.

2010 also marked the sale of Conforama, finalised in March, and thereby the completion of another important stage of the strategy that I have set for the Group. The sale was negotiated on excellent financial terms, well above market expectations. PPR has thus taken a step further towards becoming a truly global-scale player with a balanced and distinctive business profile specialised in apparel and accessories in the areas of Luxury Goods and Sport & Lifestyle. These activities, which share worldwide appeal, high margins and healthy organic growth potential, will keep PPR's profitability on an upward trend. Our strategy also reflects our conviction that strong, well-managed brands create powerful barriers to entry and harbour robust development potential. Their aspirational image transcends products and local markets, making them ideally suited for rapid international expansion. This is why I have chosen to place our brands at the heart of PPR's development strategy.

The Group is on course, and well placed to benefit fully from the continued worldwide recovery in 2011. Thanks to our solid fundamentals, proven ability to adapt and strategically sound transformation, we are in a position to achieve steady and sustainable performance growth. I am confident that we will maintain robust revenue growth and enhance our financial performances in 2011.



**FRANÇOIS-HENRI PINAULT**  
Chief Executive Officer



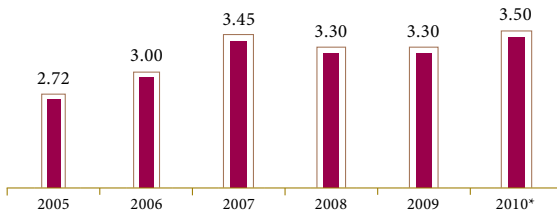
## Outstanding performances in 2010

In 2010, PPR posted outstanding operating and financial performances in each of its businesses. The Group generated revenue of €14.6 billion, equating to year-on-year growth of nearly 8% on a reported basis and of 4% on a comparable basis. Sustained management efforts helped lift annual recurring operating income to €1.5 billion, nearly 24% above the figure for 2009, and PPR ended the year with a record-high operating margin of 10.5%. Adjusted for the impact of non-recurring items, attributable net income from continuing operations surged 56% to €932 million. On this basis, earnings per share amounted to €7.36. Free cash flow from operations again reached an extremely high level, representing nearly €1.1 billion. 2010 also saw a reduction in the Group's borrowings and an improvement in its credit ratios.

### DIVIDEND

At the General Shareholders' Meeting scheduled for May 19, 2011, the Board of Directors will recommend a dividend payment of €3.50 per share, up 6% on the previous year. This recommended dividend reflects PPR's goal of maintaining well-balanced payout ratios bearing in mind, on the one hand, changes in net income from continuing operations (excluding non-recurring items) attributable to owners of the parent and, on the other hand, the amount of available cash flow. The payout ratio for 2010 corresponds to 48% of attributable net income and 53% of available cash flow.

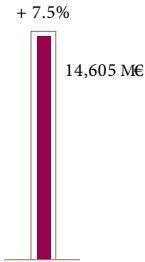
DIVIDENDE PER SHARE (in euros)



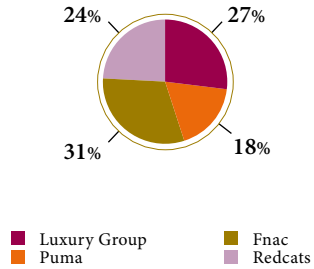
\*Subject to the approval of the General Shareholders' Meeting on May 19, 2011.

# 2010 ANNUAL RESULTS

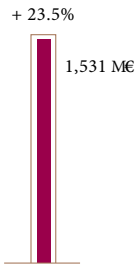
## REVENUE



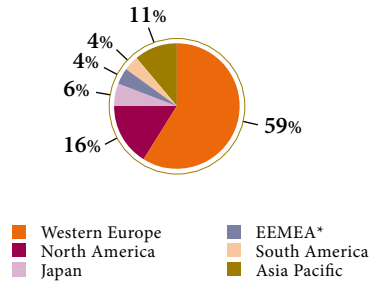
## BREAKDOWN OF REVENUE BY ACTIVITY



## RECURRING OPERATING INCOME

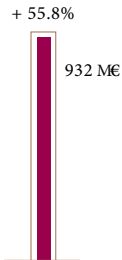


## BREAKDOWN OF REVENUE BY REGION

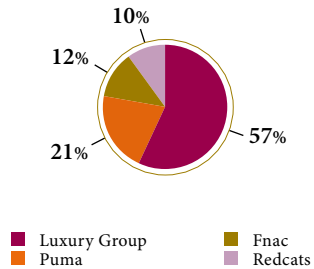


\* EEMEA: Eastern Europe, Middle East and Africa.

