



*letter to
shareholders*

september 2014

MESSAGE FROM THE CHAIRMAN



François-Henri Pinault

Dear Shareholders,

Kering's operating performance in the first half of 2014 fully confirms the soundness of our multi-brand business model and of our transformation into a more integrated Group.

In the first six months of the year, revenue rose 4% on a comparable basis, powered by our Luxury Division. We delivered a substantial recurring operating income, at €810 million, and operating cash flow rose was higher than in the first half of last year.

The **Luxury** Division achieved solid results in the first half. Comparable revenue increased by nearly 6%, driven by a solid performance in our own stores, where revenue jumped 10%. Led by Bottega Veneta and Saint Laurent, our high-growth brands saw revenue and operating income surge, while Gucci's performance was relatively stable as the brand intensifies its move upmarket. This process is yielding positive results in the markets where Gucci has completed the transition, as demonstrated by strong growth in Japan and the United States.

The **Sport & Lifestyle** Division also had an encouraging first half. Revenue at Puma remained stable and the brand recorded promising trends in its second-half order book. Puma's strategy of refocusing on Sport-Performance – notably football – is starting to pay off, as illustrated by the boost to visibility generated by the World Cup and the partnership agreement with English club Arsenal.

“Kering’s operating performance in the first half of 2014 fully confirms the soundness of our multi-brand business model.”

At the Group level, Kering closed the sale of La Redoute in June 2014, thereby finalizing the disposal of its retail activities. I would like to thank our shareholders as well as all stakeholders who accompanied us throughout this crucial transformation.

Kering is now entirely focused on implementing its strategy in the Luxury and Sport & Lifestyle divisions. With this in mind, we decided to further specialise the steering of our Luxury activities, through the establishment of two new divisions alongside Gucci: Luxury – Couture & Leather Goods, and Luxury – Watches & Jewellery. This will allow us to strengthen oversight and focus the business expertise we provide our brands in order to accelerate their growth. This organization will also ensure the prompt and successful integration of brands that join

Kering, such as Ulysse Nardin, an innovative *haute horlogerie* watchmaker built on outstanding tradition and manufacturing expertise, which was acquired by Kering in late July.

In the Luxury Division, stepping up our brand’s organic growth profile and cash flow generation remain our top priorities for the second half.

In the Sport & Lifestyle Division, the second half will be characterised by the launch of Puma’s new global advertising campaign based on the “Forever Faster” slogan, as well as the arrival of new collections featuring repositioned styles.

In an unsettled macro-economic environment, we are pursuing the implementation of our strategy, while keeping tight control over costs and safeguarding our margins. This enables us to anticipate an improvement in our operating performance in the second half of the year.



2014 FIRST-HALF RESULTS

a robust first-half performance reflecting the soundness of our strategy

€4.75bn

REVENUE IN
FIRST HALF 2014

€810m

RECURRING
OPERATING INCOME
IN FIRST HALF 2014

17.1%

RECURRING
OPERATING MARGIN
IN FIRST HALF 2014

Consolidated revenue amounted to €4.75 billion in the first half of 2014, up 4% based on comparable Group structure and exchange rates and up 1.5% as reported.

In a weaker economic environment, and in the middle of a major brand repositioning at Gucci and turnaround at Puma, these performances underscore the soundness of the Group's strategy, as Kering builds an ensemble of complementary brands with different levels of maturity.

On a comparable basis, revenue generated outside the eurozone climbed 4.9% in the first half and accounted for 78% of the Group total. Growth in mature markets was sustained, up 3.1%, driven by Japan and North America. Emerging markets were up 5.6%, and accounted for 38% of sales, including 26.2% generated in Asia-Pacific (excluding Japan).

In first half 2014, Kering's recurring operating income amounted to €810 million, down 3.9% on the first half of 2013 as reported, but up 6.2% at comparable exchange rates. Recurring operating margin came in at a solid 17.1%.

