

March 2015

# letter

TO SHAREHOLDERS

MESSAGE FROM  
THE CHAIRMAN

—  
"WE ARE  
EXTREMELY  
CONFIDENT IN  
KERING'S  
LONG-TERM  
OUTLOOK"

2014 GROUP RESULTS

—  
€10bn  
REVENUE IN 2014

€1.66bn  
RECURRING OPERATING  
INCOME

NEWS FROM  
OUR BRANDS

—  
ACQUISITION  
OF THE HAUTE  
HORLOGERIE  
BRAND  
ULYSSE NARDIN

K MAG

—  
ECOCHIC  
DESIGN  
AWARD

SUSTAINABILITY

—  
A ROAD TO  
PROGRESS



K E R I N G

**MESSAGE  
FROM THE CHAIRMAN**

*"WE ARE EXTREMELY CONFIDENT  
IN KERING'S  
LONG-TERM OUTLOOK"*



**FRANÇOIS-HENRI PINAULT**

Dear shareholders,

2014 was our first year as a Group focused entirely on Luxury and Sport & Lifestyle.

In an uncertain economic environment, Kering recorded solid operating and financial performances. Consolidated revenue was up 4.5% on a comparable basis at more than €10 billion, while the Group's operating income and recurring operating margin remained strong.

These results once again confirm the relevance of our development model: Kering enjoys a well-balanced profile in terms of its geographical presence, the maturity of its brands, its product categories and its distribution channels.

We operate in high-growth markets, which are driven by very strong consumer and socio-demographic trends. The Luxury market will continue to develop structurally, beyond fluctuations in the economy. With the emergence of new nationalities and new generations of consumers, the market is more diversified and fast-moving than in the past, but this further confirms the relevance of our multi-brand model, which allows us to capture the demand of various customer profiles in all its diversity. This environment offers our brands staggering potential, and the Group is empowering each of them to unleash this potential. Gucci, Bottega Veneta and Saint Laurent - to name just three of our global brands - are being supported by the Group with dedicated resources to pursue their development.

To make our commitment to our goals a reality and increase the added value offered by the Group, in 2014 we strengthened our structure and organisation. First, we created two new divisions in the Luxury segment - Couture & Leather Goods and Watches & Jewellery. This new organisation will increase our ability to spur our brands' imagination and tighten their management. Our operational model is fully integrated, pragmatic and responsive. Our creative teams work to offer an increasingly relevant value proposition for our customers, our distribution network is constantly adapted to changes in demand. Lastly, we aim to enhance our operating processes and foster our synergies, to make them always more efficient.

Our Group's exceptional character, culture and operating structure are key to our success. We are a family group with a long-term strategic vision, built on a solid entrepreneurial culture, which is embodied by our brands' management teams in their concrete achievements, responsiveness and ability to strike a balance between lucidity and risk-taking. Thanks to this long-term vision, we are fully aware of our responsibility towards our employees and the environment. Our commitment to

sustainability stems from our belief that responsible business creates value.

As you can see, we are extremely confident in Kering's long-term outlook.

Of course, we don't lose sight of short-term imperatives, and both Gucci and PUMA stand as our priorities for 2015. Gucci's new management team has ushered the brand towards a new stage in its development. Meanwhile, PUMA will capitalize on its renewed appeal by offering increasingly innovative products.

The start of 2015 has been marked by economic uncertainties, compounded by strong currency fluctuations. We therefore remain vigilant and are focusing all our efforts on organic growth or, more specifically, same-store growth.

More than ever, we are convinced of the great potential of each of our brands, and confident in our ability to provide them with the resources they need for their development in order to guarantee sustainable, profitable growth.

A handwritten signature in black ink, appearing to read 'Pinault', written in a cursive style.

**REVENUE**  
in 2014

€10bn

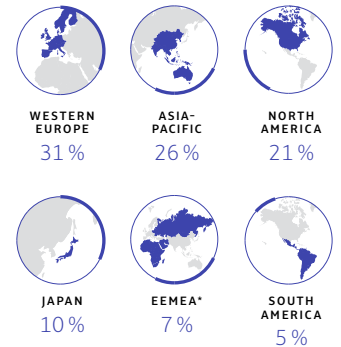
**RECURRING OPERATING INCOME** in 2014

€1.66bn

**RECURRING OPERATING MARGIN** in 2014

16.6%

**BREAKDOWN OF REVENUE** by region



\*EEMEA: EASTERN EUROPE, MIDDLE EAST AND AFRICA

Another year of solid performances

In 2014, Kering generated **revenue** of more than €10 billion. Consolidated revenue from continuing operations amounted to €10,038 million, up 4.5% on a comparable basis, with 79% generated outside the eurozone. Revenue increases were recorded across the board, thanks to sustained growth in mature markets (up 3.8% based on comparable data), driven by Japan and North America. Emerging markets (up 5.6% on a comparable basis) accounted for 38% of the Group's total sales.