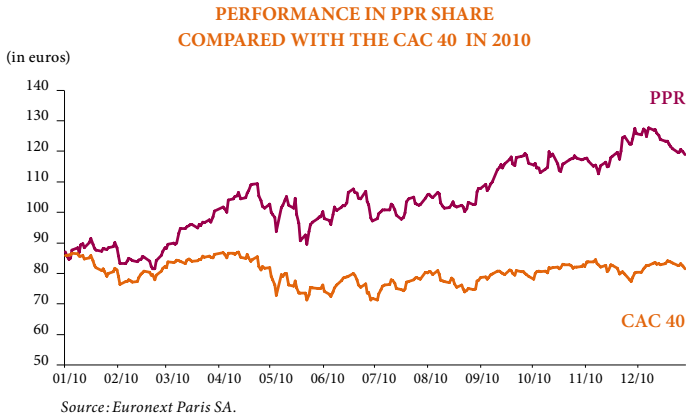
## NET INCOME FROM CONTINUING OPERATIONS (excluding non-current items)



## BREAKDOWN OF RECURRING OPERATING INCOME BY SEGMENT (excluding holding companies and others)



## PPR share



From a stock market viewpoint, 2010 was marked by extreme volatility resulting from crisis-induced turbulence in the eurozone and fears of a fresh economic slowdown in the United States. The year saw pronounced disparities between the performances of stock markets, geographic areas and business sectors.

With the notable exception of Germany, where the DAX was up 16% at end-2010, eurozone markets generally ended the year in negative territory. The Euro Stoxx followed suit, losing 6%. In contrast, the Dow Jones and the Nasdaq performed satisfactorily, rising 11% and 17% respectively, but the Nikkei was down 1%.

In France, the CAC 40 ended the year down 3%, penalised by the extremely low trading volumes resulting from negative investor sentiment and the flight to sectors seen as relative safe havens amid high uncertainty. This explains the marked performance discrepancies across the CAC 40's constituent sectors. The Luxury Goods and Automotive sectors provided the bulk of positive momentum, thanks mainly to their exposure to fast-growing emerging countries.

Against this challenging background, PPR's share price ended the year up 41%, strongly outperforming the reference index.

The vigorous growth in PPR's share price reflects investors' appreciation of:

- the Group's high exposure to emerging countries, particularly China;
- management's sound strategy of gradually refocusing operations on the Luxury Goods and Sport & Lifestyle sectors; and
- the Group's capacity to sustain profitable growth.

## 2010 HIGHLIGHTS

### Stock market data

MARKET CAPITALISATION AT DECEMBER 31, 2010 (in € millions)	15,093
HIGHEST SHARE PRICE IN 2010 (in euros)	128.3
LOWEST SHARE PRICE IN 2010 (in euros)	81.0

### Provisional calendar

APRIL 27, 2011	First-quarter 2011 revenue
MAY 19, 2011	Ordinary and Extraordinary Shareholders' Meeting
JULY 29, 2011	Half-year results for 2011

## 2010 highlights

#### • STAKE ACQUIRED BY PUMA IN WILDERNESS

On April 8, Puma purchased a minority stake of 20.1% in Wilderness Holdings Limited, a company that operates in the ecotourism sector in South Africa and Botswana.

#### • ACQUISITION OF COBRA BY PUMA

On April 16, Puma finalised its acquisition of Cobra, a golf equipment manufacturer. This acquisition includes the Cobra brand, inventories, intellectual property rights and sponsorship agreements.

#### • DISPOSAL OF FNAC ÉVEIL & JEUX

On September 30, Fnac completed the sale of Fnac éveil & jeux to ID Group.

#### • SALE OF CONFORAMA

On December 9, PPR announced that it had received a firm offer from South-African group Steinhoff International Holdings Ltd to purchase Conforama. Under the terms of the offer, Steinhoff International will pay €1.2 billion to PPR as consideration for Conforama's shares and will also settle the current account loans owed by Conforama to PPR at the date the shares were transferred. The transaction was approved by the employee representative bodies of PPR and Conforama in January 2011. It was completed during the first quarter of 2011 once it has received approval from the relevant competition authorities and subsequently Steinhoff International's shareholders in a General Meeting. Several shareholders which together represent over 50% of Steinhoff International's share capital and voting rights have already irrevocably undertaken to vote in favour of the transaction.