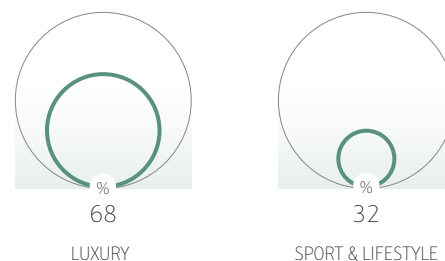
Adjusted for non-recurring items, net income, Group share from continuing operations totaled €555 million compared with €582 million in first half 2013. The Group reported a €348 million net loss under discontinued operations in first half 2014, primarily related to the La Redoute disposal.

In first half 2014, free cash flow from operations totaled €620 million compared with €393 million in the same period last year, and includes the positive cash impact from a real estate sale. CAPEX has been maintained at a level similar to last year, representing a cash outflow of €215 million in the first half.

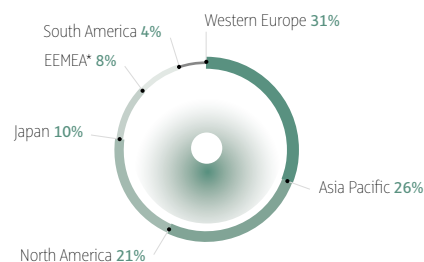
Kering ended the first half of 2014 with a solid financial structure. The increase in net financial debt compared to the 2013 year-end is attributable to:

- usual seasonality patterns, including dividend payments in the first half,
- and cash outflows following asset disposals, notably La Redoute.

Breakdown of revenue by Division



Breakdown of revenue by region



*EEMEA: Eastern Europe, Middle East and Africa.

luxury division results

€3.23bn



Despite a less favorable economic and market context, Luxury activities achieved growth in both revenue and recurring operating income in first half 2014, confirming the strength and appeal of our brands. Revenue totaled €3.23 billion, up 4.9% as reported and 5.7% on a comparable basis. Recurring operating income came to just under €799 million for first-half 2014, up 1.2% year on year. At 24.7%, recurring operating margin was down 90 basis points on a reported basis, but increased at constant exchange rates. Gross operating investments amounted to €147 million, reflecting the focus on consolidating the existing store network, while continuing to allocate the appropriate resources to develop the brands' businesses in line with their strategic plans.

sport & lifestyle division results

€1.50bn



Revenue generated by the Sport & Lifestyle activities edged up 0.4% on a comparable basis in a persistently mixed operating environment. In reported terms, revenue was down 5.6%, illustrating the significant adverse currency impact. However, encouraging trends are noticeable, with PUMA revenue remaining stable over the period, ahead of a number of new product launches and a global communication campaign planned in the second half. Recurring operating income amounted to around €71 million, and margin came in at 4.7%, primarily reflecting the ongoing investment at PUMA to re-launch the brand.

