

September 2016

letter

TO SHAREHOLDERS

**MESSAGE
FROM THE CHAIRMAN**

—
*"WE OWE THESE VERY GOOD
OPERATING AND FINANCIAL
PERFORMANCES TO OUR
MULTIBRAND MODEL,
TO OUR RELEVANT STRATEGY
AND TO WELL-EXECUTED
ACTION PLANS."*

**2016 FIRST-HALF
RESULTS**

—
€5.7 bn
REVENUE

€811 m
RECURRING
OPERATING
INCOME

BOUCHERON

—
26 VENDÔME

BRIONI

—
NOMINATION
OF JUSTIN O'SHEA

BALENCIAGA

—
A TRANSLATION,
NOT A
REITERATION

K E R I N G



**MESSAGE
FROM THE CHAIRMAN**

Dear Shareholders,

We are pleased with our operating and financial performances in first-half 2016, which beat expectations despite a challenging market environment.

Consolidated revenue came out at €5,693 million, with sales growth picking up pace in the second quarter for both the Luxury and Sport & Lifestyle activities.



FRANÇOIS-HENRI PINAULT

Operating income rose almost 5% and operating margin improved. Lastly, our cash flow generation – which was one of the top priorities we set for ourselves at the beginning of the year – was up sharply in first-half 2016.

“WE OWE THESE VERY GOOD OPERATING AND FINANCIAL PERFORMANCES TO OUR MULTIBRAND MODEL, TO OUR RELEVANT STRATEGY AND TO WELL-EXECUTED ACTION PLANS.”

Since 2015, Kering entered a new phase of its development. After having built a portfolio of complementary and powerful brands, the Group is implementing initiatives and action plans to continue along the path to profitable growth and to enhance value creation. The performances in first-half 2016 demonstrate that our efforts start to pay off.

In an environment that remains uncertain, we intend to carry out the steadfast implementation of our strategy and maintain a strict operating and financial discipline; together with the commitment of our teams, this reinforces our confidence that we will progress along the current growth path.

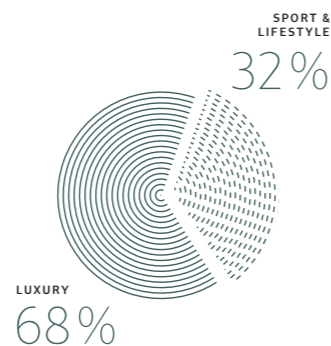
**2016 FIRST-HALF
RESULTS**

GROUP

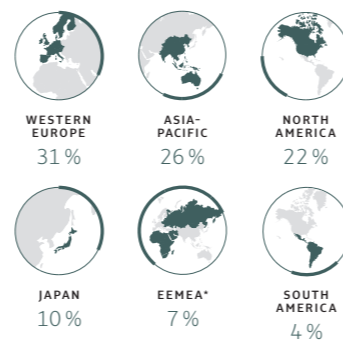
€5.7 bn

REVENUE IN FIRST-HALF 2016

**BREAKDOWN OF REVENUE
by activity**



**BREAKDOWN OF REVENUE
by region**



**RECURRING OPERATING
INCOME** in first-half 2016

€811 m

Consolidated revenue for the first half of 2016 amounted to €5,693 million, up 3.3% on the first six months of 2015 as reported and 5.5% based on a comparable Group structure and exchange rates.

Sales growth was solid in both mature markets and emerging markets. Growth in mature markets was driven by Western Europe and Japan, where comparable revenue rose 10.2% and 6.5%, respectively, with sales down slightly in North America. Emerging markets, which accounted for 37% of sales, posted growth in all geographic regions (Asia-Pacific, Eastern Europe, Middle East and South America).

Kering's **recurring operating income** amounted to €811 million in the first six months of 2016, up nearly 5% on first-half 2015 as reported. Consolidated recurring operating margin rose 20 basis points to 14.2%.