**GUCCI, BOTTEGA VENETA,  
YVES SAINT LAURENT AND BOUCHERON  
LICENCE AGREEMENTS**

In January, Gucci and P&G Prestige – P&G's Prestige Beauty business unit – announced the renewal and extension of their current licensing agreement for the worldwide production, sale and distribution of fragrances, cosmetics and skin care products under the Gucci brand.

In December 2010, Bottega Veneta and Yves Saint Laurent announced the renewal of their licence agreements with Safilo Group for the design, production and worldwide distribution of Bottega Veneta and Yves Saint Laurent's eye glass frames and sunglass collections. The agreement with Bottega Veneta will last until December 31, 2020 while the one with Yves Saint Laurent will expire on December 31, 2015. Safilo is a worldwide leader in the premium eyewear sector and it is present in the international market through exclusive distributors and subsidiaries in the U.S.A., Europe and the Far East.



In the same month, Boucheron signed a new exclusive license agreement for fragrances with Interparfums to create and manage both new and existing fragrances. This 15-year agreement commenced on January 1, 2011 with the development of a new fragrance to be launched in 2012. Founded by Philippe Benacin and Jean Madar in 1982, Interparfums develops, manufactures and distributes prestige perfumes and cosmetics as exclusive worldwide licences.





**BOTTEGA VENETA EARNED TWO CERTIFICATIONS**

At the end of the year, Bottega Veneta earned the ISO14001 environmental certification for the headquarters in Vicenza, Altavilla and Vigonza and extended its SA 8000 ethical workplace practices certification to shoes, ready-to-wear, jewellery and furniture prototypes. Certification for the leather goods category was completed in 2009.



**GUCCI ANNOUNCED A NEW JOINT VENTURE IN THE LEATHER GOOD SECTOR**

In November, Gucci joined forces with Pelletteria Annalisa establishing the GPA holding and taking a 51% interest. The other 49% is held by Jacopo Focardi, founder of Pelletteria Annalisa.

Established in 1999 in the town of Figline Valdarno (Florence), Pelletteria Annalisa has collaborated with Gucci since 2004. It has an important know-how in working with leather and distinguishes itself by an innovative use of technologies, guaranteeing the quality of Gucci products.

Patrizio di Marco, President and CEO Gucci, commented, *“This second equity joint venture – after the one with Toscoval and Valigeria Toscana in November 2009 – tightens up the growth that Gucci did in the support and development of its supply chain. In almost 90 years of history, our supply chain has become a synonymous of quality, craftsmanship and Made in Italy in the whole world. A supply chain that works well is beneficial to Gucci, the other companies and the whole district.”*



**STELLA MCCARTNEY LAUNCHED KIDS COLLECTION**

The first kids wear collection from Stella McCartney debuted in the brand's stores in November. Comprised of styles for both boys and girls in ages ranging from 0 to 12 years, the kids collection is made from the best possible fabrics chosen for both style and function and will be available 4 seasons a year: Holiday in November, Spring-Summer in February, High Summer in May and Autumn/Winter in August.

In occasion of the worldwide launch, the brand introduced [www.stellamccartneykids.com](http://www.stellamccartneykids.com) – a dedicated website with express shipping to 200 countries and featuring “playground section” inviting children and parents to interact with one another on the site.



#### THE “CLEVER LITTLE BAG”

Puma’s break through innovation in environmentally friendly packaging, The Clever Little Bag was rolled out in November 2010, following its introduction last April. From the end of 2010, The Clever Little Bag has been making its debut in select Puma Retail and online shops across Europe and the United States.

It is the next generation in packing and distribution.

Replacing the traditional shoebox, it uses 65% less paper to make and reduces water, energy and diesel consumption during manufacturing by over 60% a year. It also reduces carbon emissions by 10,000 tons a year and doubles as a re-usable bag.

Puma’s next generation of eco-conscious packaging includes the Clever Little Shopper – a 100% biodegradable carrier bag – smaller hangtags, and biodegradable apparel bags. Moving forward, Puma will implement this innovative packaging system in all markets alongside the Sportlifestyle company’s other sustainability initiatives.

#### PUMA PARTNERS WITH CEDELLA MARLEY TO CREATE 2012 OLYMPIC WEAR FOR JAMAICAN TRACK & FIELD TEAM

Cedella Marley, fashion designer and daughter of Jamaican reggae icon Bob Marley, will design the Jamaican Track and Field team’s Olympic wear for the London 2012 Olympic Games. The designs, which also include Puma’s podium and ceremony wear will be worn by the entire team – one of these being three-time Jamaican Olympic gold medalist and Puma athlete Usain Bolt. Puma’s partnership with Marley, the eldest daughter in the Jamaican family dynasty, underscores the brand’s long-term commitment to the Caribbean nation.