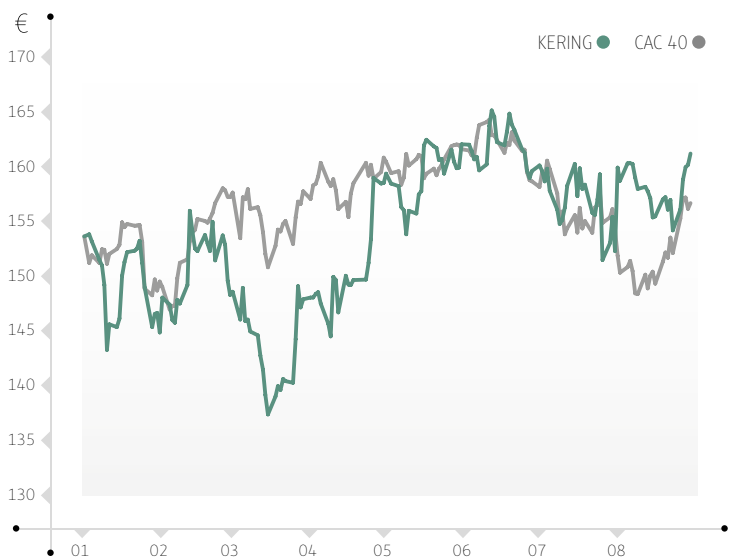
STOCK MARKET RESULTS

performance of the Kering share in first half 2014

After climbing 11% in 2013, a lacklustre year for luxury shares in general, the Kering share moved up 1% during the first half of 2014, in line with the CAC 40 index. Following the positive reception of the publication of the Group's first-half results at the end of July, Kering's share performance was more noteworthy, increasing by 5% from January 1 to August 29 compared to 2% for the CAC 40.

The Kering share outperformed many of its peers in the Luxury sector. Against a backdrop of economic slowdown - particularly in Asia where Luxury stocks have not been spared - our growth strategy will enable the Group to maintain a solid operating performance and provide a platform for the Kering share over the period.

Change in the price of the Kering share compared to the CAC 40 Index since January 1, 2014



Source: Thomson/Reuters

Stock market data

€20.4bn

MARKET CAPITALISATION
AT AUGUST 29, 2014

€165.2

HIGHEST SHAREPRICE BETWEEN
JANUARY 1 AND AUGUST 29, 2014

€137.4

LOWEST SHAREPRICE BETWEEN
JANUARY 1 AND AUGUST 29, 2014

brilliant biennale



Ricochet necklace from the *Rêves d'Ailleurs* collection, in Boucheron's Place Vendôme workshops.

Now in its sixth decade, the Biennale des Antiquaires took place at Paris' Grand Palais in September. Boucheron's collection *Rêves d'Ailleurs* (Dreams from afar), takes you on a sumptuous journey, real or imagined, through Persia, Japan, China, India and Russia. The trip includes some rather special jewels, layers of history and much invention, as K discovered when we joined Claire Choïsne, creative director, on her magic carpet.

On her first day as 'director of creations' at the fine jewellery maison on Paris' Place Vendôme, Claire Choïsne, then only 35 years old, was told by CEO Pierre Bouissou they'd be exhibiting at the Biennale des Antiquaires in a year's time. How did she feel?

"Mixed emotions is probably the best way to sum it up", the tall elegant woman dressed in a black dress offset by gold accessories of the house explains, "It was quite a shock, especially as Boucheron hadn't exhibited there for eight years [although it was to be its 21st appearance overall], and I knew the amount of work that would be involved"

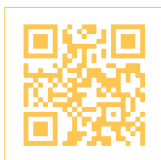
At the same time, "It's always been the dream of every young jewellery student, myself included, to present their *haute joaillerie* (high jewellery) work, alongside the other great houses, at the world's most prestigious event for the industry, and to meet the customers".

2014 is also special in that there is a floral theme to the whole fair and Boucheron have chosen to work (again) with Japanese haute-couture floral artist Azuma Makoto for their display. Choïsne says, "It's not only about the flowers or his attention to detail,

it's the sculptural and textural elements, which provide poetry and a contemporary look. It's similar to the way we create our jewellery."

Indeed, she likens it to the audacity that is characteristic of the house, as instigated by founder Frederic Boucheron. It was he who invented the question-mark shaped necklace. Using a hidden metal spring for the thread, he created a light-weight object that liberated the wearer from having to have a man or assistant to tie it at the back. Choïsne has re-interpreted it as part of the Russian chapter of the Biennale collection in homage to him.

To read the full article, visit K magazine <http://www.kering.com/en/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.

sustainability targets 2012-2016: kering reports on its progress



Photo: Léa Crespi

*“our efforts can inspire
change, far beyond
kering’s frontiers.”*

Marie-Claire Daveu

¹ Read the Progress Report:
<http://www.kering.com/en/sustainability/News/Section>

² Gold sourced from verified operations that do not have a harmful impact on local communities, wildlife or ecosystems which support them.

