

MARCH 2017

letter

TO SHAREHOLDERS

**MESSAGE FROM
THE CHAIRMAN AND CEO**

“In 2016, Kering delivered excellent operating and financial performances.”

**2016
ANNUAL RESULTS**

€12.4 bn
in revenue

€1.89 bn
in recurring operating
income

**KERING
EYEWEAR**

an innovative
business model

**ULYSSE NARDIN
AND GIRARD-PERREGAUX**

at the Salon
International de la
Haute Horlogerie

K E R I N G



MESSAGE FROM THE CHAIRMAN AND CEO

Dear Shareholders,

In 2016, Kering delivered excellent operating and financial performances. The Luxury sector is undergoing a far-reaching transformation, and last year confirmed the trend. The change is one we have been gearing up for, and our performance demonstrates that, due to this foresight, we are outperforming our peers and winning market share.

The Luxury sector is now global in scope, and will continue to be driven by favourable demographic trends and by the emergence of new consumer categories. But consumption patterns in our markets are also evolving. Customers now have a wealth of information at their fingertips to plan their purchases and compare competing offers. Millennials, for example, who will drive our future growth and already represent almost half of sales at Gucci and Yves Saint Laurent, are permanently connected and their decision-making is influenced by a constant search for meaning.

In this environment, with the backing of a major Group, all of Kering's established and emerging brands have a clear competitive advantage.

We have developed a four-pillar strategy in order to roll out our Luxury concept.

The first pillar is the multibrand model, which allows us to capture the full potential of the Luxury market. Our experience in recent years, and especially last year, has confirmed that this model is effective.



FRANÇOIS-HENRI PINAULT

leadership in this domain. Sustainability is at the heart of our culture, helping us to forge strong ties with the upcoming generations of employees and customers.

In 2017, in an uncertain macroeconomic and geopolitical environment, we will remain focused on the organic growth of our Houses and on Group-wide value creation, so as to intensify our momentum.

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

Organic growth – or same-store sales – is our priority in a world where growth in demand has returned to more normalised levels. Our brands' growth will also be amplified by the ever-increasing prominence of e-commerce and digital, as part of a genuine omnichannel approach.

Our third pillar – and our ultimate goal – is value creation. It guides our choices and the entrepreneurial challenges we embark upon. The improvement in our financial results, return on capital employed and free cash flow generation in 2016 has been broadly driven by greater efficiency and deeper expertise.

Lastly, beyond the Group's purely economic performance, we are committed to helping protect the future of our industry and the various communities in which we engage. In January, we announced our sustainability targets through to 2025. Our deep commitment and our innovations have taken us ahead of our peers, and we want to go one step further by sharing our

2016 ANNUAL RESULTS

Kering delivered an excellent performance in 2016

The **Group posted revenue** of €12.4 billion during the year, up 6.9% as reported and up 8.1% based on comparable data. This is the strongest year-on-year revenue increase since 2012, and was driven by organic growth. The uptrend accelerated sharply in the second half, with growth of 10.5% on a comparable basis, building on the positive 5.5% momentum recorded in the first six months.

Western Europe and the Asia-Pacific region, representing 31% and 26% of revenue, respectively, posted double-digit revenue increases on a comparable basis, whereas growth was more moderate and even lacklustre in North America and Japan, which account for 22% and 10% of total revenue.

Recurring operating income climbed 15%, reaching a record high figure of €1.89 billion.

Operating margin stood at 15.2%, up 1 percentage point on 2015.

Net attributable income was up by nearly 17% over the year to €814 million.

In 2016, **free cash flow** from operations totalled €1.19 billion, almost double the 2015 figure. Our ability to generate free cash flow was used to pay down the Group's debt, which ended the year more than €300 million lower. The solvency ratio (net

debt to EBITDA) fell under the 2 mark, ending the year at 1.9, in line with the Group's objective of staying within the range of between 1 and 2. Lastly, the Group's other priority has been to maintain a balanced and attractive dividend policy.

Accordingly, the forthcoming Annual General Meeting will be asked to approve a **dividend** of €4.60 per share, up 15% year on year.

