KERING

letter to shareholders

March 2014

François-Henri Pinault

Dear Shareholders,

In 2013, our Group celebrated its 50th birthday and put the finishing touches to the strategic shift begun a few years ago. We have adopted a new identity to symbolise the completed transformation: today, Kering is an entirely coherent international group made up of strong brands enjoying considerable growth potential. Thanks to our focus on one business – apparel and accessories – and our geographical diversity, we are able to take full advantage of the strong momentum brought about by new consumer trends.

I will begin with a brief word about the performance of our two Divisions in 2013.

Our **Luxury Division** once again enjoyed steady growth in revenue (up 7% from last year on a comparable exchange rate basis), driven in particular by robust performances from its network of directly-operated stores (up 8%). Operating income also improved by 4%, allowing the Division to end the year with a record recurring operating margin of 26% and further confirming the positive impact of the multi-brand strategy – a feature of the Group's singular structure – being applied across the Division. Our flagship brand Gucci this year continued its repositioning strategy involving a focus on the high end of the market, while Bottega Veneta, Saint Laurent and our Other Luxury brands enjoyed very sustained growth.

“we head into 2014 with determination”

The results of the **Sport & Lifestyle Division** reflect the transformation currently under way at PUMA as well as the difficulties being felt in the European market – a market to which the brand is more exposed than the majority of its competitors. Against this backdrop, during the year PUMA focused on controlling its operating costs while maintaining marketing visibility and innovation drive it needs for a successful recovery.

In addition to these operating performances, 2013 was a pivotal year in the finalisation of the Group's transformation, with the sale of La Redoute announced at the end of the year, the listing of Groupe Fnac in June and the divestment of Redcats' operations (notably international) in the first half. We gave huge importance to corporate responsibility during each of these transactions, taking care to consider the interests of all stakeholders in order to ensure the future success of these companies and the people and communities that depend on them.

The Group's configuration is now set and fully reflects our strategy focused on value creation – just like PPR's was in the past. Thanks to this strategy, over the past ten years we have experienced compound average annual growth in recurring net earnings per share of more than 10%. And since the outset of our strategic transformation, we have also significantly strengthened our financial structure.

We head into 2014 with determination and are focusing our efforts towards two priorities: in the Luxury Division, we are deploying a series of action plans for each of our brands – particularly those that recently joined the Group – with a focus on achieving profitable organic growth. Our second priority is PUMA's relaunch. In the short term, this involves additional investments aimed at rebuilding brand awareness.

With these factors in mind, we are confident in our ability in 2014 to achieve further growth in our revenue and recurring operating income.