Staying true to Puma’s DNA of Sportlifestyle, the collection will incorporate high tech fabrics and silhouettes engineered to enhance the performances of all the athletes. Taking inspiration from the vibrant colors and patterns of Jamaica as well as its African roots, Cedella Marley’s unique designs are sure to make the world take notice in the summer of 2012.

Puma’s Olympic Wear will be accompanied by a complete collection of lifestyle apparel to be sold at Puma retail stores globally. A small capsule collection will also be available with limited distribution in August 2011 in time for the IAAF World Championships in Korea.

The partnership between Puma and Cedella Marley is a perfect fit for the Sportlifestyle brand, as she embodies the fun, laid back nature of Jamaica and will bring an authenticity to the collection. Marley, who is currently overseeing operations for the Bob Marley Foundation, also aligns well with Puma’s own commitment to giving back.





#### NEW FNAC STORES

2011 will see a faster pace of store openings for Fnac, both in France and abroad. In France, Fnac is to add two new store locations in city outskirts. The first store is to be opened on March 24 in the large Maison+Thillois shopping mall in Reims. The second store will be opened at end-April in the new Le Millénaire shopping mall in Aubervilliers just outside Paris. Abroad, Fnac will open its fifth store in Barcelona on March 24. The Fnac Las Arenas is located

in Barcelona's Plaça Espanya, in the heart of the city's former bullfighting arena, now transformed into leisure venues including a shopping mall, a sports complex, a cultural centre, restaurants and cinemas. These openings will take Fnac's store base to 151 outlets at end-April 2011. More new trading space will be added during the year.

#### WHAT'S YOUR TRUE PASSION

Already 8 "Espace Passion" are available on *Fnac.com* and are so many places where to share ones passions with the internet community! Animated by expert sales force, every "Espace Passion" is dedicated to a universe: manga, comics, classical music, jazz, rap-soul-funk music, pop-rock, high-technology and youth. It aims to attract passionate customers and internet users through specified contents, piece of advices on product launches, shared experiences... Open to suggestions, those spaces are to become real places of exchange between Fnac sales force, customers and internet users. The speaking from the salesmen of the company benefits from a huge visibility: each day about 700, 000 web users visit its pages.

#### FNACKIDS: A CONCEPT JUST FOR CHILDREN

On February 9, 2011, Fnac inaugurated its first FNACKIDS area, at its Avenue des Ternes store in Paris. The colourful, fun layout of this area is designed to appeal to children of all ages, from toddlers to teenagers. Each age group has an assigned space with a dedicated product offering. The lively, attractive offering comprises a wide range of edutainment products (books, DVDs and CDs, ticketing service) and a selection of games and toys for children up to eight years of age. A well-trained sales force is on hand to take care of both children and parents. Sales staff liaise closely with *Fnac.com's Jeunesse* online community to offer advice geared to the customers' age. The FNACKIDS area is designed to encourage discovery of the products made available, by enabling children to consult, test, play and experiment. The centrepiece of the space is a "tree of tricks", around which children can read, listen to music and stories, play on interactive tablets and, in the case of older children, try out the *FnacBook* e-reader.



**ONESTOPPLUS.COM ORGANISES A WORLDWIDE ONLINE FASHION SHOW**

At the beginning of 2011, OneStopPlus.com organised its first worldwide online fashion show to present the plus size collection for Autumn. The show was run live on [www.ospfashionshow.com](http://www.ospfashionshow.com), to the great joy of the company's enthusiasts. This advertising event has already generated a large number of exchanges between OneStopPlus.com's 50,000 Facebook fans.



**LA REDOUTE LAUNCHES AN ALL-SHOES WEBSITE**

At end-2010, La Redoute unveiled its [www.shoestyle.fr](http://www.shoestyle.fr) e-commerce site dedicated exclusively to shoes. The site caters to men, women and children and its 1,000-strong offering comprises items from La Redoute's own-brand portfolio (such as Redoute Création) and external brands like Mellow Yellow and Pataugas. Exclusive creations, other well-known brands and personalised advice for customers are to be added further down the road.