2016 ANNUAL RESULTS

REVENUE 2016

€12.4 bn

RECURRING OPERATING INCOME 2016

€1.89 bn

LUXURY ACTIVITIES

€8.47 bn

in revenue

Revenue for Kering's Luxury activities was up almost 8% year on year on both a reported and comparable basis, with exchange rates having a negligible impact and no change in scope taking place during the year. This level of growth represents a fairly clear outperformance with regard to the Luxury sector as a whole. In the second half, the Luxury activities advanced by more than 11%, with the acceleration in growth evenly spread over the last two quarters.

Business remained robust throughout the year, lifted by the excellent sales momentum in directly operated stores, which gained 10% year on year. This trend was especially marked in Western Europe and the Asia-Pacific region, and was also boosted by fast-paced growth of 22% in online sales.

Gucci and **Saint Laurent** performed remarkably well.

Gucci posted €4.4 billion in revenue for the year, up almost 13% on a comparable basis, with growth accelerating to more than 21% in the fourth quarter. These exceptional performances attest to the successful reinvention of the brand.

For **Saint Laurent**, 2016 was yet another exceptional year with growth of more than 20% for the sixth consecutive year and revenue of over €1.2 billion.

Conditions were tougher for **Bottega Veneta**, which was

held back by a reversal of tourist trends compared to 2015. Revenue began to trend upwards slightly in the fourth quarter, particularly in Western Europe, as tourist numbers started to pick up towards the end of the year and domestic sales recovered well. Total revenue generated by Bottega Veneta for 2016 came to €1.17 billion, down 9% on a comparable basis.

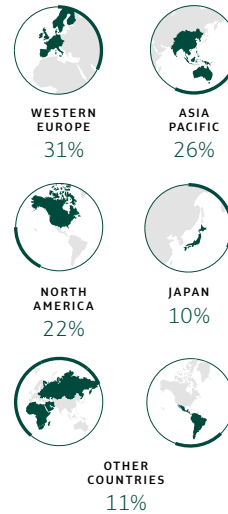
The Other Luxury brands posted stable performances for the year as a whole. The Couture & Leather Goods brands posted satisfactory revenue growth of 4.2%, with positive momentum at Balenciaga, Alexander McQueen and Stella McCartney. The Jewelry brands held firm during the year, but sales of Watches continued to be weighed down by the weak timepieces market.

Recurring operating income for the Luxury activities advanced 13% to €1.9 billion, a significant year-on-year improvement driven by increases of almost 22% at Gucci and of more than 59% at Saint Laurent.

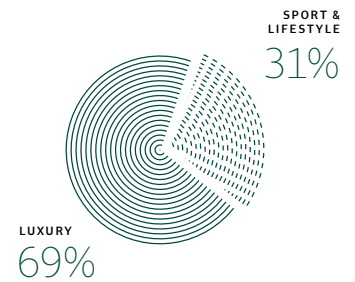
Recurring operating margin stood at 22.9%, up by 1.2 percentage points for the year as a whole, and by 1.9 percentage points in the second half.

Gross operating **investments** totalled €381 million in 2016 or 4.5% of revenue, reflecting the Group's focus on achieving organic growth and on consolidating the existing store network.

BREAKDOWN OF REVENUE by region



BREAKDOWN OF REVENUE by activity



RECURRING OPERATING MARGIN 2016

15.2%

DIVIDEND 2016

At the Annual General Meeting to be held on April 27, 2017, the Board of Directors will propose shareholders to approve a dividend of **€4.60 per share for 2016, up 15% year on year.**

An interim dividend of €1.50 per share was paid on January 18, 2017. Subject to shareholder approval, the remaining €3.10 per share will be paid on May 5, 2017.

SPORT & LIFESTYLE ACTIVITIES

€3.88 bn

in revenue

The Sport & Lifestyle activities generated **revenue** of €3.9 billion in 2016, up by 9% on a comparable basis, and posted operating income of €123 million. **Recurring operating income** and gross margin for the Sport & Lifestyle activities gained 30% and 0.6 points, respectively.

PUMA's sales were up 10% year on year on a comparable basis, and by 7% as reported. The repositioning of its product offering is paying off, as illustrated by the 13% rise in sales of footwear – its leading product category – and a good performance for Apparel. The significant events of the year included the Euro 2016 football championship, Usain Bolt making

Olympic history in Rio and the success of collections designed with Rihanna.