solid operating performances in a year of investments

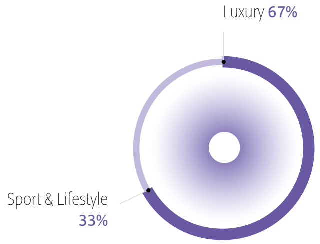
€9.75bn REVENUE IN 2013

€1.75bn RECURRING OPERATING INCOME

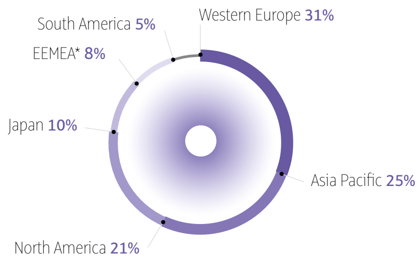
18% RECURRING OPERATING MARGIN

Consolidated revenue amounted to €9.75 billion in 2013, up 4% based on comparable Group structure and exchange rates. Revenue generated outside Western Europe accounted for 69% of the Group total. Comparable growth in mature markets was sustained at 4.3%, driven by Japan and North America. Emerging markets comparable sales were up 3.4% and accounted for 38% of sales with 25% of this amount generated in the Asia-Pacific region (excluding Japan), the balance coming from Eastern Europe, Middle East and South America.
The gross margin widened, buoyed chiefly by the ongoing rise in the gross margin posted by the main Luxury Division brands.
Kering continued to report a good level of **recurring operating income,** at €1,750 million, virtually unchanged from 2012. The recurring operating margin was 18.0% for the year.
Attributable net income from continuing operations excluding non-recurring items was €1,229 million, or €9.76 per share, down €40 million on 2012, when it surged 28%.
The Group's **consolidated net income** narrowed sharply, reflecting the series of recapitalizations completed in 2013 prior to the listing of Groupe Fnac as well as the disposal of La Redoute, along with the negative impact of some non-recurring charges at PUMA.
In 2013, the Group's free **cash flow** from operations came to €858 million. Adjusted for the acquisition of a major real-estate asset in Tokyo, free cash flow from operations topped €1 billion, and advanced 7% over the year.
This reflects the Group's strict management of working capital requirement and a measured rise in operating investments, which are adopted to the various phase of development of each of its brands.
Besides the dividend paid, cash generated was largely used to recapitalise Groupe Fnac and La Redoute before their exit from the group perimeter. During the year Kering acquired majority stakes in brands with strong growth potential such as Pomellato group and Christopher Kane, with a view to strengthening its positioning in the Luxury sector. The Group's 2013 financial statements reflect these operations and show a solvency ratio (net debt to EBITDA) of 1.7x at year-end.

Breakdown of revenue by Division

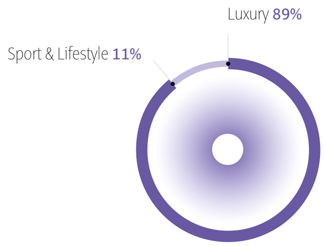


Breakdown of revenue by region



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

Breakdown of recurring operating income by Division (excluding Corporate)



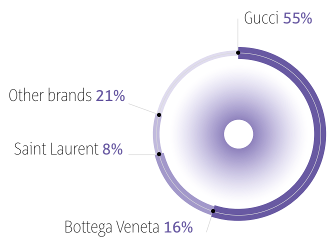
luxury division results

€6.47bn

REVENUE IN 2013

The Luxury Division posted further sustained revenue growth in 2013 (7% on a comparable basis), spurred by robust momentum from all brands and distribution channels. Growth was balanced between mature markets, which advanced over 8%, and emerging countries, which rose almost 6%.
In 2013, the Luxury Division's recurring operating margin came in at a record high of 26% on a full-year basis, and all of the Division's main brands reported a rise in operating income and profitability. The Luxury Division's operating investments were up almost 30% in 2013, reaching €436 million.

Breakdown of revenue by brand



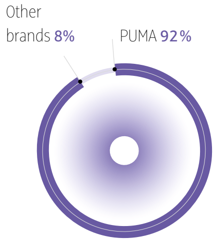
sport & lifestyle division results

€3.25bn

REVENUE IN 2013

Revenue for the Sport & Lifestyle Division was down 2.8% on a comparable basis, amid major changes at PUMA. Volcom and Electric saw improved trends in the second half, on the back of promising new product launches and brand repositioning.
Reflecting the transformation at PUMA ahead of the brand's relaunch, the Division's recurring operating margin came in at 6.2%, a decline partially offset thanks to a firm financial discipline aimed at reducing the operating cost base.

Breakdown of revenue by brand



2013 dividend

At the Annual General Meeting to be held on May 6, 2014, the Board of Directors will propose shareholders to approve a dividend of **€3.75 per share** in respect of 2013, unchanged from the previous year.

This recommended dividend reflects Kering's goal of maintaining well-balanced payout ratios, in terms of both consolidated recurring net income and available free cash flow.