The Group's gross margin was up 4.2% compared with 2013 as reported.

Kering's **recurring operating income** amounted to €1,664 million in 2014, up 3% on 2013 at comparable exchange rates and down 5% as reported, reflecting the unfavourable currency fluctuations impact. The Group's **recurring operating margin** came out at 16.6%.

**Earnings per share** came to €4.20 per share in 2014, versus €0.39 for the previous year. Excluding non-recurring items, earnings per share from continuing operations amounted to €9.35, down slightly on the 2013 figure.

The Group's cash generation remained very sound in 2014, with **free cash flow from operations** of just under €1,078 million, up 25.8% compared to 2013.

Operating investments amounted to €551 million, on a par with 2013 (excluding property). The Group's brands continued with the modernisation and selective expansion of their store network and embarked on new projects geared towards driving future growth, particularly through the roll-out of new IT tools and systems.

The Group's net debt totalled €4,391 million as of December 31, 2014, representing an increase compared with 2013. This reflects the two major operations carried out during the year: the finalisation of the sale of residual assets of Redcats and the strengthening of the Group's brand portfolio with the acquisition of Ulysse Nardin during the second half of the year.

**BREAKDOWN OF REVENUE** by Division



**LUXURY DIVISION RESULTS**

€6.76bn  
REVENUE IN 2014

The Luxury Division posted further revenue growth in 2014, despite a less upbeat market environment. The solid performances from the Luxury activities, which were up 5% on a comparable basis, were driven by sales in directly-operated stores (up 8% on a comparable basis), with more sustained growth in mature markets.

The Luxury Division's recurring operating income held strong in 2014, despite the negative impacts of currencies fluctuations and hedging, reflecting the soundness of Kering's multi-brand strategy. At comparable exchange rates, the operating income was up 5% versus 2013, and the Division's recurring operating margin stood at 24.6%, down slightly compared with 2013.

The Luxury Division's overall performance reflects the strategic fit of its brands in terms of maturity and development. Gucci is the Division's driving force, while Bottega Veneta, Saint Laurent and the Other Luxury brands are excellent growth levers. Saint Laurent doubled its revenue in three years and posted recurring operating income of over €100 million in 2014.

**SPORT & LIFESTYLE DIVISION RESULTS**

€3.25bn  
REVENUE IN 2014

The Sport & Lifestyle Division reported solid revenue growth of 3.5% on a comparable basis, after gaining further ground in the second half despite ongoing competitive pressure and an unsettled economic environment. This improvement was attributable to the measures undertaken for all brands.

PUMA's revenue returned to satisfactory levels in 2014, up 3.4% on a comparable basis, supported by marketing efforts, which were stepped up in the second half of the year. The brand's largest product category, Footwear, resumed its growth, mainly thanks to the launch of innovative and redesigned products.

Other Sport & Lifestyle brands also displayed promising trends, with growth of almost 5% on a comparable basis, reaping the benefits of the major repositioning carried out in 2013.

**2014 DIVIDEND**

At the Annual General Meeting to be held on April 23, 2015, the Board of Directors will ask shareholders to approve a **€4 per share dividend for 2014, up 7% compared with the previous year.**

As a reminder, an interim dividend of €1.50 per share was paid on January 26, 2015. Subject to shareholder approval, the remaining €2.50 per share will be paid on April 30, 2015



## ACQUISITION OF THE HAUTE HORLOGERIE BRAND ULYSSE NARDIN

In November 2014 Kering finalized the 100% acquisition of Ulysse Nardin's capital and the brand joined Kering's Luxury-Watches and Jewellery's division.

Founded by Ulysse Nardin in 1846, with its roots in the nautical world, the eponymous watchmaking house was acquired and re-launched in 1983 by Rolf W. Schnyder, who transformed the brand in a highly profitable business built on outstanding tradition and innovative manufacturing expertise.