**RECURRING OPERATING
MARGIN** in first-half 2016

14.2%

Net income attributable to owners of the parent came to €465 million in the first half, up nearly 10% year on year. Adjusted for non-recurring items net of tax, attributable net income rose 6.5% to €521 million.

Free cash flow from operations rose sharply to €323 million in the first half of 2016 from €58 million in the first six months of 2015. The Group's net debt stood at €5,067 million as of June 30, 2016, an improvement compared with end-June 2015. Net debt is traditionally higher at the end of the first half of the fiscal year than at December 31 due to the seasonal nature of the Group's business and the dividend payout date.

**2016 FIRST-HALF RESULTS
ACTIVITIES**

LUXURY ACTIVITIES

€3.88 bn

REVENUE IN FIRST-HALF 2016



In first-half 2016, the Luxury activities posted **revenue** of €3,878 million, up 4% comparable. Revenue growth accelerated to 5.2% in the second quarter, from 2.6% in the first quarter.

In the first six months of 2016, **Gucci's** revenue grew by just over 5% on a comparable basis. The strategy implemented at Gucci since 2015 is now producing tangible results, demonstrated by a sharp acceleration in growth in the second quarter. This strong performance reflects the success of the brand's new collections, particularly in women's Ready-to-Wear and Shoes where the creative transition has seen the most progress.

At **Bottega Veneta**, revenue retreated 9% on a comparable basis. Sales remained hampered by a decline in tourist numbers, particularly in Western Europe, although the performance was more positive in the Asia-Pacific region. Going forward, the brand is pressing ahead with its strategy to re-energise the product offering, particularly in the Shoes category.

In first-half 2016, **Yves Saint Laurent** posted revenue growth of 24% on a comparable basis. Growth hit double digits in all geographic regions and product categories, reflecting the continued success of the brand's seasonal and permanent collections.

First-half sales generated by **Other Luxury brands** were stable year on year: the Couture & Leather Goods brands – Balenciaga, Alexander McQueen and Stella McCartney in particular – turned in satisfactory sales performances, and the Jewelry brands – Boucheron, Pomellato and Qeelin – also recorded growth, albeit at a slower pace. Sales for the Watches brands continued to be held back by challenging market conditions.

The Luxury activities **recurring operating income** rose 4% to €840 million during the period, a record performance for a first half of the year, while the operating margin advanced year on year to 21.7%.

SPORT & LIFESTYLE ACTIVITIES

€1.79 bn

REVENUE IN FIRST-HALF 2016



The Sport & Lifestyle activities **reported revenue** of €1,797 million in first-half 2016, up 3.8% as reported and 9.1% comparable. **Recurring operating income** increased by over 25% to €48 million, with the margin widening to 2.7%.

Puma registered a very strong performance in the first half of 2016, with revenue up 11% on a comparable basis.

The brand is now in a position to fully capitalise on the partnerships and alliances entered into or renewed recently. For example, the sponsorship deal with Arsenal and the launch of collections designed with Rihanna have contributed to enhance the brand's awareness, break into new markets and broaden its distribution network. Added to this, 2016 is a year packed with major sporting events, giving a real boost to sales of sport items.

Puma's contribution to the Group's recurring operating income totalled €53 million in the first six months of 2016, up by €12 million (or 29%) on the first-half 2015 figure, boosted by better absorption of operating expenses in view of the brand's revenue growth. **Puma's** operating income returned to growth in first-half 2016 despite negative currency effects.

26 vendôme

On Monday, July 4, 2016,
Boucheron presented its new High Jewelry Collection
in the historic halls of 26, Place Vendôme.



26 Vendôme. It is the name that Boucheron has chosen to give its new 63-piece High Jewelry collection. The collection is a stylistic journey that celebrates three main inspiration sources of the house since its debut in 1858: *Nature Triomphante*, *Architecture Inspirée* and *Porté Couture*.