As a reminder, an interim dividend of €1.50 per share was paid on January 24, 2014. Subject to shareholder approval, the remaining €2.25 per share will be paid on May 13, 2014.

luxury division

GUCCI

€3.56bn
REVENUE IN 2013

474
DIRECTLY-OPERATED STORES

Founded in 1921, Gucci designs, manufactures and distributes products for men and women, including leather goods (handbags, small leather goods and luggage), shoes, ready-to-wear, silks, timepieces and fine jewellery. Gucci's brand value is reflected in the perfect balance between its continuously perpetuated heritage of Italian craftsmanship and its reputation as a fashion leader. In 2013, Gucci pursued its brand's move upmarket by launching innovative new collections, especially in leather goods. In 2014, Gucci will continue investing to consolidate the uniqueness of the brand positioning and to build its brand equity by nurturing its higher-end product offering, in order to drive long-term sustainable growth. .

€1.02bn
REVENUE IN 2013

221
DIRECTLY-OPERATED STORES

SAINT LAURENT
PARIS

Founded in 1961, Yves Saint Laurent is one of the most prominent fashion houses of the 20th century. Originally an haute couture House, in 1966 Yves Saint Laurent revolutionised modern fashion with the introduction of luxury ready-to-wear under the name Saint Laurent *Rive Gauche*. Today, Saint Laurent designs and markets a broad range of men's and women's ready-to-wear, handbags, shoes and small leather goods. In 2013, the collections received critical acclaim, reflecting the success of the brand's new creative vision, and the brand's sales were fuelled by the extremely strong growth figures posted by ready-to-wear. In 2014 and going forward, the focus will be on emerging markets, such as the Middle East, China and South East Asia, and on further development in the US, Japan and Europe, with store openings in premium locations.

€557m

REVENUE IN 2013

115

DIRECTLY-OPERATED STORES

BOTTEGA VENETA

Founded in 1966, in the Veneto region, Bottega Veneta began as a leather goods House made famous through its signature *intrecciato*, a unique leather weaving technique used by Bottega Veneta's artisans as a way to strengthen the soft leather for long-lasting products of the utmost quality. Through the years, Bottega Veneta has become an absolute luxury Lifestyle brand by expanding its product range and respecting the aesthetic of the brand. Bottega Veneta now offers a range of products including leather goods (handbags, small leather goods and a complete luggage collection), women's and men's ready-to-wear, shoes, jewellery and furniture. In 2014, Bottega Veneta will continue to build on its accomplishments and high-end positioning, supported by further strategic store openings.

luxury division / other brands

€1.34bn

REVENUE
IN 2013
OTHER BRANDS LUXURY DIVISION

339

DIRECTLY-OPERATED
STORES
OTHER BRANDS LUXURY DIVISION

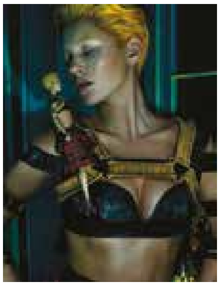
BALENCIAGA

Founded in 1919 by Cristóbal Balenciaga and established in Paris in 1936, the brand defined many of the greatest movements in fashion from the 1930s to the 1960s. The mastery of techniques and cuts, together with constant innovation in fabrics, marked out a special place for Balenciaga in the hearts and minds of its customers and followers. While the brand's identity is firmly anchored on its highly symbolic ready-to-wear collections, its bag and shoe lines have also enjoyed phenomenal worldwide success.
In 2014, the brand will continue to leverage the impetus provided by new product launches, together with a focus on further rolling-out its retail concept around the world.

STELLA McCARTNEY

Stella McCartney launched her eponymous fashion house in partnership with Kering in 2001. Aspirational and modern, the brand appeals to a wide audience. Since the brand's foundation, women's ready-to-wear has been the core business, but during the past years the brand has been successfully extending its offering, adding other product categories such as shoes and handbags and a very promising diversification in Kids. At the same time, the brand more than doubled its directly-operated store network, and will focus on consolidating it in 2014.