The launch of [www.shoestyle.fr](http://www.shoestyle.fr) should allow La Redoute to capitalise on its know-how in footwear and to offer a wide range of shoes in conjunction with services like free delivery within 24 hours, product exchange within 30 days and free return of purchases. The site is currently limited to France, but is to be extended to other countries over time.

**CYRILLUS FORGES PARTNERSHIP WITH BROWN THOMAS IN IRELAND**

Cyrillus has forged a partnership with the Brown Thomas chain of department stores (Selfridges group) in Ireland. The French brand's children's collections are now on offer at three Brown Thomas outlets, including the flagship store on Grafton Street, Dublin, known for its commercial attractiveness and high-end positioning. Ireland is a new European market for Cyrillus, which is also keen to raise its profile internationally and affirm its "chic" positioning by partnering with high-end stores.



**CSR (CORPORATE SOCIAL RESPONSIBILITY) CRITERIA TO BE INCLUDED IN PERFORMANCE EVALUATIONS FOR PPR GROUP LEADERS**

Since 2008, a portion of the variable remuneration paid to CEOs of Group units has been conditional upon the attainment of precise objectives in the sphere of corporate social responsibility. January 2011 saw the extension of this arrangement to all PPR Group leaders (about 140 persons), for whom CSR objectives are established in conjunction with their respective Human Resources and Sustainable Development departments.



**LAUNCH OF THE 2<sup>ND</sup> EDITION OF THE PPR INNOVATION AND SUSTAINABLE DEVELOPMENT AWARDS**

In 2011, for the second year running, PPR has invited all employees worldwide to express their creativity and capacity for responsible, sustainable entrepreneurship for the purposes of the Innovation and Sustainable Development Awards. Projects will be submitted to a panel of experts and the three award-winners will be announced at PPR's next General Shareholders' Meeting. In 2010, 56 projects were submitted for the first edition of the awards, which attracted more than 160 employees in 15 countries.

**PUBLICATION OF QUANTIFIED CSR OBJECTIVES**

In 2010, PPR published CSR objectives for all subsidiaries. Although the objectives in no way reflect all the action, plans and measures implemented, they testify to the brands' commitment to embedding sustainable development in their business models. As with financial or sales targets, the CSR objectives have been determined based on the practical business realities faced by the brands and are all intended to foster a high level of performance. The objectives may be consulted in CSR Update no.2, which may be downloaded from [ppr.com/en/Commitments](http://ppr.com/en/Commitments).



MORE THAN  
**400**  
MILLION  
VIEWERS

Since the release of Yann Arthus-Bertrand's movie *HOME* on June 5, 2009, more than 400 million people have watched the film, which was produced jointly by EuropaCorp, Luc Besson's production company, and Elzévir Films. 2011 will see a wide range of events centred on *HOME*, with numerous screenings already planned around the world.



The PPR Corporate Foundation for Women's Dignity and Rights forges ground-breaking partnerships and encourages Group employees to take action in support of women's dignity and rights.

The Foundation has two specific objectives:

- to fight against violence towards women and;
- to empower women to fully contribute to the development of their families and their communities.

#### 19 NGOS HELPED BY THE FOUNDATION IN 2010

The Foundation provides support for projects put forward by local and international associations. Projects are assessed based on operational and financial considerations. They are then presented to the Selection Committee or to the Board of Directors for a decision regarding backing.

In 2010, the Foundation forged or renewed 19 partnerships with NGOs. Ten of the projects concerned combating violence against women and nine dealt with social and economic development initiatives for women. Three of the projects are sponsored by Group employees. Information about the NGOs sponsored worldwide is available on the Foundation's website.



#### THE FOUNDATION SUPPORTED THE FILM *DESERT FLOWER*, AIMED AT RAISING WIDESPREAD AWARENESS OF THE DANGERS OF FEMALE GENITAL MUTILATION

PPR and its brands took concerted action to promote the film "*Desert Flower*" and lend support to the fight against female genital mutilation (FGM). On March 7, 2010, a preview of the film was organised in aid of a Mali-based project targeted at the prevention of FGM. The Foundation, in association with Fnac, invited a number of FGM experts to speak about the matter in five Fnac stores in France.

#### SOCIAL ENTREPRENEUR AWARDS

In June 2010, the Foundation's second round of Social Entrepreneur grants were awarded to three initiatives that each combine a viable business plan and social added value in support of women. In addition to receiving financial assistance, each award-winner is entitled to coaching by a Group employee. PPR, Yves Saint Laurent and Fnac Brazil all rallied to the cause.



For further information, check out: [www.fondationppr.org](http://www.fondationppr.org)



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