The brand benefits from a very strong and unique identity based on its historical expertise in marine chronometers and ultra-complication watches. Ulysse Nardin was a pioneer in the use of cutting edge technologies and state-of-the-art materials like silicium, and today is one of the few Swiss watchmakers to have its own production capacity for critical watch components, particularly the regulating organs.

Ulysse Nardin's coherent range of timepieces is positioned in the high-end price segments, which are growing and have strong potential. Its current distribution network includes 20 mono brand boutiques and selected watch and jewellery points of sale over the world with a strong presence in America, Russia and other CIS (Commonwealth of Independent States) countries.

In November 2014 Kering finalized the 100% acquisition of Ulysse Nardin's capital and the brand joined Kering's Luxury-Watches and Jewellery's division, which includes Boucheron, Dodo, Qeelin, Girard-Perregaux and JEANRICHARD.

In 2015, Ulysse Nardin will continue its international expansion, especially in the Asia-Pacific region. In addition the company's technical and industrial expertise will enable the deployment of important synergies with the other Kering Luxury Watches and Jewellery brands, contributing to accelerate the growth of the whole division.

ECOCHIC DESIGN AWARD

# *sustainable fashion design*



1

Hong Kong-based NGO Redress\* highlights the fashion industry's catastrophic contribution to today's environmental crisis, but is hoping to inspire designers and students to make sustainable fashion part of the industry's mainstream. Are the hopes justified, asks our K reporter.

**T**he world is enjoying a booming fashion industry. According to the UN's Food and Agriculture Organization and the International Cotton Advisory Committee, total global textile consumption increased one and a half times to 69.7 million tonnes in 2010 from 47.3 million tonnes 10 years earlier. In just two years, production volume of the global textile industry in 2013 had risen to 92.3 million tonnes, an expansion of 7% from 86 million in 2011, according to The Fiber Year Consulting.

But all this comes at a price. Lest we neglect the negative impact on the environment, the World Bank estimates that as much as 17 to 20% of industrial water pollution comes from textile dyeing and treatment.

~~~~~

**THE ECOCHIC DESIGN  
AWARD 2014/15  
IS AIMING TO CHALLENGE  
EMERGING FASHION  
DESIGNERS AND STUDENTS  
TO CREATE MAINSTREAM  
CLOTHING WITH MINIMAL  
TEXTILE WASTE.**

~~~~~

To produce 16 pairs of jeans, for example, we need a whopping 58,000 litres of water, 48 kg of chemicals, 6,400 MJ of energy and 208m<sup>2</sup> of harvested land, according to Fashioning Sustainability 2013, a report by Deloitte.

## **ZERO TOLERANCE**

In order to raise awareness of this issue, Redress, a Hong Kong-based NGO is promoting environmental sustainability in the fashion industry by focusing on reduction in textile waste, pollution, and water and energy consumption. Founder and CEO Christina Dean said: *"The fashion industry's catastrophic contribution to today's environmental crisis is continuing unabated. Change, which requires multi-stakeholder collaboration, is urgently needed. Hong Kong is a hub for Asia's fashion industry in terms of production, especially now, owing to Asia's economic growth and consumption. We are powerfully positioned to drive the industry into accepting that we can't carry on with business as usual."*

With this mind, Redress launched The EcoChic Design Award, a sustainable fashion design competition in Hong Kong, in 2011. It has since been expanded to include mainland China, Taiwan, Singapore, Malaysia, UK, France, Germany, Denmark and Sweden, with its next cycle being open to all Asia and all Europe. Aiming to challenge emerging fashion designers and students 'to create mainstream clothing with minimal textile waste', all contestants are



2

required to follow three themes: zero-waste, up-cycling and reconstruction.

Simply speaking, zero-waste is a design technique that makes the best use of materials and eliminates waste at the design stage; up-cycling refers to the recycling of a material into a product of higher quality; and reconstruction means the process of making new clothes from previously worn garments or pre-formed products.