ALEXANDER McQUEEN



Founded in 1992 by Lee Alexander McQueen, the brand quickly gained a reputation for conceptual design and a strong brand identity. Main product categories are women's ready-to-wear and leather goods, although silks and menswear categories have also both developed strongly in recent years. In 2014, the brand will continue to develop further with a continued focus on accessories.

sergio rossi

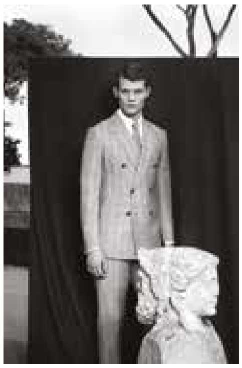
Since its establishment in Italy in the late 1960s, Sergio Rossi has become a world reference in women's luxury footwear. The brand has always been synonymous with timeless elegance, acclaimed for its creativity and perfect cut. In 2014, Sergio Rossi aims to expand growth through its retail network, particularly in emerging markets.

CHRISTOPHER KANE

Incepted in 2006 by its eponymous designer, the brand is now widely acknowledged to have spearheaded a revival of British fashion, through the launch of innovative ready-to-wear styles. The brand designs high-end women's and men's ready-to-wear pieces and recently launched its first leather goods collection. In 2014, the brand will open its first flagship store in London, which will be situated on Mount Street in Mayfair.

Brioni

Founded in 1945, Brioni quickly became a beacon of Italian excellence. Shortly after its creation, the brand embodied the *Dolce Vita* spirit in menswear and became the leading ambassador for Italian men's fashion around the world. Over the years, Brioni developed a very strong international appeal, becoming the symbol of classic elegance. Brioni's goal for 2014 is to further expand its retail network and to strengthen the brand's presence in Asia and other emerging markets.



Pomellato

Famous for its creativity in the international jewellery scene, Pomellato was established in 1967. Its founder was the first to introduce the *prêt-à-porter* philosophy into the world of jewellery. In 2014, the group is planning to open several directly-operated stores worldwide, both in Europe and Asia, in order to accelerate its international development. The Pomellato group also includes the Dodo brand.

BOUCHERON
PARIS

First jeweller of the Place Vendôme, for more than 150 years Boucheron has embodied excellence in jewellery, high jellewery and watchmaking. For the Maison, 2013 marked the launch of a new boutique concept, enhancing its high-end values of excellence and French know-how. In 2014 and in the following years, Boucheron will continue to reinforce its retail network worldwide. The presentation of the collections during the renowned 2014 *Biennale des Antiquaires* in Paris should also allow Boucheron to consolidate its presence among the most prestigious international jewellers.

GIRARD-PERREGAUX

Based in the Swiss Jura and founded in 1791, Girard-Perregaux is one of the very few watchmakers to combine all the skills of design and in-house manufacture, including the forging of the movements. Girard-Perregaux focuses on state-of-the-art fine watchmaking, as illustrated by some of the creations of the brand such as the renowned *Tourbillon with three Gold Bridges* or the more recent *Constant Force escapement*.

JEANRICHARD 1681

The brand was named after Daniel JEANRICHARD, who pioneered the Swiss watchmaking industry during the 17th century and invented several machines and tools that are still crucial for manufacturing timepieces. In 2013, JEANRICHARD reviewed its positioning and its offer is now based on four styles of watches. These new creations were inspired by the elements: land, water and air.

qeelin

Incepted in 2004 and inspired by thousands of years of Chinese cultural history, Qeelin turns mythical and superstitious Chinese symbols into state-of-the-art contemporary jewellery. Driven by the success of its timeless creations, the brand expanded its international distribution network in 2013, and this expansion strategy will be continued in 2014.

sport & lifestyle division

€3bn

REVENUE
IN 2013
PUMA

PUMA is one of the world's leading sports brands. For over 65 years, the brand has been designing, developing, selling and marketing footwear, apparel and accessories. PUMA offers performance and sport-inspired Lifestyle products in categories such as Football, Running, Training and Fitness, Golf and Motorsports.