Nature Triomphante is an ode to Boucheron's beloved nature: the generous and untamed nature so richly expressed in its collections since the very beginning. This chapter is a jewelled interpretation of an all-powerful natural realm. The artisans rose to the challenge of a radiant lily with a jonquil heart, the wheat of summer, feathers transforming into distant birds, and wild animals as a symbol of freedom.

26 VENDÔME. THE NAME ALONE CAPTURES THE SPIRIT OF A MAISON.

As revealed in *Architecture Inspirée*, Boucheron has always been an ardent admirer of abstraction, whether in geometrical perfection or the pure lines of Art Deco. In this chapter, Boucheron pays tribute to the grand locations to which the Maison owes its origins. Not only Place Vendôme, but the city of Paris as whole, which so inspired Frédéric Boucheron when he set up his first boutique in a private residence near the Palais Royal.

Lastly, High Jewelry and Haute Couture come together in *Porté Couture*. With parents who were both drapers, Frédéric Boucheron's childhood was infused with memories of all kinds of fabric and materials. A mantle of light, a ripple of diamonds, a graphic ribbon made of emeralds and rubies – an array of pieces to wear like precious garments.



Autumn/Winter 2016/2017 show

A TRANSLATION, NOT A REITERATION

In October 2015, Balenciaga and Kering announced the appointment of Demna Gvasalia as the new artistic director of Balenciaga's collections. Demna Gvasalia has been given responsibility for the Maison's brand and image.



Demna Gvasalia

A 35 year-old German national of Georgian origin, Demna Gvasalia graduated from the Royal Academy of Fine Arts of Antwerp. Earning rapid recognition and industry awards, he launched his first collection at Tokyo Fashion Week in 2007. In 2009, Demna Gvasalia joined Maison Martin Margiela, where he was responsible for women's collections until 2013. He was then appointed senior designer of women's ready-to-wear collections at Louis Vuitton, before launching the brand, VETEMENTS, which first women's ready-to-wear collection was presented at Paris Fashion Week in 2014.

Demna Gvasalia presented his first collection for Balenciaga at the women's ready-to-wear Autumn/Winter 2016-17 show in Paris in March 2016. The collection is a reimagining of the work of Cristobal Balenciaga – a wardrobe of absolute contemporaneity and realism imbued with the attitude of his haute couture. A translation, not a reiteration. A new chapter.

The men's ready-to-wear Spring/Summer 2017 show in Paris in June 2016 was another occasion to pay tribute to the founder of the fashion house.

Isabelle Guichot, Chairman and Chief Executive Officer of Balenciaga, commented: "With his mastery of techniques, his expertise and fashion knowledge, in conjunction with his innovative and carefully considered approach, Demna Gvasalia adopts a unique vision of the designer's role today and thus recalls Cristobal Balenciaga's own vision."

NOMINATION OF JUSTIN O'SHEA



Justin O'Shea

"I AM DEEPLY HONORED TO UNDERTAKE THIS NEW CHALLENGE FOR SUCH PRESTIGIOUS AND CELEBRATED MENSWEAR HOUSE. IT IS WITH GREAT EXCITEMENT I AM LOOKING FORWARD TO WRITE A NEW CHAPTER IN THE STORY OF BRIONI."

Justin O'Shea, Creative Director



Brioni advertising campaign Metallica



'Paris One' collection

In March 2016, Brioni and Kering announced the appointment of Justin O'Shea as Creative Director of the Brioni House. O'Shea assumes the responsibility for the brand's collections as well as its image. Previously, Justin O'Shea was the Fashion Director of the online retailer mytheresa.com.