While 2016 confirmed PUMA's strong sales momentum, it also represented a turning point for its profitability. Having beaten its full-year revenue target, and with gross margins remaining stable and operating expenses tightly controlled, PUMA was able to generate some operating leverage.

Volcom's sales increased in directly operated stores but its overall revenue performance was once again held back by a persistently difficult operating environment for US wholesalers.

KERING EYEWEAR



Kering Eyewear: Gucci

In 2014, Kering launched a key strategic initiative aimed at growing in-house expertise in Eyewear for its Luxury and Sport & Lifestyle brands. Since the beginning of 2017, the Gucci collections enhance the offer.

—◆—

Eyewear is a strategic category for Kering brands. Through Kering Eyewear, we aim at helping them fulfill their full growth potential in this business segment while leveraging the unique appeal of each of them.

—◆—

Kering Eyewear represents an innovative business model, established to embrace the new challenges in the eyewear industry, which is sizeable and which is enjoying substantial growth.

Kering Eyewear's objective is to help its brands to further develop within this product category, unleashing their full potential, by maximising the unique appeal of each of its brands in tune with its strategy and positioning.

To maximise the development of its brand portfolio, Kering decided to internalise the value chain for its eyewear activities, setting a step-change in the eyewear industry, directly managing the whole value chain for eyewear products, from product creation and development to supply chain management, brand strategy, sales and marketing, thus allowing a strong control over the whole process.

This innovative management model will give rise to significant value creation, reinforcing the performance of well established brands and exploiting the untapped potential of the emerging ones.

Today, Kering Eyewear designs, develops and distributes eyewear for a complete and well-balanced portfolio of 12 brands: Gucci, Bottega Veneta, Saint Laurent, Alexander McQueen, Stella McCartney, McQ, Boucheron, Pomellato, Brioni, Tomas Maier, Christopher Kane and Puma.

Kering Eyewear unveiled its first collection on June 30, 2015, in the exquisite setting of *Palazzo Grassi* in Venice. Since then, five collections have been designed and developed, with more than 1,900 styles and 8,500 SKUs offered to the market. The assortments are now fully aligned with the DNA of each brand, improving the design and further differentiating Kering brands from the competition.

The closer collaboration between the creative and product teams allows a strong focus on innovation in terms of both designs and materials.

Collection presentation is now completely in line with the fashion calendar, including a number of creative developments exclusive to fashion shows, allowing unprecedented synergies in the marketing and communication strategy.

The first Gucci collection was successfully launched on October 2016 and marketed since the beginning of 2017. Furthermore, Kering has recently announced a Partnership Agreement between the *Maison Cartier* (owned by Compagnie Financière Richemont) and Kering Eyewear for the development of Cartier eyewear category. This strategic partnership highlights a further step change in the eyewear industry, thanks to the introduction of one of the most iconic brands in the whole industry to the Kering Eyewear portfolio.



Kering Eyewear: Boucheron

SIHH 2017

In January 2017, two of Kering's brands were present at the Geneva *Salon International de la Haute Horlogerie* (SIHH) alongside 30 high end representatives from the world of *Haute Horlogerie*.

ULYSSE NARDIN

Ulysse Nardin participated to the SIHH exhibition for the first time ever and presented some of its more emblematic watches of its product portfolio like the *Marine Tourbillon Grand Feu*, a new timepiece in the iconic collection of Ulysse Nardin marine watches.

The marine world has been an integral part of Ulysse Nardin's history since 1846, when young Ulysse Nardin created the first coveted marine deck chronometers. These early timepieces were the precursors of the Ulysse Nardin Marine collections to come, included the *Marine Tourbillon*. This watch unites the three fundamentals essential to Ulysse Nardin's identity: in-house production, technical avant-garde and rare artistry.

Produced in-house at Le Locle, in Switzerland, the self-winding UN-128 caliber is entirely new. Expressing the brand's development and continued independence in the movements manufacture, it harnesses the properties of silicium technology, with a 60-hour power reserve and a flying tourbillon. Designed to counteract the negative effects of gravity on the accuracy of a movement, it is one of the finest achievements in mechanical watchmaking. The crown is designed for easy handling, complete with a rubber notch for comfortable winding, and water resistant up to 100 m. An alligator strap completes a *Marine Tourbillon* whose combination of technical and artistic excellence creates a new modern classic.