Easier said than done, especially working on sustainable fashion. But some of the contestants are highlighting the possibility. For example, by using up-cycling techniques on his textile waste source of Swiss army blankets and polyethylene bags, Kévin Germanier from the UK impressed not only the judges but influential industry audiences alike, resulting in him winning the 2014/15 competition cycle. Speaking at the awards ceremony at HKTDC Hong Kong Fashion Week World Boutique on 21 January 2015, he said: *"Sustainable fashion is one way of expressing myself. It feels amazing to be able to create clothes and at the same time to protect the planet. As a young and passionate designer [he is a student at Central Saint Martins], it is very important for me to feel useful. Winning the prize is an unprecedented opportunity for me to create a collection that represents the future of fashion design, production and consumption."*

The second prize went to Hong Kong's Victor Chu, who impressed the judges with his up-cycling technique, and ideas for scaling up. He will now design textile-waste-reducing staff uniforms for The Langham, a prestigious hotel in Hong Kong.



3

The Special Prize went to Laurensia Salim from Singapore, who used the technique of zero-waste, up-cycling and reconstruction on her textile waste, comprising second-hand jeans from second-hand shops and her friend's unwanted clothing, to make a collection featuring a wide range of denims in differing silhouettes. She said: *"The fashion industry is a very wasteful industry that has a huge negative impact on the environment. To me, sustainable fashion means a better way of enjoying style that is harmless to the environment. I want to be a sustainable fashion designer because I simply want to make garments that don't harm anyone or anything."*

#### MAINSTREAMING?

It seems that sustainable fashion is no longer a topic for a small group of specialists only. More and more international brands, private enterprises and designers are integrating sustainability into their core business. These range

**"SUSTAINABLE FASHION IS ONE WAY OF EXPRESSING MYSELF. IT FEELS AMAZING TO BE ABLE TO CREATE CLOTHES AND AT THE SAME TIME TO PROTECT THE PLANET."**

— KEVIN GERMANIER

First Prize winner of the EcoChic Award 2014/15

from the Maternity Exchange, a Singaporean retail concept brand which rents maternity wear to accommodate the changing bumps of mums-to-be as a way to minimise textile waste; to online evening wear rental companies, like Yeechoo; to designers offering

bespoke reconstruction services for private clients, like Hong Kong's Cher Carman Chan.

Apparel and accessories firm Kering has also rolled out a group-wide Environmental Profit & Loss account across all its 23 brands, so as to measure and put a monetary value on the environmental impact throughout the entire supply chain, for deeper understanding and better decision-making in the future. The company will publish the results in the coming months, and publically share the EP&L methodology with other organisations, including competitors.

In fact, The EcoChic Design Award may reflect the fact that sustainability is starting to become part of the mainstream. The event targeted emerging fashion designers, but also gained strong support from various stakeholders, ranging from Ford, UPS, The Langham, Hong Kong, Shanghai Tang, jewellers John Hardy, the Sustainable Fashion Business Consortium (SFBC) to celebrity Kary Ng. Plus, CreateHK, the Hong Kong SAR (Special Administrative Region) government agency has taken an interest. SFBC chairman and judge of the Award Anderson Lee, stated: *"Together, both judges and competitors are immersed in learning and in the competitive environment, whilst travelling on the same journey to drive systematic change towards sustainability in the fashion industry."*

Can sustainability finally enter the mainstream, on a global basis? Let's hope so.

**\*Redress is a Hong Kong-based NGO with a mission to promote environmental sustainability in the fashion industry by reducing textile waste, pollution, water and energy consumption.**

**Redress HK,  
The EcoChic  
Design Award**  
[redress.com.hk](http://redress.com.hk)

**Kering EP&L**  
[www.kering.com](http://www.kering.com)  
Sustainable section

**Discover K Mag**  
[www.kering.com/en/magazine](http://www.kering.com/en/magazine)

**1** The First Prize winner of The EcoChic Design Award 2014-15 in partnership with Shanghai Tang / UK Kévin Germanier's full collection

**2** Exemple from Singapore finalist Laurenzia Salim's collection

**3** Exemple from UK finalist Kévin Germanier's collection

## SUSTAINABILITY

# A ROAD TO PROGRESS



## KERING LAUNCHES HIS "MATERIALS INNOVATION LAB"

To identify sustainable raw materials and enable the Group's brands to integrate these into their collections, Kering founded the Materials Innovation Lab (MIL) in 2013, tasked with researching and developing sustainable and innovative textile fibres for the Group's brands. Twelve months since its launch, the MIL now boasts an archive of over 1,500 samples of certified sustainable fabrics, rated via the MIL's own evaluation tool and learnings from the Environmental Profit & Loss (EP&L). Evaluated against both internal and external sustainability standards, the archive is constantly expanding and developing. The MIL's expert team is also working directly with strategic suppliers so as to continue identifying sustainable materials.