On the occasion of Kering's General Assembly last May, Marie-Claire Daveu, Chief sustainability officer and Head of international institutional affairs, shared an update with shareholders on the current state of play of the Group's Sustainability Targets (2012-2016). She speaks with us about this Progress Report¹ and the latest advancements that have taken place.

Last May you took the decision to share a mid-term update on your Sustainability Targets: why?

After announcing our Targets in 2012 we felt that it is important to talk about our journey, whether it be a successful path of progress or whether we continue to face significant challenges in certain areas. We did it out of a need for transparency, face-to-face with our stakeholders, including with our customers. We believe that our efforts can inspire change, far beyond Kering's frontiers.

Amongst the recent achievements accomplished, which are you most proud of?

All of our sustainability teams, both at brand and Group level, are working relentlessly to advance toward the achievement of our Targets. Implementing such sizeable and innovative projects can take a considerable amount of time. If I had to choose only one, I would

highlight the importance of the 'sustainable gold'² purchase made by Gucci, in June 2014: 30 kg of Fairmined certified gold, the largest purchase ever made to date in the luxury sector. And this is only the starting point!

What are the next big steps on your roadmap before the end of the year?

We have numerous major projects under way, predominantly focused on the big question of raw material sourcing. In parallel, we are continuing the roll-out of our Environmental Profit & Loss account across the Group and of course, each brand is advancing on their individual roadmaps. Last but not least is the upcoming launch of the 5th edition of our internal sustainability awards, which foster great team spirit at Kering!

If Kering's sustainability strategy had a mantra, what would it be?

"Walk the talk", most definitely!

recent achievements carried out by the group and within the brands



STELL / MCCARTNEY

Autumn 2014 Collection featuring sustainable wool from Patagonia. Staying true to the designer's commitment to sustainability, this initiative has created a new source of sustainable wool certified by Ovis XXI and The Nature Conservancy.



python conservation partnership: first report published

With the aim of creating a more sustainable python trade, in 2013 Kering formed the "Python Conservation Partnership", in collaboration with the International Union for the Conservation of Nature (IUCN/SSC Boa and Python Expert Group) and the International Trade Centre (ITC). In March 2014 the partnership's

first report was published, delivering concrete findings and recommendations on the viability and the role of captive breeding in the python trade.



InCycle, the first Cradle to Cradle certified collection on the footwear, apparel and accessories markets. It incorporates materials that meet Cradle to Cradle Products Innovation Institute's highest standards.

recognition of stakeholders

In recognition of its sustainability strategy, Kering is regularly awarded and distinguished by external bodies.

In April 2014, Kering was awarded both the **FIR Prize of SRI Analysts 2014** and the **Global Leadership Award in Sustainable Apparel** (GLASA), in recognition of the implementation of the Environmental Profit & Loss (E P&L), which already covers 73% of the Group's turnover. Another note-worthy distinction came in July 2014, when Kering was ranked **4th in the Global 500** and **1st amongst the Consumer Discretionary sector by the Newsweek Green Rankings**, positioning Kering as one of the most sustainable corporations worldwide.

These distinctions are clear signals for teams at Kering which validate the Group's strategy and the quality of initiatives that are being put in place.

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
France
Tel: +33 1 57 78 34 44
Fax: +33 1 57 78 32 19
Email: ct-contact@caceis.com

For any other request, please contact

Kering's Shareholder's department:

By phone: +33 1 45 64 65 64
By email: actionnaire@kering.com

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

Provisional calendar

October 23, 2014 (post market):
2014 3rd quarter sales

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



Société anonyme (a French corporation) with a share capital of 504 907 044 euros
Registered Office: 10 avenue Hoche - 75381 Paris Cedex 08 - 552 075 020 RCS Paris
Tel.: +33 1 45 64 61 00
kering.com

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