—◆—
Designed to counteract
the negative effects
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watchmaking.
—◆—

The *Marine Tourbillon Grand Feu* presented at SIHH 2017



GIRARD-PERREGAUX

To celebrate its return to the SIHH, Girard-Perregaux unveiled stunning creations, heirs of the icons on which the manufacture has built its reputation over the centuries. 2017 sees the birth of a complete Laureato family, incorporated within the Girard-Perregaux core collection. In 2016, the Laureato made a comeback onto the watchmaking scene, in the form of a

limited edition in tribute to Girard-Perregaux's 225th Anniversary. Following this highly successful edition, Girard-Perregaux is putting the Laureato in its rightful place: that of a contemporary watch combining a progressive, unique design with a feeling for detail, excellent timing capacity and perfect taste. These attributes are those belonging to a truly iconic watch.

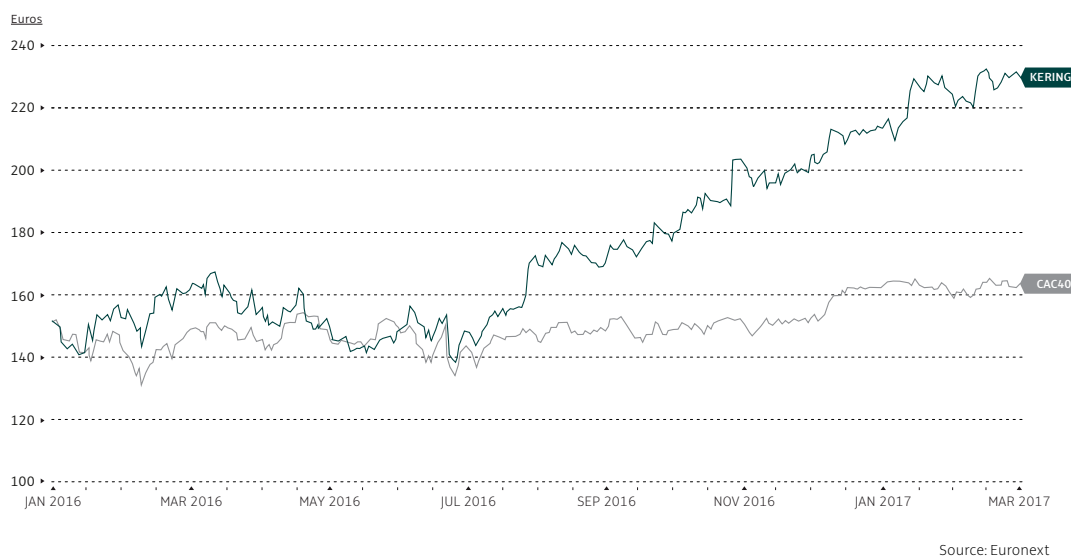


KERING SHARE

PERFORMANCE OF THE KERING SHARE

CHANGE IN THE PRICE OF THE KERING SHARE

compared to the CAC 40 index between January 1, 2016 and February 28, 2017



MARKET CAPITALISATION

as of December 31, 2016

€26.9 bn

HIGHEST SHARE PRICE

between January 1
and December 31, 2016

€214.35

LOWEST SHARE PRICE

between January 1
and December 31, 2016

€138.60

The value of the Kering share increased by 35% in 2016, the third-best performance in the CAC 40 index, which rose by 5% over the same period.

The share price picked up sharply at the beginning of the second half on the back of the very solid results published at the end of July.

These first-half results illustrated the strong momentum enjoyed by the Group's brands along with positive operating and financial performances. The trajectory was confirmed by the publication of the Group's third-quarter revenue on October 25, 2016 and annual results on February 10, 2017, which highlighted positive business trends and

a significant improvement in results. The Kering share also benefited from more bullish stock markets and a gradually improving sector performance.

The Kering share has continued to gain ground in the first two months of the year, adding nearly 8% to the share price.

SHAREHOLDER CONTACT

MANAGING YOUR ACCOUNT

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

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For any other request, please contact:

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Email: actionnaire@kering.com

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

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

PROVISIONAL CALENDAR

APRIL 25, 2017

2017 1st quarter sales

APRIL 27, 2017

Annual General Meeting

MAY 5, 2017


Payment of final dividend*

JULY, 2017

2017 half-year results

*Ex-date will be on May 3, 2017

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