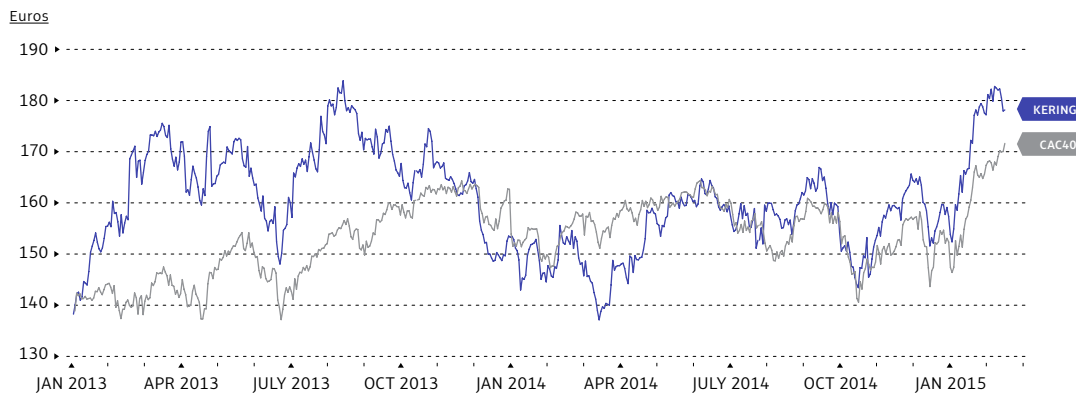


## KERING TOPS THE DOW JONES SUSTAINABILITY INDICES (DJSI)

A year after Kering's first inclusion in the DJSI (World & Europe), the Group topped the indices in 2014, named Industry Leader of the "Textiles, Apparel & Luxury Goods" category. The Dow Jones Sustainability Index tracks the best-in-class sustainability performers among the 2500 largest companies in the Dow Jones Global Total Stock Market Index. Each year, applicant companies are rated against an industry-specific questionnaire. Only the top 10% of leading performers in terms of sustainability assessed against predefined criteria are listed in the DJSI.

PERFORMANCE OF THE KERING SHARE

**CHANGE IN THE PRICE OF THE KERING SHARE**  
compared to the CAC 40 Index since January 1, 2013



Source: Thomson / Reuters

After surging by 27% in 2012 and 11% in 2013, the Kering share gained 4% in 2014. This evolution was achieved in a Luxury sector context that has been characterised by higher sales volatility in the second half of the year, particularly in Asia-Pacific, along with pressure from currency fluctuations.

More generally, unsettled economic conditions continued to weigh heavily on stock markets in Europe, a region where the recovery failed to materialise completely, despite record-breaking performances of the US stock markets driven by a buoyant economy.

Against this backdrop, the Kering share showed strong resistance compared with its peers as well as the CAC 40, its benchmark index, which retreated 1% in 2014.

**MARKET CAPITALISATION**  
as of December 31, 2014

€20.1bn

**HIGHEST SHARE PRICE**  
between January 1<sup>st</sup> and December 31, 2014

€167.4

**LOWEST SHARE PRICE**  
between January 1<sup>st</sup> and December 31, 2014

€137.4

SHAREHOLDER CONTACT

MANAGING YOUR ACCOUNT

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

**CACEIS**  
14 rue Rouget de Lisle  
92862 Issy-Les-Moulineaux Cedex 9  
  
Phone: +33 (0)1 57 78 34 44  
Fax: +33 (0)1 57 78 32 19  
Email: [ct-contact@caceis.com](mailto:ct-contact@caceis.com)

For any other request, please contact:

**KERING SHAREHOLDER'S DEPARTMENT**  
Phone: +33 (0)1 45 64 65 64  
Email: [actionnaire@kering.com](mailto:actionnaire@kering.com)

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

NB: the Order form can be downloaded on [kering.com](http://kering.com), Finance / Shareholder section

PROVISIONAL CALENDAR

**April 21, 2015**  
2015 1<sup>st</sup> quarter sales

**April 23, 2015**  
Annual General Meeting

**April 30, 2015**  
Payment of final dividend \*  
\*Ex-date will be on April 28, 2015

**July 2015**  
2015 Half-Year results