In 2013, PUMA created a newly unified brand platform that is rooted in the sports DNA of the company, and which reconciles the Performance and Lifestyle segments of the PUMA brand. To support the brand relaunch, a new tag line "Forever Faster" will be deployed in 2014, reflecting the brand's ambition of making fast product designed for the fastest athletes.
In 2013, PUMA already launched many new products, including the successful *Mobium* running shoe that won multiple awards across the world, including Most Innovative (Competitor Magazine, US), Best New Technology (Go Multi, South Africa) and Best Debut (Runner's World, China).
PUMA also successfully introduced its ISPO (International Sporting Goods Trade Fair) award-winning PUMA ACTV and RCVR performance apparel, which is a proprietary technology fusing compression with built-in athletic tapping. 2014 will be the year of football for PUMA: at the World Cup in Brazil, 25% of all participating teams will be PUMA partners. The presence in football is further enhanced this year by new partnerships with Arsenal Football Club and the striker Mario Balotelli.

VOLCOM

Founded in the early 1990's, Volcom is a board sports-based modern Lifestyle brand that embodies the creative spirit of youth culture. The company was built on liberation, innovation and experimentation, and its goal is to provide sustainable lifestyle-enhancing apparel, outerwear, accessories and footwear to people who share their passion for board sport, art, music and film. It is the only company in its category founded on all three board sports: skate, surf and snow.

€245m

REVENUE
IN 2013
VOLCOM AND ELECTRIC

ELECTRIC

Founded in 2000, Electric is a premium Lifestyle brand rooted in southern California's action sports, music, art and customisation culture. It designs and markets sunglasses, snow goggles, backpacks, luggage, watches and accessories through the Americas, Europe, Japan, China and Australasia.

In 2014, Electric will release a new patent pending "quick change" lens technology in snow goggles. During the year, a new outrigger-type goggle will also be released, targeting helmets wearers in both snowboarding and ski markets.

performance of the kering share

After rising by 27% in 2012, Kering shares delivered a robust increase in 2013, up 11%, in a mixed year for Luxury stocks with a number of them underperforming their benchmark indices. The CAC 40 index was up 18% over the period.

Both the performance of Kering share price and of its peers in the industry are best considered over two separate periods.

In the first half, the Kering share made solid gains. This reflects both the Luxury Division's solid operating performance over the period, as well as the successful listing of Groupe Fnac, which marked a key milestone in Kering's refocus on the Luxury and Sport & Lifestyle markets.

In the third and fourth quarters, mirroring other stocks in the industry, Kering's share price levelled off on the back of profit-taking and changes in asset allocations of large institutional investors due chiefly to slower demand for Luxury goods in China.

Change in the price of the Kering share compared to the CAC 40 Index since January 1, 2012

Source: Thomson/Reuters

Managing your account

For all requests regarding the management of your pure registered share* account, CACEIS is your main contact:

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NB: the Order form can be downloaded on kering.com, Finance / Shareholder section

** If you own administered registered share, your account manager stays your main contact.*

provisional calendar

April 24, 2014 (post market)
2014 1st quarter sales

May 6, 2014
Annual General Meeting

May 13, 2014
Payment of final dividend*

July 2014
2014 Half-Year results

** Ex-date will be on 8 May 2014.*

Discover K magazine

Discover K, the brand new online magazine from Kering.
Each week we will be bringing you news and views in the shape of interviews, profiles, features, images and film from guest commentators and internal figures. They'll have something sparkling to say about the arts, fashion, lifestyle, luxury, sports and creativity.

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Empowering Imagination

GUCCI • BOTTEGA VENETA • SAINT LAURENT • ALEXANDER McQUEEN • BALENCIAGA • BRIONI
CHRISTOPHER KANE • McQ • STELLA McCARTNEY • TOMAS MAIER • SERGIO ROSSI • BOUCHERON • DODO
GIRARD-PERREGAUX • JEANRICHARD • POMELLATO • QEELIN • PUMA • VOLCOM • COBRA • ELECTRIC • TRETORN