After the official announcement of O'Shea's arrival, Gianluca Flore, Chief Executive Officer of Brioni stated: *"I am very confident Justin O'Shea's new artistic direction for Brioni will be instrumental to strengthen our core values and continue to drive dynamism and innovation into the brand heritage. Justin has showed an accurate understanding of the company's DNA and historic roots and an assertive approach on how to make those values relevant for the brand today."*

On July 4th, during the Paris Haute Couture fashion week, Justin O'Shea presented his first collection. Named 'Paris One', this collection pays tribute to the Brand's handmade prêt-à-couture heritage and marks a new emphasis on the Brioni lifestyle offering. The collection is sold through private bespoke appointments the day after the show and readily available in flagship stores, brioni.com and selected retailers worldwide.

The Spring/Summer 2017 collection designed by the in-house team has not been staged on the runway but presented to buyers in the Milan showroom during May and June 2016.

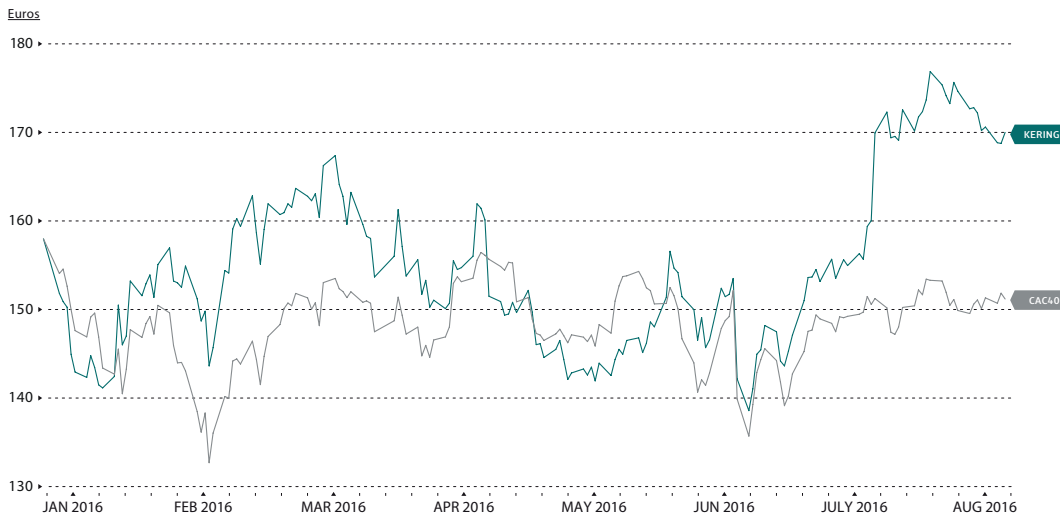
Further reflecting the creative vision of Justin O'Shea, the brand launched an advertising campaign at the end of June and a new Brioni logo. The black and white images of the new campaign portray the Rock & Rock Hall of Fame Inductees Metallica.

In July, the brand opened its new Paris flagship store, 370 rue Saint-Honoré. Depicting the contemporary essence of Rome where Brioni heritage, its roots and its tailoring tradition merge with the present and the future, the store emphasizes the new brand vision under the creative direction of Justin O'Shea.

KERING SHARE

PERFORMANCE OF THE KERING SHARE

CHANGE IN THE PRICE OF THE KERING SHARE compared to the CAC 40 index since January 1, 2016



Source: Euronext

LOWEST SHARE PRICE between January 1 and August 31, 2016

€138.60

HIGHEST SHARE PRICE between January 1 and August 31, 2016

€176.80

MARKET CAPITALISATION as of August 31, 2016

€21.5 bn

Despite a slight decline during the first half of 2016, the Kering share demonstrated a very good resilience compared with European stock markets, the majority of which were down during the 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 confirmed the strong momentum enjoyed by the Group's brands

and positive operating trends. The Kering share gained almost 8% in the first eight months of the year, with the CAC 40 index shedding around 4% over the same period.

SHAREHOLDER CONTACT

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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 shares, your account manager stays your main contact.

PROVISIONAL CALENDAR

October 25, 2016
2016 3rd quarter sales

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